

**THE OECD:  
IDEAS,  
INSTITUTIONS,  
AND SOCIAL JUSTICE**

**SARAH JANE MERL MISKIN**

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## CANDIDATE'S STATEMENT

I hereby certify that this thesis is the result of my own independent research and that all authorities and sources which have been used are duly acknowledged.

Fieldwork interviews of OECD and delegation officials were conducted in Paris on 17-19 February 1999.

A handwritten signature in black ink, appearing to be 'SJM', with a long horizontal flourish extending to the right.

Sarah Jane Merl Miskin

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Judged by possessions, I may never be wealthy; judged by the love and friendship that surround me, I have riches beyond measure.

## ABSTRACT

Type the words 'Organisation for Economic Co-operation and Development' or 'the OECD' into any Library catalogue or Internet search engine, and the result is a staggering number of publications. However, nearly all of these will be *by* the OECD or *about* OECD members; very few will examine the organisation itself. The OECD is one of the most well-known, but least-studied of the major international organisations. Yet, critics claim that the OECD is a 'neo-liberal faith propagation office', urging its members, and the wider international community, to implement policies based on a neo-liberal understanding of state-society relations, roles, and responsibilities. This thesis explores the claim that the OECD operates under a neo-liberal framework of ideas within which it places its more specific economic and social policy analyses. It begins with an examination of the organisation, including its origins, aims, and the obvious and less-obvious mechanisms it has to keep its members 'in step'. It argues that viewing the OECD simply as a source of authoritative, neutral, and technical advice neglects the importance of its underlying framework of ideas in delineating what the organisation is prepared to see as a policy problem and the range of solutions it considers viable. The thesis then explores the role of ideas in policy-making and the debate over the impact of a new set of ideas on existing institutions. It argues that institutions are not as resistant to the impact of new ideas as has been argued. It then traces changes in the OECD's underlying framework of ideas from Keynesianism to neo-liberalism, before looking at the implications of the shift for the organisation's understanding and treatment of social justice and related issues. The thesis concludes that the OECD's neo-liberal framework of analysis has more impact than the organisation acknowledges, and that its treatment of such issues as social justice is not as sympathetic as the organisation claims.

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# INTRODUCTION

In February 1997, the Organisation for Economic Co-operation and Development (OECD) burst into the public spotlight when a draft of its controversial Multilateral Agreement on Investment (MAI) was leaked and posted on the Internet. This agreement, which OECD members were to negotiate but which was to be binding on non-members who were to be encouraged to sign it, was a flash-point for protesters world-wide, who denounced it as a major infringement on the rights of citizens and governments. A storm of protest and increasing difficulties in settling the text of the MAI led to it being abandoned in December 1998. Remarkably, however, the flurry of interest that the MAI prompted in the activities of the OECD focused only to a minor extent on the OECD itself.<sup>1</sup> Scholarly and media discussion highlighted the agreement (or, at least, the attempt to reach an agreement), but offered little analysis of the body organising it, or its current or future role. The commentary canvassed whether or not the OECD should be negotiating the MAI, but it stopped short of examining whether, nearly 40 years after the organisation was formed, the OECD itself was still necessary or worthwhile. Since 1998, anti-globalisation protesters have dropped the OECD from their target list, focusing instead on the World Trade Organisation (WTO), the International Monetary Fund (IMF), the World Bank and the World Economic Forum. Globalisation scholars have done the same, mentioning the OECD in their works only in passing. The OECD as an international actor and source of policy advice to members and non-members

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<sup>1</sup> I want to stress here, at the outset, that when I use the term, 'the OECD', I am referring to the organisation itself, including the Secretariat. I will use the terms, 'OECD members' or 'OECD member countries', when referring to the countries that belong to the OECD. The distinction is important because the OECD has views that its members do not necessarily share. This will be explored further in Chapter 1.



alike has again disappeared from the media's gaze, returning to its previous articulation as a useful, and uncontroversial, euphemism for the 'first world'.<sup>2</sup>

As will be noted in Chapter 1, the lack of in-depth analysis of the OECD as an international organisation at the time of the MAI was not a new phenomenon. While there is a wealth of material that uses 'the OECD' as a convenient grouping of arguably like-minded countries, almost nothing has been written about the body itself.<sup>3</sup> Studies examine the member countries of the OECD, or sub-groups of the members, but rarely look at the organisation's Secretariat. Unlike the IMF, the World Bank, and the WTO, which have been the subject of numerous scholarly investigations and publications, the OECD has not been the focus of major research, and discussion of its formation and character usually is confined to a few pages within larger studies of international organisations (see Chapter 1).<sup>4</sup> This is not to argue that the OECD attracts no scholarly or media attention; in fact, on the latter, its reports of the circumstances within member countries often draw a great deal of media interest, as will be explored in Chapter 1. My point is that the organisation's actions beyond its reports and seemingly endless supply of statistics do not attract notice in the media and arouse only minor curiosity among scholars. Post-MAI, the media covers only the OECD's comments on the performance and ranking of their particular home country, and scholarly interest has returned to a focus on the usefulness of the OECD as a convenient smaller study group of like-minded countries. The organisation once again maintains a low public profile.

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<sup>2</sup> For example, David Held and Anthony McGrew, in their book on globalisation, make reference on several occasions to 'OECD economies', but manage to discuss anti-globalisation protests against the MAI (in a chapter entitled '(Mis)managing the World?') without reference to the OECD (2002).

<sup>3</sup> It is important to emphasise that I am not claiming that there are *no* analyses of the organisation; rather, that the number of such works is extremely limited and the scope fairly narrow. This will be discussed further in Chapter 1.

<sup>4</sup> The works on the International Monetary Fund, the World Bank, and the World Trade Organisation are too numerous to detail. The following are a smattering of a much larger collection: on the IMF, see Vreeland (2003), Gwin (1989), Myers (1987), Chandavarkar (1984), Ainley (1979), and Horsefield's three early volumes (1969); on the World Bank, see Caufield (1997), George and Sabelli (1994), and Mason (1973); and on the WTO, see Wallach and Sforza (1999), Krueger (1998), and Hoekman and Kostecki (1995).

## THE OECD: WORTHY OF NOTE OR PAST ITS PRIME?

In the official history of the OECD, *From War to Wealth*, author Scott Sullivan looks at the organisation's role in the 'Third Millennium' and notes that some 'influential skeptics' have argued that the international organisations created after World War II have 'had their day' (1997: 105).<sup>5</sup> He observes that such doubts, 'however far fetched', have had an impact on policy-makers in an era of 'universal belt-tightening and budget cutting' to the point where 'parliaments have grown stingy with their support to international organisations' (1997: 105). Former British chancellor of the exchequer Nigel Lawson is reported to have observed in his memoirs that the OECD had outlived its usefulness as an organisation and its annual ministerial meeting was a 'waste of time and money' (*The Economist* 1994: 17). Earlier, academic M.A.G. van Meerhaeghe made a similar comment, arguing that the declarations and recommendations of the OECD were 'full of generalities and one wonders why expensive meetings are needed for that purpose' (1987: 204).

However, a persistent argument in favour of the OECD has been its convenient size: it began with 20 members in 1961 and has grown to a mere 30 members today, which makes it a puny David against the twin Goliaths of the 184 members of the IMF and World Bank. Even the Goliaths' younger sibling, the WTO, has 147 members. The argument runs that these latter organisations, while not as wide-ranging in their interests, are so vast that, even those who want the other bodies (notably the IMF) to make final arrangements, 'recognize the usefulness of prior closed-door discussions in Paris' (Aubrey 1967: 155).<sup>6</sup> Thus, the OECD's size is seen to be advantageous in that sessions in smaller groups are said to be more effective (Mandle 2003: 65).<sup>7</sup> In fact, one argument for the OECD

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<sup>5</sup> Age Bakker, who, as a scholar, may not count as 'influential', nonetheless is one of those observing that the international financial institutions 'were devised in a different era and were sometimes also based on a different view of the world' (1996: 2). Bayne, too, observes that institutions such as the IMF, World Bank, and WTO were part of 'the great wave of institution-building 50 years ago at the end of World War II', and notes that: 'all are quite different now from what was imagined then' (2003: 236). However, Bayne is not arguing for their abolition.

<sup>6</sup> Paris, specifically the Château de la Muette, has been the home of the OECD since its first iteration as the Organisation for European Economic Co-operation (OEEC) in 1949.

<sup>7</sup> An example of this faith in smaller groups achieving what larger groups struggle to accomplish occurred at the protest-plagued WTO talks in Seattle in 1999. The chair, United States Trade Representative Charlene Barshefsky, frustrated at the lack of progress, convened an invitation-only, closed-door session of the 30 leading trading economies in a last-ditch bid to reach a settlement. See Allard (1999a, 1999b, 1999c), Garran (1999), Gray (1999), Pearson (1999). The move infuriated

being the best forum for the negotiation of the MAI was that 'experience shows that the more countries are involved, the slower the pace of work' (Engering 1996: 160).<sup>8</sup> Management and communication problems are thought to become more complicated and more difficult as an international organisation becomes larger and more culturally disparate (Huntley 1980: 284). Such concerns have raised doubts as to the effectiveness of the larger international organisations. For example, Australian Foreign Minister Alexander Downer has claimed that expansion has slowed the reform agenda of the region's main multilateral organisation, the Association of South-East Asian Nations (ASEAN), because more views have to be taken into account and more countries convinced of the necessity of reform (Baker 2001). Similar sentiments have been expressed about the WTO, especially in the wake of the failed talks in Seattle in 1999. Australian Trade Minister Mark Vaile was among those country representatives arguing that the WTO, then with 135 members, had become too big to work efficiently and to achieve agreement under rules designed 50 years ago for a club of about 30 countries (Allard 1999b; Garran 1999). *The Economist* has argued explicitly against expanding the OECD, on the grounds that the need for the OECD declines as its membership starts to map that of the IMF (1990: 66).

On the negative side, some scholars claim the OECD has decreased in significance as its advisory role has been replaced by the smaller G-7 and the larger WTO, but this neglects the OECD's braided relationship with these groups.<sup>9</sup> Woolcock describes the OECD's 'important and generally overlooked role' in shaping the agenda and providing a forum for small-group discussions in the General Agreement on Tariffs and Trade (later the WTO) negotiations (2003: 115). In a similar vein, Robert Putnam and Nicholas Bayne cite a European premier's foreign policy aide explaining that the G-7 summits are simply one part of a set of on-going international meetings that include those at the OECD

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the excluded developing countries, and the media reported 'third world' accusations that Barshefsky and 'the WTO secretariat' had 'hijacked' the talks.

<sup>8</sup> Arguments against moving the MAI negotiations to the larger WTO included the long time taken to settle the Uruguay Round of the General Agreement on Tariffs and Trade talks; see the discussion in Kelsey (1999: 321).

<sup>9</sup> On the decline of the OECD relative to the G-7, see, for example, Bakker's claim that the G-7 has replaced the OECD's Working Party No. 3 (1996: 117). The G-7 comprises the seven 'most powerful' industrial economies: the United States, Japan, Germany, France, Italy, Britain, and Canada. Russia was added to the membership in 1997.

(1987: 13).<sup>10</sup> Although Putnam and Bayne canvass a period when the OECD was perceived as 'too Keynesian' for the G-7, they describe continuing close links between the groups (see 1987: ch. 7). Other scholars argue that the OECD 'plays an important role in making the G-7 strategy operational, and in mobilising consensus and disseminating the strategy in all the developed market democracies and beyond' (Ougaard 1999: 14; see also 13-15). One Secretariat official told me that the OECD undertook work that 'fit into the G-7 process':

G-7 communiqués sometimes acknowledge OECD work or they request the OECD to do some work. ... The G-7 does not have a secretariat; they have a chair each year. ... [There is] no real secretariat doing substantive work so they are always commenting on or requesting work from the OECD, IMF, World Bank (Interview, Paris, 19 February 1999).

Sullivan notes a link with the G-7 with respect to the OECD's key committee – the Economic Policy Committee – and its 'celebrated' Working Party No. 3, saying that in a 'changing world, the roles of both ... have changed over the years', and their most important new task is to 'serve as intellectual crucibles in which policy is forged for the annual G-7 summit' (1997: 62).

Despite some claims that the OECD is past its prime, then, it is possible to argue that the organisation remains useful because of its small size in an increasingly interdependent and complicated world. *The Economist*, for example, observes that, although much of the OECD's work is duplicated by the IMF, and private agencies now offer 'equally inaccurate economic forecasts', the OECD still does work that would be 'sorely missed' (1994: 17). It notes that the OECD 'leads the field in producing internationally comparable economic and social statistics, much of which feeds usefully into policy', and its 'excellent' analysis of macroeconomic matters is unparalleled: 'No other institution looks at these overlapping areas with such a global perspective' (1994: 17). In a similar vein, Age Bakker claims that the OECD's 'horizontal' approach to problems, focusing on interdependence and multidisciplinary, makes it 'eminently suited' to analyse complex problems, and its studies are 'far more valuable than the sum of national studies' (1996: 120). More recently, Nicholās Bayne argues that the

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<sup>10</sup> Putnam and Bayne quote the aide saying:

When we set out to influence another government ... we say, 'We'll start off at the OECD Ministerials in May, follow up at the summit, and then hit them again at the IMF in September' (1987: 13).

OECD is one of the international organisations that 'set the standards in the international economy' (2003: 230).

If we accept that the OECD still has a role, then the next question is whether we should be concerned with what the organisation says and does. That is, should we pay more attention to what the organisation is doing and saying, or is there a reason that it has been ignored for so long? Is it that the organisation is 'worthy but dull', supplying technical advice and statistics that do not hold much interest to the broader community outside policy-makers? Or is it that there is nothing in its advice beyond a reflection of what its member countries are thinking and doing? Is it that the organisation is content to take a back seat on the world stage such that its actions are beneath our notice? In 1987, Bayne rather colourfully observed that the OECD was 'something of a Cinderella' among international organisations. He continued:

That does not mean it is waiting for a fairy godmother; but rather that it works away quietly and efficiently in the service of its member organisations. It does not always go to the balls like its grander sister organisations, though it often runs up their dresses and sometimes clears up the mess after the party (1987: 30).

However, there are signs that Cinderella now wants to go to the ball in her own right, especially given the desire for prominence of her 'fairy godmother', current Secretary-General Donald Johnston, who has been pushing for a higher profile for the OECD since his appointment in 1996. He told a Council of Europe meeting in 1998 that the 'days of the "OECD" club' were gone, and that the OECD had 'much to offer the globalising world which no other organisation can' (Johnston 1998). He argued that the OECD operated as a 'permanent inter-governmental conference' and, as such, was 'a unique and effective international structure which could serve as a model of global economic co-operation' (1998). A year earlier, in 1997, he told Sullivan that he wanted members of the public to know and understand that the OECD was working for them (Sullivan 1997: 108).

Unfortunately for Johnston, the OECD's most publicised bid to take to the international dance-floor failed spectacularly when negotiations on the MAI, which had 'screeched to a halt' in April 1998 (Kobrin 1998: 98), were quietly moved to the WTO's back-burner in December that year. In this embarrassing public outing for the OECD, the (then) membership of 29 'rich' countries was

condemned for negotiating *in secret* a deal seen as institutionalising corporate power and diminishing national sovereignty (see Goodman 1999; Gélinas 2003: 33).<sup>11</sup> Had the OECD succeeded in clinching this investment deal, it would have secured a future role for itself on the international stage, in that the OECD was 'more than likely' to provide the MAI's secretariat function. However, since the failure of the MAI, the OECD has maintained a low profile and has not publicly attempted to take the lead again on negotiating such binding agreements.<sup>12</sup> After a brief fling in the public spotlight, it has returned to being 'technical, abstruse, opaque, remote, and as multifaceted as the compound eye of a housefly' (Huntley 1980: 68).

That said, the OECD's current, relative invisibility on the radar of public notice should not be interpreted as demonstrating that the organisation has no role in the development of international and national policy.<sup>13</sup> Such an interpretation underestimates the influence of the OECD in two ways. First, it neglects the importance of the organisation's role as a source of policy ideas for its members (and others), and second, it overlooks the mechanisms that the OECD can use to urge its members to implement its preferred policy options. Bayne, who offers a positive analysis of the OECD and its function, claims that the OECD: 'operates very tactfully, having the gift of supplying governments with good ideas they can then pretend they thought of themselves' (2003: 239). But he ignores both the impact of the ideas and that there may be times when member countries do not want to pursue the OECD line. It is here that the second factor comes into play. Ostensibly, the OECD is a non-regulatory body – that is, it has no mechanisms by which it can force its members to undertake particular policy actions. However, it can be argued that, in practice, the OECD has various mechanisms through

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<sup>11</sup> That the negotiations were held 'in secret' appeared to be a bone of contention with protesters, yet, as will be canvassed in Chapter 1, this is standard practice for the OECD, which holds most of its discussions 'behind closed doors'.

<sup>12</sup> Undoubtedly, the MAI has been an educational experience for the OECD. One Secretariat official told me that the organisation had been 'careful to learn from the MAI' when subsequently negotiating core principles of corporate governance. The OECD was holding 'open meetings with non-members, business and civil society' and was 'putting it on the Internet so everyone can comment' (Interview, Paris, 19 February 1999). Jan Scholte makes a similar observation: 'Having had its fingers badly burnt on this occasion, the OECD has subsequently expanded its outreach activities to civil society' (2000: 270).

<sup>13</sup> I say 'relative' invisibility because it cannot be claimed that the media does not place the OECD and its actions in front of the public; rather, the point is that these articles seldom go beyond highlighting the OECD's country reports and comparisons.

which it can press its members to take a particular policy direction. These will be explored in Chapter 1. It is worth observing here Bayne's comments on the relationship between governments and bodies such as the OECD:

With a few exceptions ... governments value the endorsement of international institutions like the IMF, the WTO and the OECD. ... Their endorsement impresses financial markets, foreign investors and trading partners and may be necessary to release flows of funds, from both public and private sources. Governments do not like to go against them.

On the other hand, sovereign governments want to be making their own decisions. They do not want to be taking orders from outside. ... Governments therefore have an incentive to anticipate what the institutions will recommend and do it before they are asked. With the possible exception of the United States, even G7 governments are not able to tell the institutions what line to take. (2003: 230).

Bayne later qualifies his statement, emphasising that OECD members 'are persuaded – never forced' to adjust their policies through peer pressure or the supply of better information' (2003: 239). Of course, the relationship is not all one-way; governments in member countries can point to OECD policy advice as a reason for implementing some policies, thereby (in effect) shifting the 'blame' for unpopular policy directions on to the OECD.<sup>14</sup>

I acknowledge that the OECD is not the only such policy actor in the international area, nor is it the only one able to exert a degree of influence over its members' policies. Today, there are a large number of international organisations and, once formed, such organisations tend to remain, even if the circumstances

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<sup>14</sup> Michael Howlett and M. Ramesh note that this is one of the functions of transnational actors; that is, 'domestic actors seek them out for information on public problems they are faced with and to legitimise their own preferred solutions' (1999: 16). Lisa Martin and Beth Simmons contend that OECD targets can become arguing tools in policy debates:

International agreements, even those without enforcement mechanisms such as the OECD aid target, can provide "hooks" by which interest groups that favor the international agreement can increase their influence on the domestic agenda. For example, in Scandinavian countries, the OECD target has become a potent arguing point in parliamentary debates (1998: 756).

Bayne adds an extra dimension to this argument, saying that, when implementing unpopular changes, a government can 'share its burdens' with the organisation and other members in 'a sort of "equality of misery"', thereby demonstrating to its people that they are not suffering alone (2003: 230-231).

underpinning their creation have changed.<sup>15</sup> As a result, states are subject to international regulations in an increasing number of policy areas that are worked out in international organisations, and it can be argued that states generally comply with these agreements despite a lack of overt enforcement mechanisms (Risse 1999: 3, 18). Given the real and potential influence of these international organisations, it is important to examine what they do, how they function, and the advice they give. My argument is that such an exploration is especially necessary with regard to the OECD because it has been the subject of so little in-depth study to date. Thus, a key reason for examining the OECD is to explore its policy analysis, advice, and recommendations to its members, and, if Secretary-General Johnston is to be believed, the wider international community. That is, if the OECD is a source of policy ideas and has mechanisms via which it can shepherd members towards particular policy actions, then we need to know the content of these ideas, the recommended directions and the implications that they may have.<sup>16</sup>

## SOCIAL JUSTICE AND RELATED ISSUES

Given the dearth of work on the OECD, there are many areas with regard to the organisation that are likely to be rich fields of research. Indeed, it is possible to take any one of a number of approaches, examining:

- how policy is formulated within OECD
- what role individuals, members and other organisations play within the OECD itself, especially their roles in policy choices

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<sup>15</sup> In terms of the numbers of international organisations, David Held notes an increase from 37 inter-governmental organisations in 1909 to nearly 300 in 1989. He cites Robert Keohane's argument that the increase in state co-operation in post-war years can be attributed to a recognition of its usefulness in reducing the costs to states of 'going it alone' in resolving pressing issues, reducing the costs of co-ordination through sharing information, and 'reducing the general sense of uncertainty in an era in which many important political problems escape the control of individual polities' (Keohane 1984, cited in Held 1995: 108; see also Smouts 1993). On the tenacity of organisations once established, Smouts notes that 'once codified ... with its own constitutions, staff, rituals and rules, [an organisation] tends ... to concentrate on organizational goals and to see as its main objective its own survival' (1993: 450).

<sup>16</sup> Peter Carroll et al. have made this argument in relation to the OECD's 'policy regarding the knowledge-based economy' (2002: 1-9). They assert that the OECD exerts 'substantial influence upon the domestic policies of its member states', which makes it 'vital' for members' policy-makers to 'develop a more critical stance' (2002: 8, 1). Carroll et al. go so far as to claim that the Australian government has adopted the OECD's 'core assumptions, key definitions and principle means of measurement' in relation to the knowledge-based economy, which, they argue, is 'unfortunate' because these factors, 'while of value, contain potentially serious limitations' (2002: 8).



- the relationship between policy divisions within the OECD
- how far, and in what respects, OECD policy advice is reflected in member policies (that is, policy transfer)
- the movement of individuals between the bureaucracies of member countries and the OECD, or
- the relationship between OECD and other international organisations, the overlap between their roles and functions, and whether (and how) OECD policy reflects, or is reflected in, the policies of these bodies.

All of these are important topics, but there is a further fundamental issue in which I am particularly interested that needs to be addressed. As noted above, the OECD has not attracted much in-depth academic or media study, yet the organisation has been cited in both arenas as an international organisation pushing policies – or, more specifically, policy ideas – that show little concern with social issues and outcomes such as social justice. Indeed, one of the core concerns of the anti-globalisation protesters is that the new ‘global’ policies that international organisations, including the OECD, espouse pay too little attention to the consequences for the jobless, the aged, and other disadvantaged groups (Gélinas 2003; Scholte 2000: ch. 10; Martin and Schumann 1997: 160).

As will be discussed in Chapter 6, the OECD has rejected such criticisms as ‘nonsense’ on the grounds that ‘[n]ever before in its history had the Organisation been so deeply involved in analysing social issues and producing proposals to limit social damage’ (Sullivan 1997: 55).<sup>17</sup> The question, then, is how these different accounts of the OECD’s policy views can be reconciled. One possibility is that the parties to the dispute have conflicting interpretations of such terms as ‘social justice’ and different underlying assumptions about the means and goals of policy. That is, they have conflicting ideas. It is the OECD side of this conflict that I explore in my thesis through an examination of the framework of ideas within which the OECD locates its more specific policy analyses. Thus, the central concerns of my work are the OECD’s main policy ideas, the change in these ideas over time, and the implications of this change for the organisation’s understanding and treatment of social justice and related issues. My argument,

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<sup>17</sup> Other bodies targeted with such allegations have defended themselves in a similar vein, with the heads of the IMF, the World Bank, and the World Economic Forum all arguing that social justice issues are at the forefront of their agendas (Forbes 2000; Powell 2000).

to be supported with evidence in later chapters, is that there has been a shift in the OECD's policy ideas from what it has described as Keynesianism to what it describes as 'the supply-side approach', or what I will argue is better described as neo-liberalism.<sup>18</sup> While the OECD itself acknowledges this shift, it does not acknowledge the implications. That is, the unacknowledged, and perhaps unintended, result of this shift in policy ideas is a fundamental change in the OECD's notions of social justice.

It is important to emphasise that these questions (What are the OECD's underlying ideas? How have they changed? With what implications for social justice?) are the boundaries of the thesis. While there are many associated questions relating to ideas and the OECD, they are distinctly different propositions to the research project undertaken herein. Thus, I am stating at the outset that I am not examining any of the areas listed above or any of the following areas:

- where the OECD's ideas come from (whether they originate in the OECD or whether the OECD acquires them from member countries to refine and disperse to other members)
- who promotes the ideas or how they move through the OECD's internal policy development mechanisms (that is, policy actors, how 'interests' use ideas to achieve their goals, or how ideas may form interests), or
- whether and how the OECD competes with other sources of ideas to have its ideas accepted.

In addition, I am not arguing that the OECD is the sole source of ideas for policy-makers within member and non-member countries. Rather, my questions are focused narrowly on the framework of ideas underpinning the OECD's more specific economic and social policy analyses, and the implications that a change in this framework has for its policy advice and recommendations.<sup>19</sup>

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<sup>18</sup> This is not to argue that I am the only scholar to understand the OECD's policy framework in this way. Gélinas, somewhat more scathingly describes the OECD as: 'the neoliberal faith propagation office' (2003: 118).

<sup>19</sup> Some scholars may criticise the elimination of actors and interests from the study, arguing that ideas do not 'float freely' in the policy arena. Rather: 'Ideas are carried into the policy arena by actors with interests at stake and executed by politicians seeking reelection' (Schwartz 2002: 123). The issues that these criticisms raise will be discussed in Chapters 2 and 3.

## THEORETICAL FRAMEWORK: IDEAS AND INSTITUTIONS

I have placed my examination of the OECD's ideas within the theoretical context of the ideas and institutions literature, which examines the relationship between ideas and institutions. This literature is part of a broader investigation into the role of ideas in policy-making. Key debates in this wider area of scholarly endeavour centre on conflicts over the role of ideas; that is, whether the ideas themselves have an independent effect on policy or whether their impact depends on interests or institutions. While some of these debates will be canvassed in detail in Chapters 2 and 3, I note here that this literature understands ideas (in this case, policy ideas, as opposed to, say, philosophical ideas) as 'shared beliefs' as to the nature of the world and how it works. In the policy-making context, ideas are shared understandings of what constitutes a policy problem and what can be done about it. Much of the current research into the relationship between ideas and policy tends to circumscribe the role of ideas, focusing instead on external factors. Although some researchers assert that ideas exert independent influence on policy choices, others claim that factors external to ideas (for example, institutional structures, elite interest groups, and earlier solutions to policy problems) have the most impact on policy. As will be outlined in Chapter 2, such approaches do not accord ideas a 'life of their own', but use them to 'help other forms of explanation' (Blyth 1997a: 241; Goldstein and Keohane 1993: 3, cited in Blyth 1997a: 231).

As noted, some of the theorists examining the role of ideas privilege the role of institutions over that of ideas in policy-making. By institutions, they mean formal and informal structures that guide human behaviour and organise life. These structures include the obvious political and bureaucratic institutions of government, such as the legislature, executive, electoral system, courts, agencies to implement and enforce policies, laws, rules, and so on. However, they are also defined more generally to include arrangements, accommodations, and understandings that serve as the basis of a society's organisation. Some scholars argue that ideas are hard to change once they are incorporated into the institutions that implement and enforce policy. That is, they contend that ideas become absorbed into 'reinforcing organizational and normative structures', such as the regulatory apparatus of the state, thus becoming 'embedded in institutions' (Goldstein and Keohane 1993: 13, 12). In this way, the endorsement of one set of ideas is said to constrain policy-makers' choices by eliminating or

overshadowing other sets of ideas. Existing ideas are embedded in the formal, bureaucratic structures that implement and enforce policy and the longer-term policy commitments that these contain, and in the taken-for-granted or unconscious assumptions behind policy discourse and policy practice. A common example advanced in support of this argument is the alleged tenacity of the Keynesian welfare state in the face of a move to neo-liberal ideas that demand a much smaller role for the state and a greater role for individual self-responsibility.

However, I will argue that theorists who argue that ideas are embedded firmly in institutions overstate the solidity of both administrative arrangements and underlying attitudes and assumptions, thereby underestimating the role of ideas in effecting change. In supporting my claim, I will examine the impact of new ideas on underlying attitudes and assumptions, or what can be described as 'informal institutions'. Here, I am following Douglass North (1990), who argues that institutions can be either formal, 'such as rules that human beings devise' or informal, 'such as conventions and codes of behavior' (1990: 4; see also 1990: ch. 5 and ch. 6, and 1991: 97-112). I have interpreted this broadly to distinguish between the formal institutions (rules, laws, structures, organisations, and so on) and informal institutions (norms, values, attitudes, implicit codes of conduct, and so on) that underpin human interaction. Arguments that ideas become 'embedded in institutions', making them extremely resistant to change, pay too much attention to formal institutions and overlook what is happening to informal institutions. They are guilty of treating all forms of institution as equally stable and equally resistant to new ideas. Yet, it can be argued that new ideas bring with them a new set of informal institutions that serve to undermine and replace the existing set. As a result, seemingly small changes in policy that are based on new ideas can have a large impact on policy goals and public attitudes in that they reflect and reinforce a new set of underlying assumptions. The policy changes may appear small, but they are, in fact, based on a large change in their underlying ideas and thus have considerable consequences. For example, 'nicks, chips and slices' (Wilding 1992: 203) to the various aspects of welfare programmes can result in their being eroded to the point of effectively becoming defunct. This will be examined further in Chapter 3.

I explore the effect of a major shift in ideas with reference to Peter Hall's Kuhnian-influenced model of paradigm shifts. According to this model, one paradigm, or set of ideas for explaining the world and how it works, replaces another when it is seen as being better able to explain a range of policy problems or 'puzzles'. As will be discussed in Chapter 2, Kuhn describes such change as a 'revolution' because the transition from one paradigm to another is not an incremental, cumulative process, achieved by an extension of the old paradigm, but a 'reconstruction of the field from new fundamentals' (1970: 85). The reconstruction changes the field's basic theoretical generalisations as well as many of its methods and applications. As Kuhn observes: 'When the transition is complete, the profession will have changed its view of the field, its methods and its goals' (1970: 85). In the case of the paradigm shift from Keynesianism to neo-liberalism, the new understanding of the world and how it works includes a new vision of state-society relations, and an associated new interpretation of the roles and responsibilities of the state and individuals. Thus, the effect of a change from Keynesianism to neo-liberalism is a sea-change or transformation in the way of thinking about state-society relations.

My argument, then, is that new ideas bring a range of new formal *and* informal institutions that have a significant impact on the understanding of policy problems and solutions. According to this reasoning, even if external factors, such as formal institutions appear to constrain the options open to policy-makers, the ideas themselves have an impact which is not determined by those institutions. The ideas affect both what can be considered a policy problem and what can be considered a viable solution. In this way, ideas can effect change, even where the nature of formal institutions would suggest that little change is possible. One way in which this occurs is through the discourse of a set of ideas, which serves to 'frame and name' in particular ways. Neo-liberal discourse, for example, offers frames and names that suggest (among other things):

- that former conceptions of social justice and related issues are no longer affordable
- that the unemployed are bludgers who choose to be without work and who need to be coerced back into work through cutting their 'generous' benefits, and
- that social transfers encourage some people to be lazy at the expense of those who are prepared to work.

It can be argued that this discourse has infiltrated social consciousness such that the public is now more accepting of policies that are based on these new understandings of social problems and solutions. It is this shift in informal institutions from those underpinning collective responsibility to those of individual responsibility that suggests that there are problems with the arguments for path dependency and institutional lock-in with regard to the welfare state. That is, ideas are not embedded as firmly in institutions as some scholars would claim.

## THE OECD: IDEAS, INSTITUTIONS AND SOCIAL JUSTICE

A study of the OECD's understanding and treatment of social justice and related issues through the theoretical framework of the ideas and institutions literature serves to add to our knowledge of both the OECD and the relationship between ideas and institutions. The literature offers a model of interpreting how (and why) policy changes across time. Much of this debate, as noted, privileges existing institutions over those proposed by new ideas. If such privilege were justified, it would mean that, even if there were a shift in the framework of ideas through which the OECD analyses social issues, such a shift would have no practical effect on the OECD's policy recommendations because its original ideas are embedded in existing institutions and are resistant to change. Thus, only those options consistent with its existing institutions could be considered as viable solutions to the perceived policy problems. However, a study of the OECD's policy ideas across time reveals that, even when there is allegedly little apparent change in formal institutions, there may be considerable change in informal institutions, thus dramatically affecting formal institutions by altering their underlying *raison d'être*. This will be explored in Chapters 5 and 6.

Applied to the OECD, this means that, if, as will be claimed in Chapter 1, the OECD is an ideas repository and ideas monger, then we can:

- examine OECD documents to determine the content of the framework of ideas within which the OECD locates its more specific economic and social policy analyses, and the change in this framework over time (Chapter 5)
- explore the effect of the new ideas on the informal institutions underpinning the OECD's policy evaluations and recommendations through examining the

underlying assumptions implicit in the discourse associated with these ideas (Chapters 5 and 6)

- examine the implications for the OECD's understanding and treatment of social justice, including the effects on the informal institutions underpinning its interpretation of social justice (Chapter 6).

Thus, a study of the ideas promulgated by the OECD since its inception in 1961 that isolates them from individuals and policy-transfer mechanisms may offer insights that add usefully to the ideas and institutions debate. Such a study, by focusing solely on the ideas and not on the individuals promoting them, should reveal something about the ideas themselves and how they function. Thus, such a study places ideas front and centre in policy-making analysis rather than using them as 'minor intervening variables' (Jacobsen 1995: 284).

Effectively, then, I will do two things in my thesis. First, I will examine the change in the OECD's ideas over time and the implications of this change for its understanding and treatment of social issues, and second, I will argue that institutions are not as resistant to the impact of new ideas as has been suggested. I will contend that neo-liberal ideas have transformed the view of state-society relations such that the state is now expected to do considerably less for its citizens and individuals are expected to do considerably more for themselves. Consequently, the new ideas have changed both the *means* of achieving policy goals and the *ends* (or goals) themselves. The most dramatic reflection of this shift is that policy is no longer concerned with equality of outcome; rather, primacy is given to equality of opportunity. While this is presented as a change in means only, it has the inevitable effect of changing the ends, given neo-liberalism's view of individuals and their behaviour. That is, if individuals know that they do not have to take advantage of opportunities because the state will provide for them if they do not do so, then they have no incentive to pursue opportunities that are open to them. The negative effects of state intervention mean that equality of outcome can no longer be considered a goal for which the state is responsible directly. This is not to argue that the OECD's ideas are against equality of outcome; rather, its framework rejects direct state intervention to achieve such an outcome. In doing so, however, it accepts an inequality of outcome that was not acceptable under the earlier set of ideas. Thus, ideas about social justice are not embedded as firmly in the existing institutions of the welfare state as the literature suggests. The literature focuses too much on *formal*

institutions, which means that it neglects the impact of new ideas on *informal* institutions.

## OUTLINE OF THE THESIS

Chapter 1 sets the scene for my later analysis, exploring the OECD as an international organisation and as an epistemic community that has its own set of ideas for interpreting the world in which its members operate. In this chapter, I trace the development of the OECD, from its precursor, the Organisation for European Economic Co-operation, through its initial configuration of 18 members to the 30-member body that it is today. I then examine the OECD's stated aims and objectives, as well as its structures and mechanisms, before exploring the claim that the organisation is 'all bark and no bite'. I dispute the representation of the OECD as a toothless watchdog that uses accumulated evidence to shepherd, rather than bully, its members into taking the desired action. My argument is that the technical expertise and information that the OECD offers its members is less benign than it appears, and that the reading of 'technical' advice and measures as 'objective' neglects, among other factors, the way in which such measures can be used to demand particular actions.<sup>20</sup> In addition, the organisation has two major, related mechanisms (multilateral surveillance and peer pressure) with which to compel its members to pursue its recommended policy directions. I conclude the chapter with a discussion of the OECD's role as an ideas monger or epistemic community whose ideas may come to construct the 'reality' or 'truth' of the situations that face policy-makers and delineate the options from which policy-makers select solutions. I argue that this is one of the major reasons that scholars need to pay more attention to the OECD and its ideas.

Chapter 2, the first of two theoretical chapters, begins to explore the role of ideas in policy-making. In this chapter, I canvass some of the arguments in the literature about ideas vis-à-vis experts and institutions before turning my attention to an exploration of Hall's Kuhnian-influenced model of paradigms and paradigm shifts and how this can be used to explain the change in ideas over time. According to Hall's model, a new set of ideas replaces an existing

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<sup>20</sup> It may be worth recalling here the adage: 'lies, damned lies, and statistics'. My much less strident observation in Chapter 1 is that much depends on what is being measured, how, and in what context.



'dominant paradigm' when it is seen to be 'better at explaining the empirical observations that remained anomalous in terms of the earlier theory' (Hall 1989: 9). In simple terms, the new paradigm offers policy-makers a more plausible account of the hows and whys of current problems and their viable solutions. I observe that Hall's model offers one explanation of how ideas can be agents of both policy inertia and radical policy change. However, a problem with Hall's model is that it suggests that ideas are apolitical; that the replacement of one paradigm with another is simply a matter of technical comparison. I argue that this is not the case, but my interest is not in the way that policy actors may use competing paradigms in a contest for political dominance. Rather, I am concerned with whether there are factors internal to the ideas themselves that add to their influence. In the second half of the chapter, I argue for the need to examine a paradigm's constituent discourse and the way it 'frames and names' policy problems and solutions. My argument is that the discourse of a paradigm articulates the way that the ideas constitute and organise social and political relations, expressing the inherent underlying assumptions and ensuring their passage through the broader community. As this discourse is adopted and used, it comes to permeate society as the values, attitudes, beliefs, and social mores that support the paradigm's established order. My argument is that it is the effect of a paradigm's discourse on informal institutions that suggests that institutions are more changeable than some scholars assume.

Chapter 3 focuses on the institutions side of the ideas and institutions debate, exploring claims for the stability and the instability of institutions. In the opening sections of the chapter, I acknowledge the arguments for institutional stability in the wake of new ideas, using the claims of those scholars who note the resilience of the welfare state. These scholars argue that, despite their adoption of neo-liberal ideas that demand a smaller welfare state, many countries have made no radical changes to their welfare systems, and have pursued retrenchment only cautiously. I then explore the reasons advanced for policy 'stability' in the tenacious welfare state, which centre on two main themes: path dependency and institutional lock-in, and the electoral hazard of going against public opinion, which remains generally in favour of the welfare state. In the second half of the chapter, I counter some of the arguments for institutional inertia, arguing that claims for institutional stability based on path dependency underestimate the impact of incremental policy changes and pay insufficient

attention to the effect of new ideas on the informal institutions underpinning policy options. My argument is that institutional (and thus, policy) stability has been overstated because, first, incremental change is less path dependent, and has more impact, than is assumed, and second, that new ideas have a greater impact on informal institutions than is assumed. New ideas act to undermine institutional stability by changing the very foundations on which formal institutions are built and maintained, especially public understandings of state-society relations and their expectations of the state and of themselves. Thus, neo-liberal ideas have fundamentally altered the way of thinking about government and the understanding of state-society relations that underpinned Keynesianism; they have acted to undermine public support for the welfare state.

Chapter 4 is an introduction to the second section of the thesis, setting out how the central concerns of the first three chapters will be used to explore the OECD's underlying framework of ideas and the implications of a shift in this framework for the organisation's understanding and treatment of social justice and related issues.

Chapter 5 explores the OECD's underlying framework of ideas, using its main economic policy series, the *Economic Outlook*. These documents reveal a fundamental shift in the OECD's thinking from what it has called Keynesianism to what it calls the 'supply-side', but what I will argue is neo-liberalism. The neo-liberal ideas incorporate new specifications of both policy goals and the kinds of instruments that can be used to attain them, based on a new understanding of the nature of the policy problems that are to be addressed. I note in this chapter that the OECD acknowledges the shift in its paradigm over the years since its inception, but it presents the change as an inevitable, unproblematic – and non-political – response to the failure of Keynesian policies to resolve serious economic problems. However, my argument is that this shift was much more than a simple change in means to achieve an existing set of policy goals. Such a view neglects the implications of a paradigm shift as outlined in Chapter 2: that a new paradigm incorporates new assumptions that change what can be considered policy goals, and that make the old paradigm's methods for attaining policy goals incomprehensible. Thus, the implication of the OECD's change in world-view is that, although it may present the shift as simply an unproblematic change in means to achieve the same ends, it is, in fact, more complicated, with a

change in means changing the ends. In Chapter 5 I explore four key ideas of the OECD's new paradigm: that state intervention is bad for the economy, that public debt is bad for the economy, that public spending is bad for the economy, and that the public sector itself is bad for the economy. I argue that these ideas are based on a neo-liberal understanding of state-society relations in which the state's role is limited to maintaining law and order and the infrastructure of the market, and individuals – understood to be rational, self-interested maximisers – are considered to be responsible for their own well-being through their own efforts and enterprise. The result is that some previously accepted state roles and responsibilities are no longer acceptable or plausible.

Chapter 6 explores the implications of a neo-liberal world-view for the OECD's understanding and treatment of social justice. In this chapter, I argue that a striking feature of the OECD's discussions in the *Economic Outlook* from the mid-1990s is the linking of social and economic goals in ways not considered for two decades or so. I contend that, although this appears to be a return to a central focus on social issues after a period in which the focus was primarily on economic issues, this move needs to be understood in the context of the OECD's new neo-liberal framework of ideas, which prioritises the economic over the social. Neo-liberal ideas incorporate several assumptions that undermine many of the accepted methods for achieving social goals and change what can be considered to be acceptable or 'legitimate' social objectives. Explicit assumptions include the need to limit the role of the state by decreasing state intervention and reducing public debt and public spending, all of which are considered to impede the efficient functioning of the economy. But these ideas incorporate two important views:

- that there is a need to shift the balance between public and private responsibilities in order to decrease state responsibility and increase individual responsibility, and
- that individuals are rational, self-interested maximisers, who look to obtain whatever advantages they can for themselves.

These views reflect a transformation in the interpretation of state-society relations, roles, and responsibilities that affects the range of policy options that may be pursued. As a result of this transformation, the OECD takes a different approach to social policy, assessing policies in terms of what they add to the economy, how they affect the market, and whether they reflect the right balance

between state and individual responsibilities. Consequently, the new ideas constrain the available options for both the *means* and *ends* of social policy, including those related to social justice. The outcome is a new conception of social justice, based on a profoundly different understanding of state-society relations and the inherent obligations, rights, and responsibilities of state and the individuals comprising society. My conclusion is that neo-liberal ideas have had a more profound effect on policy means and goals than the literature suggests, which means that ideas are not as immutable as some of the literature suggests.

# CHAPTER 1

  

## THE OECD: FULL OF IDEAS

### INTRODUCTION

The Organisation for Economic Co-operation and Development is one of the most well-known, but least studied, of the world's inter-governmental agencies. Type the words 'Organisation for Economic Co-operation and Development' (in either the 's' or 'z' form of 'organisation', with or without a hyphen in 'co-operation') or the organisation's acronym ('OECD') into any library search engine and the computer will return a list of thousands of items. Type the same terms into a good Internet search engine and the results are staggering. Yet, only a handful of these 'hits' (responses) will be about the organisation itself. The majority of the references will be to publications *by* the OECD or those *about* its member countries.<sup>1</sup> Almost no analysis has been done on the OECD as an international organisation in its own right: what it is, what it does and what it says.<sup>2</sup> Rather, most authors use the OECD simply as a convenient shorthand, a catch-all term to cover 'first world', industrialised states. Such terms say little about the OECD or of its functions. The OECD itself

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<sup>1</sup> I repeat here that, when I refer to 'the OECD', I mean the organisation itself, not its member countries.

<sup>2</sup> In one of the few papers on the OECD, Morton Ougaard observes in a footnote that a 'search for literature *on* the OECD, as opposed to *by* the OECD, renders very little' (1999: 4, fn 18, emphasis in original). He adds that, while the organisation is usually mentioned in texts on international organisations and international political economy, he has 'not come across a single analytical work on the organisation'. While Ougaard can be faulted for overlooking two early works, Aubrey (1967) and Camps (1975), beyond this his claim is sound.

observes that it has been called 'a think tank, monitoring agency, rich man's club, [and] an unacademic university', but it claims that, while it has 'elements of all ... none of these characterisations captures the essence of the OECD' (2001c).<sup>3</sup>

One reason for the limited analysis could be that, before 1997, the organisation itself (rather than comparisons of its members) was perceived as not particularly interesting or worthy of attention by either academics or members of the public. As one scholar observed:

The ordinary citizen of one of the OECD's member countries has probably never heard of OECD. Buried in the financial pages of his [sic] newspaper may occasionally be an article with the headline, 'OECD Sees Difficult Outlook for West', but beyond that, OECD is unknown to the public, or at least certainly less known than the Common Market or NATO [the North Atlantic Treaty Organisation] (Huntley 1980: 66; see also Ohlin 1968: 243).<sup>4</sup>

The organisation now appears determined not to remain unknown. Current OECD Secretary-General Donald Johnston assumed his post in 1996 with a

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<sup>3</sup> This observation is repeated in the organisation's official history, with author Scott Sullivan noting that the OECD has 'baffled many an observer and generated some unflattering sobriquets in the press: "the rich countries' club", "the talking-shop", "the high-price think-tank"' (1997: 49). He goes on to observe that, while there is some truth in each of those tags (and, interestingly, Sullivan himself often refers to the 'rich nation's club' in his text), they 'fail to capture the uniqueness of the place: its consistent ability to blend academic theory and real-time analysis, to produce policy advice that responds to the member countries' needs' (1997: 49). Miriam Camps, in her early analysis of the OECD, notes that the 'only shorthand label that has threatened to stick has been one no one wanted – that of a "rich man's club"' (1975: 10). On this point, *The Economist* observes that the use of the term 'rich man's club' has always been too simple, given that Greece, Portugal and Turkey are relatively poor (1994: 17).

On this point, it must be noted that, perhaps in response to the perceived negative connotations of the word 'club', the OECD has since eliminated this word from the information about itself on its web site <<http://www.oecd.org>>. A visit to the site in January 2004 revealed that, whereas the OECD once described itself as a '*club* of like-minded countries' (2001c; emphasis added), it now calls itself a '*group* of like-minded countries' (2004; emphasis added). In a similar vein, whereas it once said it was 'not an exclusive club' (2001c), it now says 'it is by no means exclusive' (2004).

<sup>4</sup> Huntley contends that one reason for this lack of notice is that neither the OECD nor its predecessor, the Organisation for European Economic Co-operation 'ever enjoyed the straightforward assignment of NATO, to keep the Russians out of Europe, or the glamor of a European Economic Community, billed as Europe's new "supergovernment"' (1980: 66). Camps makes a similar point, arguing that the OECD has been handicapped by having 'no widely agreed *raison d'être*, no clear purpose from which its functions could be derived, few very precise commitments which governments were pledged to carry out, and no simple goals which commanded public understanding and support' (1975: 10). Nicholas Bayne offers a much less negative view, arguing that, during the Cold War, its members considered the organisation to be 'the standard-bearer of the West in the contest of economic systems' (2003: 238). This interpretation suggests a prominent role at odds with the lack of attention given to the organisation.

mandate to modernise the organisation, and a personal mission to build public support for it. In an aside in his official history of the OECD, Scott Sullivan reports an ‘unguarded’ comment from Johnston that: ‘I want Joe Public in Pittsburgh or Palermo to realise that OECD is working for him’ (1997: 108).

The year that Sullivan’s work, *From War to Wealth: Fifty Years of Innovation*, was published, lauding the OECD’s work and boldly arguing that ‘the world needs the OECD now more than it ever did before’ (1997: 108), Johnston got his wish for greater publicity. However, true to the adage, ‘be careful what you wish for’, the result was not in the form that he had hoped. The OECD burst into the public spotlight in February 1997 when a draft of its controversial Multilateral Agreement on Investment was leaked and posted on the Internet.<sup>5</sup> Ironically, Sullivan’s history notes that, in French – one of the organisation’s two official languages – the MAI had the acronym AMI, or the French word for ‘friend’ (1997: 72). However, thousands of protesters world-wide saw the agreement more as a potent symbol of their enemy – globalisation – and a friend only to big business interests. The agreement was denounced as a ‘charter of rights and freedoms for corporations’ that would supersede ‘the rights of citizens and the powers of governments’ (Clarke 1997, cited in Kelsey 1999: 315; see also Dunkley 1998; Paterson and Goodman 1998; Goodman 1999).<sup>6</sup> A storm of protest and increasing difficulties in settling the text of the MAI led to negotiations being suspended in April 1998 and abandoned in December of that year.<sup>7</sup>

Remarkably, the flurry of interest that the MAI prompted in the activities of the OECD said very little about the OECD itself. Scholarly and media discussion highlighted the agreement (or, at least, the attempt to reach an agreement), but offered little analysis of the body organising it, or its current or future role (see Dunkley 1998; Paterson and Goodman 1998; Goodman, 1999; Kasper 1998;

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<sup>5</sup> The effect of the Multilateral Agreement on Investment (MAI) on boosting the OECD’s profile should not be underestimated. One Secretariat official observed that ‘post-MAI’, the OECD was now ‘known by a far bigger society’ (Interview, Paris, 19 February 1999).

<sup>6</sup> Jay Mandle observes that trading countries that were not party to the negotiations would have had little choice but to sign the deal. He argues that failure to do so could have resulted in a country being ‘shunned’ as a destination for investment: ‘Its failure to adhere to the treaty would have cast a cloud over a country’s investment climate’ (2003: 65).

<sup>7</sup> In another somewhat ironic moment, given that the word ‘ami’ is French, France was the first country to formally withdraw from the MAI negotiations, effectively sinking the talks at the OECD.

Kelsey 1999, ch. 9; Kobrin 1998; Paterson 1998; Wood 1998; Woolley 1998). The commentary canvassed whether or not the OECD should be negotiating the MAI, but it stopped short of examining whether, nearly forty years after the organisation was formed, the OECD itself was still necessary or worthwhile. Since then, perhaps reflecting that fame is fleeting and even international organisations can expect only fifteen minutes in the limelight, anti-globalisation protesters have dropped the OECD from their target list, focusing instead on the World Trade Organisation (to which the MAI was shunted, never to be heard from again – thus far, at least), the International Monetary Fund (IMF), the World Bank and the World Economic Forum.<sup>8</sup> It is curious that this should have happened, given that the MAI can be seen as the initial ripple that turned into today's tsunami of anti-globalisation protests.<sup>9</sup> However, since the demise of the MAI, the OECD as an international actor has again sunk beneath the media surface, returning to its previous articulation as a useful acronym for the 'first world'.<sup>10</sup> In a similar vein, scholarly interest has also declined, focusing again on the usefulness of the OECD as a convenient smaller study group of allegedly like-minded countries. The organisation once again maintains a low profile – either by choice (having been publicly humiliated with the MAI) or because, once again, it is no longer perceived as being worthy of more than passing notice when compared to the bigger international organisations.

As outlined in the Introduction to this thesis, I believe that the OECD is worth examining more closely; that the organisation caught in the headlights of public scrutiny with the MAI needs to be dissected and its inner workings revealed.

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<sup>8</sup> Media coverage of anti-globalisation protests makes no mention of the OECD when discussing the protesters' grievances, and those protesters quoted mention only the larger bodies. For a selection, see Allard (1999a, 1999b, 1999c), Burrell (2001a), Cassen (2000), Forbes (2000), Garran (1999), George (1999), Gray (1999), Hewett (2000), Kitney (2000), Mitchell and Stevens (2000), Pearson (1999), Powell (2000).

On the MAI, Patrick Rabe claims that the negotiations 'fell into a coma in 1998, from which they have yet to come out' (2003: 223); on the other hand, Jacques Gélinas alleges that 'manoeuvring' on the MAI 'has since resumed behind closed doors at the WTO' (2003: 33).

<sup>9</sup> Somewhat presciently, James Goodman observed in early 1999 that the MAI was 'likely to be a major flash-point at the Seattle WTO meeting' in November that year, with anti-MAI campaigners 'planning to converge on the WTO venue ... resisting an MAI resurrection' (1999: 244). Since Seattle, anti-globalisation protesters have targeted IMF and World Bank meetings in Washington DC, World Economic Forum meetings in Davos and Melbourne, a G-8 meeting in Genoa and a WTO meeting in Sydney.

<sup>10</sup> By this I mean that, although its reports still attract considerable interest (as will be explored later in this chapter), its actions beyond this do not.



For example, the MAI can be understood as a new direction for the OECD, in which it tried to stake a claim to new ground, positioning itself for a new role in the Third Millennium. The fact that it was thwarted in this endeavour does not mean that it will not try again. Yet, scholars appear to know little about this international body and, therefore, what kind of future action we can expect it to take. In essence, there are two sets of views on the OECD: one sees the OECD as a benign organisation, comprising unimportant technocrats; the other views it as an influential, neo-liberal think-tank foisting unpopular policies on to member governments and, increasingly, the wider world.<sup>11</sup> The current small amount of scholarship on the organisation fails to offer sufficient evidence to support fully either conception of the OECD. Claims that the organisation is unimportant pay insufficient attention to the OECD's influence on national policy directions, especially given the frequency with which its statistics and reports are cited. However, claims that the OECD is simply a neo-liberal think-tank often refer to only one or two of the organisation's publications – hardly enough to support such (often scathing) allegations.<sup>12</sup>

The lack of significant scholarship on the OECD leaves open a wide range of approaches for a study of this inter-governmental body, especially given the size of the organisation and the many fields in which it is involved. My interest in the OECD, as explained in the Introduction to the thesis, centres on the ideas and their inherent assumptions underpinning the OECD's thinking on policy and the shift in these ideas over time. A central concern of my thesis is how the OECD's understanding and treatment of social justice and related issues has changed since the organisation's inception in 1961. If, as some suggest, the OECD acts as an 'ideas monger' or an 'epistemic community' that sets and frames policy debates, it is important to know what ideas it is passing to its members.<sup>13</sup> In this chapter, I want to set the scene for my analysis, looking at the organisation's origins and aims, structures and mechanisms, before challenging the view that the OECD is 'all bark and no bite'; that is, the claim that the

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<sup>11</sup> For the former view, see Bayne (2003); for the latter, see Gélinas (2003: esp. 118-120), Scholte (2000: 241), Martin and Schumann (1997: 160).

<sup>12</sup> Gélinas, for example, having labelled the OECD 'the neoliberal faith propagation office', does not list a single work of the OECD in his bibliography.

<sup>13</sup> Of necessity, given the breadth of the OECD's work and the more limited scope of my thesis, this will be what Henry Aubrey calls in his study of the OECD a "'functional" panorama' (1967: 33), rather than a detailed picture.

organisation is nothing more than a data collection agency and a source of technical expertise for its members. I will argue that this view is flawed, not only because the OECD stands outside its members as an independent source of rational-legal authority to which members can appeal for both policy ideas and support in implementing policy actions, but also because it has two significant, related mechanisms it can use to keep its members in step – multilateral surveillance and peer pressure.<sup>14</sup> I will then argue that the OECD's most important role is as an ideas repository and diffusion agency, and that the tendency to reduce 'the OECD' to a convenient shorthand overlooks the importance of this role. Finally, I will conclude that this combination of factors – the OECD's independence, its alleged non-partisan, 'technical' expertise, its means of exerting some degree of authority over its members, and its role in diffusing policy ideas – makes an examination of the organisation's ideas, and the underlying assumptions on which they are based and which underpin its policy discussions and recommendations, a worthwhile, and perhaps essential, focus of research.

## ORIGINS:

### THE ORGANISATION FOR EUROPEAN ECONOMIC CO-OPERATION (OEEC)

The OECD's precursor was the Organisation for European Economic Co-operation, which was set up in April 1948 to administer aid under the Marshall Plan for the reconstruction of Europe after World War II (Aubrey 1967: 9; Bakker 1996: 110-111; Maddison 1989: 66; Mayall 1988: 62; van Meerhaeghe 1987: 173; OECD 2001d). Its membership comprised 17 states of Western Europe (18 once

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<sup>14</sup> I am using the terms 'multilateral surveillance and peer pressure'; the OECD uses the term 'peer review' interchangeably with 'multilateral surveillance' alongside the term 'peer pressure'. The terms I use cover concepts that are different, but related. As Fabrizio Pagani explains:

Peer *review* can be described as the systematic examination and assessment of the performance of a State by other States, with the ultimate goal of helping the reviewed State improve its policy making, adopt best practices, and comply with established standards and principles. ... The effectiveness of peer review relies on the influence and persuasion exercised by the peers during the process. This effect is known as 'peer *pressure*' (2002: 4, 5; emphasis added).

That said, the distinction often is blurred; for example, in *Economic Outlook* 58 (1995b), the OECD observes that: 'Peer pressure reviews encourage Members to pursue the path of liberalisation' (1995b: 34).

Spain joined in 1959), with the United States and Canada as associates.<sup>15</sup> The OEEC's aims were to rebuild a sound European economy, to promote the unity of 'the most shattered part of the world economy' and, later, to 'sponsor and supervise' trade liberalisation (Maddison 1989: 66; Aubrey 1967: 9). Both of the latter aims were adopted in response to a belief that the turbulence of the 1930s (the Great Depression) and World War II could be traced to a breakdown of the international order when a 'virtual absence of collaboration' and 'self-centred "beggar-my-neighbour" policies led to utter chaos' (Aubrey 1967: 7, 8; Bakker 1996: 3; Huntley 1980: 72; Maddison 1989: 52).

As part of his campaign to build a strong Europe, United States General George C. Marshall challenged European governments to look beyond the nation state to shared concerns (Sullivan 1997: 10). The OEEC's mission was to facilitate the harmonisation of its members' domestic economic policies so that macro-economic policies in one country did not undermine similar efforts elsewhere (Mayall 1988: 56). In this way, the economic imbalances that had had such great influence on political actions could be avoided (Bakker 1996: 3). Co-operation, then, became an imperative, rather than a casual concomitant of post-war policy, based on the belief that: 'world peace [could] only be ensured by economic prosperity in all countries' (Aubrey 1967: 7; Bakker 1996: 3). The core of co-operation, in this sense, 'entails policy change in an internationally desired direction, resulting (at least in part) from international negotiation' (Putnam and Bayne 1987: 269), and the OEEC was to serve as the forum in which that negotiation occurred.<sup>16</sup>

The OEEC was said to be innovative with its techniques for co-operation, creating 'institutional procedures' that were considered to be so successful that they were later 'taken over, adapted and expanded by the OECD' (Aubrey

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<sup>15</sup> Aubrey notes that the United States and Canada had 'a powerful voice' in the OEEC, 'despite their lack of a formal vote' (1967: 9, fn).

<sup>16</sup> Later assessments of the OEEC's performance claim that a major factor in the OEEC's success was the European countries' abandonment of pre-war isolationist policy and 'their willingness to take account of the interests of other countries' (Bakker 1996: 110-111). Over time, the OEEC experience 'demonstrated the usefulness of regular and articulate discussions of policy options and intentions and established a pattern of co-operation in many dimensions that continued after the end of Marshall Aid' (Maddison 1989: 66).

1967: 27).<sup>17</sup> One such successful procedure was the organisation's unanimity rule, according to which decisions were made by consensus. Members could abstain from a decision, in which case the action taken did not apply to them. Henry Aubrey notes that some observers had thought that a unanimity rule would condemn the OEEC to life as a permanent conference or 'talking shop', unable to make decisions or take action, but he argues that the outcome was 'quite different' (1967: 28). The OEEC found that it could shift members' positions through the processes of mutual education, in which member delegates learned of the economies and problems of other states, and 'confrontation', which Aubrey describes as an 'informal but influential instrument of moral suasion' (1967: 28). Confrontation, he argues, became a useful device in attaining a consensus 'or at least a workable compromise' because criticism acted as a 'powerful prod' in the formative stages of policy-making, especially when expressed behind closed doors where 'the defense of national prestige need not be a prime concern' (Aubrey 1967: 28; see also OECD 1964: 6-17).

### **A NEW ACTOR:<sup>18</sup>**

#### **THE ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)**

The Organisation for Economic Co-operation and Development, which was signed into existence in September 1961, arose out of the OEEC, which was seen to have 'largely achieved' its tasks (Bakker 1996: 111).<sup>19</sup> The United States wanted the replacement body to move away from the 'donor-recipient' relationship of the Marshall-aid era to become a forum in which the industrial democracies could 'sit down on equal terms' (Bayne 1987: 27; Camps 1975: 11). It also wanted the European countries, which were now more prosperous, to help it provide economic aid to developing countries; hence, the addition of

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<sup>17</sup> For example, Aubrey says, the OEEC was 'ingenious at solving crises with the help of special, small working groups of outstanding experts who had sufficient authority and negotiating skill to work out acceptable compromise solutions' (1967: 27).

<sup>18</sup> Aubrey argues that the formation of the OECD introduced a 'new actor' to the play of Atlantic co-operation, and signified a 'change of setting and plot', in that the increased membership meant the stage was 'vaster' and the addition of the problems of lesser developed areas expanded the scope of action (1967: 4).

<sup>19</sup> Camps refers to another 'somewhat negative motivation' for the formation of the OECD, a dispute over the organisation of Europe after the breakdown of negotiations for an OEEC-wide free-trade area (1975: 10); see also Bakker (1996: 111).

'development' to the revamped organisation's title (Bakker 1996: 111-112; Camps 1975: 11). The new body remained a co-operative, rather than a supranational, venture, after European aspirations for the latter, which would mean limits on the sovereignty of members, gave way to the British desire for a simpler instrument of inter-governmental co-operation (Bayne 1987: 27; see also Harrison and Mungall 1990: 59-60).

The OECD's initial membership comprised the 18 members of the OEEC plus the United States and Canada. Over the years since 1961, membership has expanded to 30 countries, located as far away from Europe as Australia and New Zealand.<sup>20</sup> Sullivan notes that, by 1969, the OECD had more than doubled the OEEC's economic gravity, producing more than two-thirds of the world's goods and accounting for more than four-fifths of its trade (1997: 33).<sup>21</sup> Today, at 30 members, the OECD remains considerably smaller than the IMF and the World Bank, which both have 184 members, but it is larger than the G-7 (now the G-8).<sup>22</sup> The organisation has no immediate plans to admit additional members, with the Secretary-General noting in April 2004, at the time of the European Union's enlargement, that the OECD was 'reviewing the prospects' for enlargement to 'take account of changing world conditions' (Johnston 2004). The geographical spread of its relatively diverse membership makes it more than a 'regional' group, such as the European Community or the Association of South-East Asian Nations (ASEAN), but arguably less than an 'international'

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<sup>20</sup> The original 20 members were Canada, Greece, Ireland, the Netherlands, Spain, Turkey, Austria, France, Italy, Luxembourg, Portugal, Sweden, the United Kingdom, Belgium, Denmark, Germany, Iceland, Norway, Switzerland, and the United States. Next came Japan (1964), Finland (1969), Australia (1971), and New Zealand (1973). After a 21-year hiatus came Mexico (1994), the Czech Republic (1995), Hungary (1996), Poland (1996), Korea (1996), and most recently, the Slovak Republic (2000).

<sup>21</sup> Sullivan observes:

In purely economic terms, it represented a greater proportion of world wealth and productivity capacity in one co-ordinated economic body than had ever been seen, or is likely to be seen again. On the political side, it stood as a colossal, and colossally successful, challenge to Soviet and Chinese communism (1997: 33).

<sup>22</sup> Figures for the IMF are from its 2003 annual report (2003: v); figures for the World Bank are from its annual report (2003: 12). The G-7, formed in 1974, comprises the seven 'most powerful' industrial economies: the United States, Japan, Germany, France, Italy, Britain and Canada. Russia was added in 1997, 'not by virtue of its relatively puny economy but for its continuing geostrategic clout' (Burrell 2001a: 24).

group, although one New Zealand official claimed it was 'global, but not universal' (Interview, Paris, 17 February 1999).<sup>23</sup>

The organisation's size is considered to be an advantage, in that: 'it is just small enough to allow every member to take a full part' (Bayne 1987: 27).<sup>24</sup> In addition, Aubrey contends, its 'compact grouping' of 'virtually all the countries that matter in world finance (as well as a few that do not)', gives it a 'special role' in international financial matters, especially when 'sensitive issues need to be discussed behind closed doors for the purposes of coordinated action' (1967: 41-42). That is, the OECD's smaller group – and the mechanisms it uses to reach agreement – allows issues to be raised and resolved that a larger group would find more difficult to tackle.<sup>25</sup> Importantly, however, the OECD stresses

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<sup>23</sup> The official also noted that New Zealand did not find the OECD to be Eurocentric, 'despite geographical fact'.

<sup>24</sup> While the OECD can be seen as a vehicle via which the larger member states disseminate their policies to other member countries, it is also a 'channel through which small countries and [those] larger countries ... not part of the G7 can make their interests and concerns known' (Ougaard 1999: 12). An Australian official argued that Australia's size did not affect its ability to take an active role in the organisation.

Australia is actively engaged in discussing reports that the OECD prepares, but it is also – as you'd expect from an Australian perspective – not too shy about telling others what it is doing and being fairly open about what the results have been, both good and bad. So it's an active participant and contributor (Interview, Paris, 19 February 1999).

<sup>25</sup> This issue was touched on in the Introduction to the thesis. That an agreement is more likely to be reached in a smaller negotiating group may be one reason that the MAI was initiated in the OECD, rather than the World Trade Organisation. The latter has significant problems in getting its myriad members to agree. For example, in global trade talks in 1999, United States Trade Representative Charlene Barshefsky convened an invitation-only, closed-door session of 30 leading trading economies in a last-ditch attempt to secure agreement. The bid failed, with one report noting that the smaller session was the 'final straw for many poor countries'. See Pearson (1999: 4). However, the 'small group' resolution of issues within the OECD does not mean that all members think and act alike. Officials say that the OECD does not necessarily act as a bloc when issues are raised in other forums because members have different interests in other contexts (Interviews, Paris, 17 and 19 February 1999). For example, members' positions on trade diverge considerably; see the discussion in Henderson (1981: 800-802). In addition, 'members believe that acting together in the name of the OECD in dealing with developing countries could create a sense of "them and us" which could provoke resentment rather than cooperation' (Bayne 1987: 29-30). Camps argues that the advanced countries are not, and should not be seen as becoming, an 'economic unit', which means that acting as a bloc to secure maximum advantage for the OECD area alone would have 'substantial costs both to national ... and global efficiency' (1975: 24).

Within the OECD, while all the G-7 countries belong to the organisation, they are said not to act as a bloc because, again, many of their problems are different. One Secretariat official said that Europe not only had a different approach to social policy, it had problems with high unemployment, big budget deficits, monetary union, and ageing populations that other OECD member countries did not have (Interview, Paris, 19 February 1999).

that it is not an 'exclusive' or 'closed club', but a 'club of like-minded countries', with membership 'limited only by a country's commitment to a market economy and a pluralistic democracy' (2001c).<sup>26</sup> The latter restriction has been termed a relatively 'recent invention', given that Spain, Portugal, Turkey and Greece all have been members during periods of dictatorship (Huntley 1980: 285; *The Economist* 1990: 17). Elsewhere, the OECD adds a 'respect for human rights' to the list of requirements (2001e).<sup>27</sup> Whether or not the organisation should continue to expand its membership has been the subject of considerable discussion within the OECD. It says it has set up contacts with the 'rest of the world through dialogue with the countries of the former Soviet bloc, Asia and Latin America', and that these contacts may, 'in some cases', lead to membership (2001c, 2001e).<sup>28</sup> It also notes that, after more than 30 years, it is: 'moving beyond a focus on its own countries and is setting its analytical sights on those countries – today nearly the whole world – that embrace the market economy' (2001d).<sup>29</sup>

The OECD has an annual budget of about \$US200 million, which comes solely from its members, unlike the Bretton Woods institutions (the IMF and the World Bank), which have access to externally generated funds. The contribution of each member is calculated according to the 'weight' of its economy, which means that the two largest contributors are the United States and Japan (OECD

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<sup>26</sup> Note that the OECD now uses the term 'group', rather than 'club', to describe itself. See footnote 3.

<sup>27</sup> Secretariat and delegate officials interviewed in Paris in February 1999 emphasised that membership required these *three* commonalities – market economies, pluralistic democracies, and respect for human rights.

<sup>28</sup> Presumably, some of the concerns regarding increasing the membership relate to the organisation's desire to maintain its status as a 'rich man's club' and its focus on topics most directly related to its members needs and interests. Expansion in the membership of some other international organisations has been accompanied by concerns about the effect on the focus of the different groups. For example, Australian Foreign Minister Alexander Downer has criticised the expansion of the Association of South-East Asian Nations (ASEAN), on the grounds that the inclusion of the poor and politically conservative states of Indo-China had weakened ASEAN and slowed its reform agenda (Baker 2001: 8). In an important caution that some may argue applies equally to the OECD, Downer argued that ASEAN's expansion was undermining its effectiveness, and it was in danger of being marginalised unless it increased the pace of economic reform (Baker 2001).

<sup>29</sup> Note here that the OECD's 'nearly the whole world' means that it (generally) does not cover African countries, the Middle East, or India.

2001c, 2004).<sup>30</sup> Australian and New Zealand officials said that the United States and Japan each contributed 25 per cent of the OECD's budget, whereas Australia's share was 1.6 per cent and New Zealand's a mere 0.24 per cent (Interviews, Paris, 17 and 19 February 1999). As noted in the Introduction to this thesis, Sullivan observes that, in an 'era of universal belt-tightening and budget cutting', 'parliaments have grown stingy with their support to international organisations' (1997: 105). Somewhat ironically, he notes that the OECD, 'which has for years been pushing governments to make painful structural adjustments, is now engaged in that very process', with the 1997 budget 3 per cent lower than that of 1996 (1997: 78). The actual budget cut was 10 per cent over three years (Bayne 1997: 370, fn 12; Bowley 1997: 4). Thus, like many of the government agencies within its member countries, the OECD has been asked to 'produce more with less', and has to justify its existence in an age of 'value for money' and non-duplication. More recently, Nicholas Bayne has expressed concern at the reluctance of governments to spend money on international organisations, noting that the OECD, like the other organisations which rely on members' contributions, is becoming 'severely squeezed' (2003: 232). He fears that, if this results in a decline in the quality of its work, its 'authority' will also decline (2003: 232). Despite the difference in the levels of contribution, the OECD functions on the principle of one member, one vote, unlike the IMF and the World Bank, which have weighted voting structures that reflect the size and financial contributions of their members.<sup>31</sup>

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<sup>30</sup> The OECD notes that, 'with the approval of the Council', members can also elect to supply additional funds to pay for specific programmes or projects (2004). One Australian official observed that members could act on their own or in a consortium to provide funding to promote work in particular areas, and could also act 'on the edges' to influence the work of particular committees by offering to fund an extra staff member (Interview, Paris, 19 February 1999). Supplying such funding to the OECD was seen as more effective than funding 'at home' because 'the OECD is a better place to get information. If you want information on what other countries are doing as well, it is a devil of a job to try and get it from a national authority.' However, the consequences of such additional funding need further exploration. That is, if a state can use the OECD as a seemingly 'neutral' source of policy or ideas or, in a similar vein, as 'independent' support for what may be unpopular domestic policies, then the implications of a state supplying special funding for special projects that may then be cast as products of the OECD take on a political aspect that should not be overlooked. This is explored further in the section in this chapter discussing domestic leverage.

<sup>31</sup> For a detailed discussion of voting structures in international economic organisations *except* the OECD, see Zamora (1980). An earlier iteration of the OECD's web site stressed that all members had an 'equal voice' in the organisation, 'irrespective of the size of their budget contribution' (OECD web site, 1998). This reiterates the point made earlier (footnote 24) that the size of the country is said not to matter to the OECD in terms of this 'equal voice'. On this point, Michael Henderson argues that, while the United States 'leads' within the OECD, 'it no longer controls',



## THE OECD: AIMS AND OBJECTIVES

Unlike the IMF and the World Bank, the OECD is 'not an operational agency charged with a specific task which is accomplished with greater or lesser efficiency', and it does not provide loans to members or non-members (Henderson 1981: 793; Ohlin 1968: 242; Henderson 1993: 19; Deacon 1997: 70). The OECD's mandate goes wider than that of either of these Bretton Woods institutions or the WTO, 'which treat more closely defined subjects for a larger membership' (Bayne 1997: 362; Bayne 1987: 27; Henderson 1993: 14). The organisation's aims, which are set out in Article 1 of its founding Convention, state that the OECD shall promote policies designed to:

- achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy<sup>32</sup>
- contribute to sound economic expansion in member as well as non-member countries in the process of economic development, and
- contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

In specific recognition of the need to co-ordinate policies, Article 2 of the Convention says that, in pursuit of the organisation's aims, members agree to: 'pursue policies designed to achieve economic growth and internal and external financial stability and to avoid developments which might endanger their economies or those of other countries'. Thus, the OECD continues the OEEC task of harmonising domestic policies, or, as Sullivan contends, the OECD has the same principles as its predecessor, shares the same goals, and recognises the OEEC's founding principle that: '[members'] economic systems are interrelated and the prosperity of each of them depends on the prosperity of all' (1997: 32).

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and American officials insist that the 'leadership is by default rather than design' (1981: 812). He notes that OECD personnel insist that there is 'a large gap between leadership and dominance' (1981: 813). Earlier, Camps had argued against the OECD's membership equality principle on efficiency grounds. She claimed that, in order to 'avoid work being unduly slowed down or paralyzed by the desire of all countries to participate in everything', the smaller countries 'must accept' that it would 'frequently be desirable for the countries that have the major impact on the system as a whole to meet together by themselves' (1975: 42-44).

<sup>32</sup> It is not clear here whether 'world economy' is meant literally or whether it is a shorthand term for 'capitalist economies'. Michael Henderson argues that, although the OECD constantly refers to the state of the 'world economy', it is actually alluding to the world market or capitalist economy (1981: 811).

Over the years, the OECD has interpreted its brief broadly, and continues to expand into new areas. As noted above, the organisation is moving beyond its 'borders' to examine other market economies, and it acknowledges that its scope is 'changing in other ways too' (2001d). In particular, it contends:

The matrix is moving from consideration of each policy area within each member country to analysis of how various policy areas interact with each other, across countries and even beyond the OECD area (2001d).

One argument for this move is that globalisation has 'wrested control of much national policy away from national governments', with economic interdependence and global news media internationalising issues that were traditionally considered to be 'home matters' (Sullivan 1997: 92). However, Camps made this same point about the OECD's role in 1975, long before talk of 'globalisation' began, when she argued that: 'there are no longer any well-defined and agreed lines to be drawn between policies of domestic concern and policies of broader common concern' (1975: 20-21, 25).

Some scholars of the OECD observe that an important point here is that the organisation's goal is not a common policy, but parallel action, 'or at least the coordination of national policies through cooperation in a consultative forum' (Aubrey 1967: 103; Camps 1975: 21; Henderson 1981: 793-794; Putnam and Bayne 1987: 15, 263). That is, the OECD aims to reconcile members' policies: 'to render them consistent and compatible and where possible mutually reinforcing' (Bayne 1987: 27). This means working through differences in national objectives, economic structures, understandings of economic theory, institutions and political climate (Putnam and Bayne 1987: 15), and it is here that the OECD's function as a consultative forum is seen to come to the fore. The OECD contends that its most important role is to provide governments with a 'setting in which to discuss, develop and perfect economic and social policy' (2001c). Members share experiences and, aided by analysis supplied by the Secretariat, discuss the 'whole range of economic and social policies, and not just the economy-wide or macroeconomic policies with which [the OECD] is often identified' (Henderson 1993: 14; Ohlin 1968: 242). Thus, the OECD is an agency where social and economic problems common to the industrial world can be identified and studied, and where a common approach is worked out between governments (Mayall 1988: 62; Bakker 1996: 114). The organisation, again emphasising its 'international' dimension, contends that such co-ordination is necessary because,

'increasingly in today's globalised world', domestic and international policies 'must form a web of even practice across nations' (2001c). It argues that, while policy 'exchanges' may lead to formal agreements, more often they simply ensure 'better informed' public policy work within member governments and clarification of the impact of national policies on the international community (2001c). That there is a level of abstraction from the implications of the likely results of sharing ideas – such as policy transfer, for example – in this interpretation of the OECD's functions will be explored further below.

## THE OECD: STRUCTURE AND MECHANISMS

The OECD is based in Paris, where it has a Secretariat of about 2300 staff working directly or indirectly to support the activities of its committees (OECD 2004). The Secretariat is divided into directorates that are roughly aligned with member country ministries and parallel the work of the OECD's technical committees.<sup>33</sup> In total, there are about 200 committees, working groups and expert groups, and the OECD says that most of its work is done through these bodies, which 'bring together representatives of member countries, either from national administrations or from their permanent delegations to the OECD' (2001c). The 'over-riding' committee that has decision-making power is the Council, which comprises one representative from each member country and a representative of the European Commission. The Council meets once a year at ministerial level, when members' foreign, finance and 'other' ministers 'raise – and give public prominence to – important issues and set priorities for OECD work over the coming year' (OECD 2001c). More regular meetings of the Council, which are held at the level of ambassadors to the OECD, are used to give 'general guidance' to the organisation and its work. The OECD points to this structure to support its claim that it does not act independently, or pursue its own agenda, but rather responds only to what its members request.<sup>34</sup>

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<sup>33</sup> Bob Deacon argues that the division into directorates means that it is 'not possible ... to ascribe a meta-policy on economic and social matters to the OECD' (1997: 70). Rather, he claims, the powerful Economic Directorate sits at the top, and the less powerful Directorate of Education, Employment, Labour and Social Affairs 'pursues its own agenda' (1997: 70). In later chapters of my thesis, I will take issue with this claim, arguing that it is possible to find a 'meta-policy on economic and social matters' in the OECD, especially with the organisation's current emphasis on 'batter[ing] down the walls between "economic" and "social" problems' (Sullivan 1997: 99), and that this meta-policy is based on neo-liberal thinking.

<sup>34</sup> Former head of the OECD's Economics and Statistics Department David Henderson is adamant that although the OECD is referred to as a 'think-tank', it is 'not at all ... a research institute' (1993: 20). He explains:

pilot for macroeconomic policy in all the developed countries', both now serve as 'intellectual crucibles in which policy is forged for the annual G-7 summit' (1997: 62; see also Bakker 1996: 117).<sup>38</sup> The EDRC is responsible for the regular reviews of economic developments and performance in member countries, which are then published as country surveys. These reports will be discussed further below.

Like its predecessor, the OECD works by consensus decision-making, which means that all members are associated with a decision. Countries can abstain from a vote and each has the power of veto. However, as an Australian official notes: 'you can only use that option so many times if you are going to be a constructive part of the organisation' (Interview, Paris, 19 February 1999). A member who vetoes the proposals of others may have difficulty getting partners to follow its favoured ideas and, importantly, can use a veto only to prevent an outcome, rather than achieve what it wants (Bayne 1997: 371). The Council of the organisation makes formal decisions, which are binding on all members who do not abstain from voting on them. Other formal instruments at the Council's disposal 'differ markedly in terms of content and scope' and include non-binding recommendations, agreements, declarations and arrangements (Ougaard 1999: 5; Siegel 1985: 202).<sup>39</sup> Morton Ougaard notes that the extent of members' compliance with OECD instruments is not known, but he contends that it is unlikely that members would have continued and expanded the OECD's activities if the instruments were worthless, nor would they agree to decisions and recommendations if they had 'no intention at all' of complying with them, 'at least partially' (1999: 5).

Significantly, the OECD has no overt sanctions it can use against members to enforce its decisions and recommendations. It has 'no carrots and no sticks', but has to achieve its results by persuasion, that is, by convincing members 'to adapt

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<sup>38</sup> Age Bakker observes that smaller countries continue to attach importance to EPC meetings because they are 'excluded elsewhere' (1996: 116).

<sup>39</sup> Richard Siegel contends that the OECD makes 'sparing' use of the binding decision clause in its founding convention, although many of its officially non-binding formal instruments come to be recognised as customary international law (1985: 202). Bakker notes that recommendations and declarations are not 'powerless' because 'they play an important educational role in public opinion and politics' (1996: 113). The importance of this ability to set such formal and informal institutions will be discussed in later chapters.

their perceptions of their own self-interest' (Bayne 1987: 28).<sup>40</sup> Two of its related procedures for persuasion are multilateral surveillance and peer review, in which member governments subject domestic policies to the scrutiny, criticism and commentary of fellow members of the organisation.<sup>41</sup> The OECD claims that peer review is 'unique to the OECD', and says it is based on 'transparency, explanation, and, when needed, self-criticism by the countries examined' (2001e). Elsewhere, it argues that multilateral surveillance: 'enable[s] divergent perceptions to be articulated, compared and reviewed, with a view to reconciling or at any rate clarifying differences' (1988d: 24). The aim of both mechanisms is to achieve greater international monetary and financial stability through economic policy co-operation aimed at bringing countries 'closer to an international policy mean' (Putnam and Bayne 1987: 237). Faith in these methods to achieve this goal is strong, and both the OECD and the G-7 'clearly and explicitly have expressed political will to strengthen this pattern of co-operation' (Ougaard 1999: 12).<sup>42</sup> Multilateral surveillance and peer review, and the role of these mechanisms in the spread of policy ideas, will be discussed in more detail in a later section of this chapter.

OECD meetings are held 'behind closed doors'. This can lead to allegations of secrecy, but the OECD, its member countries, and some scholars see value for the members in the closed sessions, claiming that they allow free and frank discussion and a depth of criticism that members would not condone in public

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<sup>40</sup> Bayne likens the OECD to the Delphic oracle:

It offers advice for the present and forecasts for the future. There is no compulsion on the members to follow the advice given. They do so because they realise the consequences of going against a body with such a solid reputation for accurate forecasts (1987: 28).

<sup>41</sup> For the distinction between these mechanisms, see footnote 14.

<sup>42</sup> The OECD has been working to strengthen multilateral surveillance for some time, a move that Ougaard attributes to the G-7's Houston summit in 1990, but which the OECD itself traces to a 1985 G-10 report on improving the workings of the international monetary system (1999: 8; OECD 1988d: 7). In a 1988 study, *Why Economic Policies Change Course*, the OECD argued that multilateral surveillance could only 'have teeth' if it was grounded in what governments could and would do to redirect policies (1988d: 3). It emphasised the importance of countries '*paying due attention to developments and policies abroad*' and '*speeding-up the political recognition of the need (when it exists) for action*', but argued that international peer pressure to achieve this was 'fully effective only if the peers share a broadly agreed view of the objectives to be pursued, and the way the system works' (1988d: 18, 22, 23; emphasis in original). On this point, it attributed many of the difficulties of the 1981-85 period to 'differences in countries' *ideas and views* on economic policy' (1988d: 23; emphasis in original).

forums.<sup>43</sup> Aubrey, for example, argues that the 'closed-door character' of the OECD ensures the success of its 'process of confrontation' because criticisms are heard in private, 'without loss of face', and 'governmental positions can be modified to take account of political realities' (1967: 147). He claims that it is 'less onerous' for members to submit to mutual scrutiny and 'perhaps to yield to "moral suasion"' in such closed forums because they are all subject to the same process. In a similar vein, Bayne notes that techniques of 'persuasion' are 'naturally applied discreetly':

In public exchanges governments will dig their toes in to defend their chosen policies. In informal debate, out of the public eye, they will often be more flexible. This is one reason why the OECD deliberately keeps a rather low profile (1987: 28).

However, Bayne contends that, even behind closed doors, comments are tempered, with 'blunt criticism' avoided in favour of suggestions for 'shifts in the balance of policy and the moderation of extremes' (1987: 29).<sup>44</sup> Only rarely is the secrecy of the meetings breached; Michael Henderson cites the example of a West German delegate in 1977 who 'broke with the convention of confidentiality' that characterised OECD activities to give a press conference dismissing the OECD's demands for Germany to take strong expansionary measures and act as a 'locomotive' for the other OECD economies (1981: 796; see also Sullivan 1997: 35).

## THE OECD TODAY: ALL BARK AND NO BITE?

The picture of the OECD presented so far suggests that the organisation is somewhat benign; a toothless watchdog that provokes its members to action using a puppy's boundless energy and yelping rather than bared fangs. It exerts

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<sup>43</sup> The OECD claims that the 'absence of publicity' enhances the 'atmosphere of frankness' of its meetings (1964: 11). New Zealand Ministry of Foreign Affairs Secretary Richard Nottage has defended closed-door negotiations on the basis that 'negotiating positions are compromised if they are widely known' (Nottage, cited in Kelsey 1999: 333). However, Jane Kelsey notes that the secrecy of the OECD's negotiations on the MAI fuelled opposition to the treaty (1999: 333). While New Zealand ministers and officials initially agreed on the need for confidentiality, as opposition to the agreement grew, 'officials began demanding greater openness from the OECD' (Kelsey 1999: 333). The OECD eventually released the draft text of the MAI, ten months after it had been leaked and posted on the Internet.

<sup>44</sup> In this, he echoes Michael Henderson, who argues that any attempt to influence another country's policies is 'always done in the most discreet manner' (1981: 794). Henderson quotes an official likening the exertion of influence in the OECD's Economic Policy Committee to 'the effect of water dripping on stone with a gentle persistence usually being expected to produce limited results over time' (1981: 794-795).

this energy, 'hon[ing] its methodology', and extending its 'analytical grasp' and regular reports to cover 'one new area after another' (Sullivan 1997: 48). It then uses its accumulated evidence to shepherd, rather than bully, its members into taking the desired action. By such methods, the OECD is said to have become a 'pillar' of the post-war international order, facilitating close and regular consultation between members and providing them with the necessary information and analysis to co-ordinate policy action (Maddison 1989: 90). According to this view, the organisation has successfully 'prevented the emergence of beggar-your-neighbour policies, and helped preserve a positive momentum for the world economy' (Maddison 1989: 90; Bennett 1995: 258). Along the way, it has developed a reputation for compiling '[a]ccurate and objective data' and a wide range of statistical and technical assessments that member governments 'often regard ... as being more reliable than those they produce themselves' (Bayne 1987: 28; see also Camps 1975: 46, Huntley 1980: 71).<sup>45</sup> Sullivan goes so far as to claim that: 'First governments, then

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<sup>45</sup> Camps argues that, over the years, the OECD became an organisation that 'civil servants trusted, economists found useful as a source of reliable statistics, and most other people knew nothing about' (1975: 47); see also Huntley (1980: 126). However, as noted above, the faith in the OECD's reliability is not universally shared. In an early assessment, D.J. Smyth and J.C.K. Ash observe that, judged by the forecasts published in the *Economic Outlook*, the OECD's forecasting performance is 'not very good' (1975: 362). In a similar early review, Michele Fratianni and John Pattison note that the OECD's published views on inflation are a 'curious mixture' of the views of delegates and 'a small group of OECD economists' that rarely blamed inflation directly on the governments that paid the OECD's bills (1976: 893). They conclude that:

where individual countries can influence the forecasts of an international organisation, as in the case of the OECD, any serious customer should question the value of the policy-making services (forecasts) he [sic] is purchasing (1976: 894).

More recently, J.C.K. Ash et al. argue that, while the OECD's short-term forecasts are 'generally useful', there is 'no evidence' that its longer-term 12-18 month forecasts are valuable. They note that the OECD undertakes 'little formal accuracy analysis' of its forecasting, leaving it to non-OECD economists to undertake rigorous analysis of the accuracy of the organisation's forecasts (1998: 382).

In its own defence, the OECD does not claim to be perfect. It notes in *Economic Outlook* 26 (1979b) that it has learned from the experience of 1974-75 when the Secretariat, 'in common with other forecasters, markedly underestimated the severity of the recession' (1979b: 21). But it does periodically defend its forecast record, and claims a high level of accuracy for its predictions. In *Economic Outlook* 28 (1980b), for example, it uses its sub-section on 'Uncertainties and Risks', which is usually a descriptive account of factors that can affect the predicted outcome for both the OECD economy and its individual constituents, to give some background to its forecasts. It says the forecasts are a 'judgement of the most likely outcome among a range of possible ones' and are 'inevitably subject to margins of error which cannot accurately be quantified in advance' (1980b: 21). Forecast errors derive mainly from either 'failure to identify, or estimate correctly, the major forces acting upon the economy' or 'failure to understand how economic agents will respond to these forces' (1980b: 21). Later, in *Economic Outlook* 44 (1988b), it notes that the buoyancy of activity since mid-1987 had been 'substantially underestimated' by most forecasters, but goes on to

universities, NGOs, journalists and concerned citizens came to rely on OECD analysis and statistics as the most complete and accurate anywhere' (1997: 48).

According to this view, the OECD is merely an organisation comprising technocrats (or 'civil servants and experts') and numerous committees and working parties (Archer 1990: 40). The former supply data, statistics, and 'expert advice and consultation', and the latter 'constitute a network of international contacts between persons who speak the same technical language' (Smouts 1993: 450; Bakker 1996: 113). The OECD presents the role of the Secretariat in exactly these terms, saying:

Parts of the OECD Secretariat collect data, monitor trends, analyse and forecast economic developments, while others research social changes or evolving patterns in trade, environment, agriculture, technology, taxation and more (2001a).

It says the information and analysis provided by the Secretariat underpins members' discussions when they meet in OECD committees, and the work is done in close consultation with the policy-makers who will use it.<sup>46</sup> That is, as

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claim that: 'This kind of "policy misleading error" at the level of total OECD activity is a rare event' (1988b: 4).

The OECD expands this discussion in *Economic Outlook* 53 (1993a) in a separate 'special notes' chapter, 'How Accurate are Economic Outlook Projections?' (1993a: 49-54). It notes that it periodically reviews its forecasting record, and 'such a particular post-mortem may be particularly timely as a guide to economic policy makers because of concern about recent forecasting errors' (1993a: 49). (Of course, what the OECD does not highlight is that such 'post-mortems' also give the organisation a chance to justify itself to any members who might be concerned about how much value for money they get from the OECD.) The OECD notes in this section that any assessment of accuracy has to bear in mind that the projections are 'not purely model-based numbers'. Projections are both *conditional*, being based on assumptions concerning exogenous variables and the stance of member policies, and *judgmental*, 'drawing on the expertise and knowledge of the OECD Secretariat in respect of factors that are not reflected in pure model-based projections' (1993a: 49). (Again, this overlooks the point that such 'judgements' cannot be value-free. This will be explored further below and in later chapters.) The OECD claims that, apart from three periods (the first oil shock, the stock-market crisis, and the downturn of the early 1990s), its projections for output growth and inflation have been, on average, 'close to the actual outcomes', with the accuracy improving over time (1993a: 50-51). It then compares itself favourably to other international bodies, noting that for the recent period (1987-92), its projection record for output and inflation had been 'as good as and perhaps even slightly better than those made by the IMF or national authorities ...' (1993a: 53). However, it concedes that its projections are made later in the year than those of the IMF and most national agencies, meaning that its forecasters benefit from a 'more up-to-date information set' (1993a: 53).

<sup>46</sup> My aim is not to suggest that these functions are unimportant. One Australian official claims that Australia benefits from both the analysis and the meetings:

[The OECD] has a role that the Secretariat provides in terms of preparing analytical reports and looking at what countries are doing. Also, [it brings] together participants from different countries and different perspectives where they can



noted above, the OECD claims that member governments dictate and drive its work; an assertion that some scholars accept. Huntley, for example, argues that initiatives for action 'must originate in the national capitals', while Ougaard emphasises that neither the Secretariat nor the committees 'develops policies independently and imposes them on members' (Huntley 1980: 148; Ougaard 1999: 11). Rather, Ougaard contends, decisions are reached by consensus after a process of dialogue, with input from OECD departments, independent specialists and officials from members' ministries and departments.

Thus, the OECD has been described as a useful consultative agency that has 'no power but great influence', which it derives from 'an independent attitude and the quality of its analysis' (Sylvia Ostry, cited in Ougaard 1999: 4; Bakker 1996: 113). Bob Deacon, for example, contends that the organisation's influence is 'limited to sharing the experience of member states among others and, through its string-free technical assistance, encouraging societal learning of best practice' (1997: 70). Others concur, claiming that the OECD derives the guidelines for 'best practice' from its continuous monitoring of national programmes, and it uses 'harmonisation' techniques, such as research, reviews, mutual cross-examinations, and discussions, to achieve policy congruence (Rose 1993: 9-10; Harrison and Mungall 1990: 61-63). These techniques are based on common values and stress interdependence and the dangers of pursuing divergent policies. Their use to exert influence 'explicitly avoids intruding on national sovereignty', which means they are 'undramatic' (Harrison and Mungall 1990: 62-63).<sup>47</sup> As a result, the OECD's history is: 'marked by the absence of controversy about its operations, its legitimacy or its organisational aspirations' (Harrison and Mungall 1990: 63).

Others attribute this lack of controversy over the OECD's role to the organisation's weak political power, in that it has no links to special-interest constituencies, no parliamentary sounding board or direct line to influential

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discuss their own issues and perspectives and dilemmas and in that sense, some countries probably benefit a lot from the reports they get from the OECD, but not so much in terms of active debates at the OECD. Australia probably goes pretty well on both counts (Interview, Paris, 19 February 1999).

<sup>47</sup> R.J. Harrison and Stuart Mungall claim that organisations that use the harmonisation approach do not claim or seek supranational authority: 'They are servants rather than aspirant masters' (1990: 63).

parliamentarians, and no supranational decision-making powers (Huntley 1980: 68-69). In addition, while some argue that the major assets of the OECD include its 'broad portfolio of subjects' and 'in-house professional expertise [that] extends so widely' (Henderson 1993: 34), others claim that one of the 'major drawbacks of the OECD ... is that it concerns itself with all conceivable problems', which can result in a 'lack of cohesion' (van Meerhaeghe 1987: 204; Huntley 1980: 69). From this, M.A.G. van Meerhaeghe scathingly dismisses the OECD as being simply a 'huge publishing house', and concludes that the organisation 'demonstrates remarkable activity, but one searches in vain for concrete decisions' (1987: 204).<sup>48</sup> Goran Ohlin, in an early analysis of the OECD's relationship with the Third World, concludes more gently that: 'as a "rich man's club" [the OECD] attracts suspicions of a power which it does not possess' (1968: 243).

The point I want to emphasise about these assessments of the OECD is that they perceive the organisation to have no 'fangs'; that is, it is simply an organisation for data collection and analysis, with no mechanisms with which to force members to pursue its policy recommendations. Rather, members can discuss policy problems, gather information on possible solutions, and then choose to do what they want, with no further obligation to take OECD viewpoints into consideration. In the words of former OECD Secretary-General Jean-Claude Paye:

The secretariat is there to find and point out the way to go, to act as a catalyst. Its role is not academic; nor does it have the authority to impose its ideas. Its power lies in its capacity for intellectual persuasion! (Paye cited in Bakker 1996: 114; punctuation as in original).

Bayne argues that this has implications for the OECD's impact on policy, making it more diffuse than the effects of the WTO, which can apply negotiating pressure, or the IMF, which has strong sponsorship from finance ministers. The result, he contends, is that: 'Governments mainly value it [the OECD] as a source of good ideas which they can later claim to have thought of themselves' (1997: 365; 2003: 239).

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<sup>48</sup> Sullivan notes that the OECD produces about 350 publications a year (1997: 98).

An obvious critique here is that such statements ignore the influence of ideas; they assume that the OECD's ideas are neutral and value-free. The role of ideas will be explored in the next chapter. In the following sections of this chapter, I will argue that the OECD has both bark and bite, and that these factors are important to its role as an 'ideas monger'. That is, the OECD has independent authority as an international organisation based on its 'rational-legal authority' and control over technical expertise and information. Its methods to achieve consensus and compliance, peer pressure and multilateral surveillance, significantly enhance this authority. The result is that the OECD can act independently of the desires of its member governments, and can put forward its own set of ideas, using its 'harmonisation' techniques, which are more coercive than they first appear, to pressure members to comply. In the next section, I will explore my claim that the OECD has autonomy before examining the OECD's compliance measures.

### **THE OECD: MORE THAN THE SUM OF ITS PARTS**

In the previous section, I noted claims that the OECD's members dictate and drive the organisation's work; that is, effectively, the OECD's functions are no more than the sum of the desires of its constituent members. However, this underplays the extent to which international organisations such as the OECD develop autonomy, becoming more than 'merely the tools ... of the national governments that fund and support them' (Deacon 1997: 58, 59).<sup>49</sup> In fact, international organisations have a separate existence to the polities that underpin them; they have 'independent lives of their own as policy making and agenda setting bodies' (Deacon 1997: 58). This claim can be supported in a number of ways. The autonomy of organisations may reflect that governments themselves have contributed to the independence and importance of international organisations by increasingly turning to them for 'answers to their social and economic problems' (de Senarclens 1993: 453). That is, governments have gone beyond treating international organisations simply as a means to achieve their ends internationally and now view them as an independent source of solutions to domestic policy problems. It may also reflect that bureaucracies, including those of international organisations, are claimed to act to preserve

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<sup>49</sup> There is an extensive literature on the role of international organisations, some of which agrees with the position to be outlined here and some of which argues that states are the only actors of note in the international system. For a discussion of this debate, which goes beyond the argument I want to make here, see Barnett and Finnemore (1999).

their existence, such that the organisations remain, even after the original circumstances under which they were created no longer exist (Fратиanni and Pattison: 891-892, 893; Bakker 1996: 2-3). Such claims are based on the argument that, once an organisation has been formed and has 'its own constitution, staff, rituals and rules', it tends to 'concentrate on organizational goals and to see as its main objective its own survival' (Smouts 1993: 450).<sup>50</sup>

However, there is another way of supporting the claim to the autonomy of international organisations that falls outside the explanations of state-granted authority or bureaucratic interest in self-preservation. Following Michael Barnett and Martha Finnemore, I want to argue that the way that international organisations are constituted (that is, how they are put together and the tasks they are ordered to perform) can also give the organisations (here, the OECD) autonomous power 'in ways unintended and unanticipated by states at their creation' (1999: 699-732). As noted earlier, the OECD's aims, as set out in its founding Convention, are to promote policies in member countries designed to achieve high economic growth and living standards, sound international economic development, and increased world trade. It aims to achieve these goals by co-ordinating members' policies so that actions in one country do not undermine actions in others, and it is to facilitate such co-ordination by independently gathering information on members' policies, organising meetings to ensure co-operation, and monitoring subsequent policy implementation.<sup>51</sup> In other words, to achieve its tasks, the OECD has to exist separately to the bureaucracies of its members, and has to have the authority to obtain data, formulate recommendations, and apply pressure to ensure that members comply with the chosen policy direction. Thus, the very constitution of the OECD as a stand-alone body, combined with its mechanisms of multilateral

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<sup>50</sup> The organisation defends the 'status and acquired interests of civil servants and diplomats working in [its] ambit' (de Senarclens 1993: 460).

<sup>51</sup> The OECD's major investigation of unemployment, the *OECD Jobs Study* (1994d), is one example of this function. The OECD collated the policies of its members, held meetings, wrote a report, and put forward a series of recommendations, which it has been urging its members to implement. For example, in *Economic Outlook* 61 (1997a), the OECD notes that it has monitored the implementation of the Jobs Strategy recommendations and has published its findings as *Implementing the OECD Jobs Strategy: Lessons from Member Countries' Experience* and *Implementing the OECD Jobs Strategy: Member Countries' Experience* (1997a: 12-13). It notes uneven progress across its members in the implementation of the strategy and encourages them to 'press on' with it, despite concerns in some countries about the strategy's effects on equality and social cohesion, because 'overall' the strategy is an effective response to labour market problems.

surveillance and peer pressure, gives the organisation an independence at odds with claims that it acts only on its members' instructions.<sup>52</sup>

Barnett and Finnemore contend that international organisations become autonomous sites of authority through power flowing from at least two sources: I) the legitimacy of the rational-legal authority they embody; and II) control over technical expertise and information (1999: 707).

#### D) AUTONOMY THROUGH RATIONAL-LEGAL AUTHORITY

Barnett and Finnemore use Max Weber's study of bureaucratisation to build their argument for the 'rational-legal authority' of international organisations. Bureaucracies, they note: 'exemplify rationality and are technically superior to previous forms of rule because they bring precision, knowledge, and continuity to increasingly complex social tasks' (1999: 707). In addition, bureaucracies embody a 'rational-legal authority' that modernity views as 'legitimate and good' because it is 'invested in legalities, procedures, and rules and thus rendered impersonal', and it deploys 'socially recognized relevant knowledge' to set rules on how goals are to be achieved (1999: 707).

The 'rational-legal authority' of international organisations discussed here may suggest that the machinery of norms and rules constrains international organisations, making them passive mechanisms for states to use in pursuit of their goals, rather than actors with independent cultures and agendas for action. However, this overlooks the fact that international organisations are involved in formulating and transmitting these very norms and rules. While international organisations play a role in defending the dominant structures of the international order as their member states desire, they also play an autonomous role in its evolution through the production and dissemination of the norms,

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<sup>52</sup> In reiterating this claim that the OECD follows the 'general guidance' and 'priorities' set by its members (2001c), I am not arguing that the OECD pursues only an internal, rather than an international, agenda. The organisation's aims clearly specify that its focus include the *international* economy. Instead, I am taking issue with the notion that the OECD's agenda and views only reflect those of its members and not its own, independent stance. Here, I note Huntley's observation: 'The attitude of the OECD is not simply the sum of each member's conception of its national interests; in a very real sense, it has been from the first *international in character*' (1980: 68; emphasis added). By which I take him to mean that the OECD has an independent, 'international' view that stands separate to both the individual and the aggregated views of its members.

values, knowledge, ideas and interests needed for its development (de Senarclens 1993: 461; Camilleri and Falk 1992: 94). The ability of international organisations to build and publicise support for their norms and rules adds to their influence because, as Pierre de Senarclens argues (and as will be explored further below):

the political authority necessary for the exercise of power lies in the mobilization of a collective imagination shaped by myths, symbols and values, and ... [international organisations] provide the kind of political rallying-point from which this mobilization can be proclaimed (1993: 460).

Thus, the rational-legal authority of international organisations may be more enabling than constraining because it gives them significant abilities to shape the way in which policy problems and solutions are understood. This capacity for international organisations such as the OECD to stimulate policy discussions and, importantly, to set the terms of the discourse and the parameters of what may be considered in the discussions, has implications for the formulation and shaping of policy that are rarely teased out. Such implications are a central concern of this thesis.

The result of the rational-legal authority of international organisations is that, over the years since their inception, major international institutions, such as the IMF, World Bank, and the OECD, have come to be accorded an 'authoritative status within the world economy comparable in some respects to that enjoyed by the state vis-à-vis the national economy' (Camilleri and Falk 1992: 95-96). This status arises from their 'global reach, organizational strength, professional expertise, and close connections with core governments and private banks and corporations' (Camilleri and Falk 1992: 95). However, it also can be linked to their construction of an intellectual framework for their approach, along the lines of that described above (setting the norms and rules), which has given them an 'intrinsic legitimacy as voices of economic orthodoxy' (Kelsey 1999: 57, 68). Such legitimacy is enhanced because their statements converge to form a coherent economic policy agenda, a result that Jane Kelsey attributes to the same governments playing key roles in each of the institutions (1999: 68).

## II) AUTONOMY THROUGH CONTROL OVER TECHNICAL EXPERTISE AND INFORMATION

Barnett and Finnemore argue that the second basis for the autonomy and authority of international organisations is 'control over information and expertise', in which an international organisation has 'specialized technical knowledge, training, and experience that is not immediately available to other actors' (1999: 708). Such control, they contend, 'invites and at times requires bureaucracies to shape policy, not just implement it' (1999: 708). This argument centres on the notion that, in a world in which inter-governmental organisations play a part in regulating international politics, 'scientific and other knowledge as well as moral authority have become significant sources of power' (Risse 1999: 5). International organisations, which provide such knowledge and information, can 'control the levers of such power' through what they choose to cover in their analysis and briefings to members, and the way in which they prepare and draft policy proposals (Risse 1999: 5; Jonsson 1993: 471).<sup>53</sup> The result is that international organisations can have an 'often-decisive influence on international politics' in that they can encourage access to certain data, facilitate or impede communications between negotiators, which advantages or disadvantages different delegations, and assist in arbitration (de Senarclens 1993: 461).<sup>54</sup> De Senarclens argues that, while this role may appear to be 'technical', it is 'eminently political' because it can 'bolster legitimization processes', 'resolve or maintain conflicts of interest', and 'distribute goods and values' (1993: 461).

Of course, one obvious criticism with respect to this concerning the influence of the OECD is that the organisation cannot claim to have a monopoly over policy expertise or the type of information it provides to its members. As *The Economist* observes, much of the OECD's work is duplicated by other organisations, such as the IMF, and, whereas it once 'cornered the market' in macroeconomic forecasting, '[n]owadays a host of private-sector firms produce commentary on

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<sup>53</sup> Note the contrast here between this view and that of Henderson at footnote 34.

<sup>54</sup> Pierre De Senarclens offers the example of the GATT Secretariat, which he argues played a 'not inconsiderable role' in the Uruguay Round of the trade talks, producing studies and putting forward compromise proposals whenever governments appeared incapable of reaching agreement (1993: 461). Of course, this role is not universally accepted or popular. We should recall here my observation in footnote 6 in the Introduction to this thesis that the role of the WTO Secretariat in the failed talks in Seattle raised the ire of developing countries.

individual economies, along with equally inaccurate economic forecasts' (1994: 17). Such criticism implies that the OECD, being smaller than some of the other international organisations providing similar expertise and information, may have little of the aforementioned control and, consequently, little influence on international politics. However, the OECD has several advantages over other international organisations, including the breadth of its expertise and information, its smaller size, and its more 'significant' membership.<sup>55</sup> The OECD can claim to be more broadly focused and cross-disciplinary than other international organisations, which may make its expertise more appealing in that it can be seen to incorporate a broader range of issues. In addition, its smaller membership, confined as it is to the economically developed, industrialised, 'richest' countries, may add weight to its views in that its members are those who play a significant role in the world economy. In terms of competition from the private sector, the OECD can use its international membership and rational-legal authority to claim a level of legitimacy for its advice that private firms cannot claim.

The argument for autonomy through control of expertise directly contradicts claims, noted above, that the OECD is simply an organisation of technocrats, supplying data, statistics, and 'string-free' technical advice. Such assertions are encapsulated in the comments of former OECD department chief David Henderson, who claims that the OECD Secretariat's role in the organisation's inter-governmental meetings is to provide: 'the menu, in the form of documents [which] contain facts and figures, analysis and commentary, and sometimes suggestions for action' (1993: 20).<sup>56</sup> He contends that these documents are

<sup>55</sup> Bayne observes that the OECD, the IMF and the World Bank, 'are all very well-endowed with staff in relation to their membership, so that their staffs can take on ambitious tasks' (2003: 237). The OECD's staff numbers will be discussed further below.

<sup>56</sup> Henderson appears confused on a number of points in his article. He argues vehemently that it was 'for member governments ... to decide what the department should be working on', and comments that his 'formula' when working for the OECD was, 'We are paid to do what governments want us to do. We are not paid to say what governments want us to say' (1993: 20, 23). However, he then claims that for the Secretariat to be fully effective, 'it has to go beyond simply responding to what governments ask of it: it has to exercise imagination and resourcefulness' (1993: 24). Henderson fails to acknowledge that a Secretariat 'alert to new developments, new issues, and new possibilities' and ready to deal with them, has considerable scope to *set* the agenda, selecting which of these new areas to put before member governments and which to ignore. In another statement at odds with his claim to be following members' orders, he argues that 'member governments are not the only clients to be served' because the OECD also provides services to 'a wider public' and has a 'duty to do what it can to ensure that public opinion is well informed about issues and events' (1993: 23). In making this claim, he overlooks that the



prepared 'from an independent transnational point of view', which the Secretariat is able to provide because:

its dense network of contacts with officials in virtually all branches of government in its member countries [means] it can offer an extra dimension of analysis, a perspective of its own on national and world events (1993: 20, 21).

From this, Henderson concludes that the OECD 'can have influence, on governments and a wider public opinion, if the work of the organisation is *professionally competent, objective and timely*' (1993: 21; emphasis added). That is, member governments, and the public, pay heed to the OECD's advice because the organisation's staff are professionals who offer objective analysis from an independent, transnational perspective.<sup>57</sup>

Clearly, Henderson's claim here is that the OECD's 'independent' stance is politically neutral ('objective') because it is put together by professionals using technical data. The underlying assumption is that the OECD is above partisan politics and, 'by reason of [its] technical expertise', is able to decide, and recommend to its members, the 'only possible policies' (Cassen 2001). However, such claims to neutrality are flawed in two important respects. First, the information that the OECD Secretariat puts before its members cannot always be 'objective' in terms of being impartial between policy positions. This is not to argue that it never objective; rather, it cannot be assumed that it is always objective. As noted above, what the Secretariat chooses to cover in analyses and briefings to members, and the way it prepares and drafts policy proposals and recommendations, must reflect the Secretariat's particular perspective. This has a number of implications for the OECD's internal decision-making processes. Richard Siegel argues that, once an international organisation's staff or committees takes a position, a process of advocacy begins in which proposals are: 'appropriately packaged and "sold" to other staff units, the major policy-makers in the Secretariat ... and, most crucially, the representatives of the member states' (1985: 194). Such a process suggests that, contrary to

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governments of member states, elected by their populations, could make a similar, and perhaps more legitimate, claim to this purpose.

<sup>57</sup> *The Economist*, too, makes this argument, noting that, 'The secretariat tries to influence the way governments view the world by analysing problems from more than a purely national point of view' (1990: 66). The underlying assumption of the argument is that the OECD's viewpoint is somehow more worthy of note than that of an individual state because it is 'international' rather than domestic.

Henderson's claims, OECD staff are not neutral between policy options, which means that national delegates in policy negotiations find themselves under pressure both from other delegates *and* organisation staff. One result is that Henderson's 'influence' on governments and the public comes from people whose policy positions are not directly democratically accountable. This point will be discussed further below.

A second flaw in the neutrality argument is that statistics and analyses are not simply 'technical' and 'objective'; much depends on what is being measured, how, and in what context. For example, Lovell et al. note in their assessment of the macroeconomic performance of OECD countries that, European members perform less well, given a particular set of indicators for 'performance'; in this case, a high level of GDP per capita, low rates of inflation and unemployment, a favourable trade balance, and the environmental factors of carbon and nitrogen emissions (1995: 316). However, they add that countries that prioritise objectives other than those specified in their model, such as the pursuit of an equitable income distribution, are penalised by the omission of such objectives (1995: 316).<sup>58</sup>

One example of the significance of the OECD's choice of measures occurs when the organisation's statistical information about economic and social conditions is used to construct league tables that rank countries high or low on various indicators, such as economic growth, tax, and social spending (Rose 1993: 69).

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<sup>58</sup> Other scholars approach this same point (that statistics are not necessarily 'technical' and 'neutral') from a different angle, arguing that statistics render a population governable by quantifying what is to be ruled. James Scott claims that statistics are invaluable to a modern state, which makes use of such numbers to make its society legible to policy-makers. That is, the modern state uses statistics to 'create a terrain and population with precisely those standardised characteristics that will be easiest to monitor, count, assess and manage' (Scott 1998: 81-82). Scott observes that such techniques increase the effectiveness of state intervention, 'whether the purpose of that intervention is plunder or public welfare' (1998: 78). In a similar vein, Nikolas Rose argues that:

numbers do not merely inscribe a pre-existing reality. They constitute it. Techniques of inscription and accumulation of facts about 'the population', 'the national economy', 'poverty' render visible a domain with a certain internal homogeneity and external boundaries. ... Numbers here help to delineate 'irreal spaces' for the operation of government, and to mark them out by a grid of norms allowing evaluation and judgement' (1999: 212).

Rose specifically notes the 'activities of the OECD', alongside 'such innovations as national income accounting', as making up a 'national economy' as a domain that could be 'measured, calculated, compared, assessed over time, [and] acted upon in the name of its optimization' (1999: 213).

Richard Rose correctly observes that pressure groups in countries that rank low in these tables 'can use the data to stimulate dissatisfaction and demands for action' (1993: 69; see also Martin and Simmons 1998: 756). However, he does not take this argument far enough: a government (or opposition party, depending on the table's contents) can use the 'technical' data as evidence to support either current policy programmes or reform agendas, even though the measures may not accurately portray the situation in each country. *Sydney Morning Herald* economics editor Ross Gittens makes this point succinctly when he warns readers to be wary of 'propaganda' that claims that Australia's top tax rates are higher than countries that have top rates of only 35-40 per cent (2001a: 48). He points out that, in the United States, for example, many of the individual states have an income tax that is applied on top of the federal tax, and many countries have compulsory social security contributions, which are, in effect, another tax. Thus, tax rates in these countries are not necessarily lower than tax rates in Australia. The disparity in the figures arises from differences in what is being counted under the rubric of 'tax'.

As outlined, the rational-legal authority that international organisations can claim combines with their control over technical expertise and information to give them autonomy and to make them independent sites of authority, standing outside the states that created them. Thus, for example, the OECD has a 'public image ... of an *'independent and authoritative economic agency'* (Kelsey 1999: 69; emphasis added), rather than a collective of member states, that offers commentary and advice that governments are expected to heed.<sup>59</sup> However, these sources of authority have another important effect, as Barnett and Finnemore note:

The irony in both of these features of authority is that they make bureaucracies powerful precisely by creating the appearance of depoliticization. The power of [international organisations] and bureaucracies generally, is that they present themselves as impersonal, technocratic, and neutral – as not exercising power but

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<sup>59</sup> Examples of this are legion and are obvious in media coverage of the OECD's various reports, which tends to highlight the score-card aspect of the OECD's verdicts on a country's performance; governments are expected to act to improve a country's score. See, for example, the headlines in the Australian media on the release of *Economic Outlook 74*. These focus on the prescriptive orders of the OECD: 'OECD urges: pull in the reins', 'OECD warning: rates must rise'. See Gordon (2003), Marris (2003) and Murphy (2003b).

instead as serving others; the presentation and acceptance of these claims is critical to their legitimacy and authority (1999: 708).

In this view, international organisations can exert political influence ‘by virtue of their abstract, unequivocal scientific and cultural knowledge, on which governments wish to draw’ (de Senarclens 1993: 460). The result is that international organisations are ‘more than the reflection of state preferences’ and do much more than facilitate co-operation that helps states to overcome market failures and problems of collective action and interdependence (Barnett and Finnemore 1999: 700). They also ‘constitute and construct the social world’ through their ability to classify and organise information and knowledge, fix meanings and diffuse norms (Barnett and Finnemore 1999: 700, 710-715; see also de Senarclens, 1993: 461). This ability is a key element of my thesis and will be explored further below and in later chapters.

## **THE OECD: KEEPING ITS MEMBERS IN STEP**

The discussion in the previous section canvassed the arguments underpinning my claim that the OECD is not simply a toothless watchdog following the joint orders of its 30 owners and barking only on command. The organisation does more than watch over members’ policies, analyse the information it gathers and offer suggestions for policy action that members can choose to consider or ignore. It also has a distinct ‘voice’ or ‘bark’, which it uses autonomously from its members in discussions on policy problems and solutions to argue in support of its proposals. This ‘bark’ is considered to be both legitimate and authoritative because it arises out of the OECD’s rational-legal authority, which is constituted in impersonal rules and procedures, and its technical expertise, which is constituted in an impersonal, non-partisan, professional, ‘international’ interpretation of facts and figures. I now want to take this claim further and argue that the OECD watchdog also has ‘bite’, in the form of the mechanisms of peer pressure and multilateral surveillance, which it uses to secure policy conformity among its members. Importantly, these are also techniques by which policy ideas can be disseminated and enforced, as will be elaborated below, which is why it is important to know the content of the OECD’s policy ideas. However, before moving to this discussion, I want to explore in more detail the function of peer pressure and multilateral surveillance in the OECD.<sup>60</sup>

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<sup>60</sup> As noted above, see footnote 14 for clarification of the distinction between these two mechanisms.

Earlier, I noted that the OECD works by consensus and has no overt means, such as penalties, by which it can compel members to comply with its policy instruments (decisions, recommendations, agreements and so on). The OECD itself observes that it is: 'not a regulatory body but rather a forum for the exchange of informed views on policy questions' (1964: 6). Some scholars accept this claim at face value. Rose, for example, echoes Bayne's observation that the OECD has 'no carrots and no sticks', when he argues that the OECD has 'neither incentives nor sanctions' to make a country change its policy and that the 'push to change must come from national governments' (1993: 69; Bayne 1987: 28). According to this view, and as noted above, change occurs through 'persuasion', with members reaching a consensus to act after discussing the issues in various committees. However, this view pays insufficient attention to the ability of the mechanisms of multilateral surveillance and peer pressure to compel national delegates towards a policy consensus.

This is not to argue that the role of these methods in achieving consensus among members is unrecognised by the organisation itself. In fact, the OECD appreciates that these processes are central to its ability to achieve its tasks. Here, we need to recall that 'beggar-my-neighbour' policies were seen as responsible for conflict in the Western political economy and that one of the main aims of the OECD is to ensure that such conflict-provoking policies do not occur again. Thus, it seeks among its members mutual enlightenment, reinforcement, adjustment and concession in order to avoid such conflict (Putnam and Bayne 1987: 260). An OECD paper on peer review notes that peer pressure is a form of 'soft persuasion' that has the 'ultimate goal of helping the reviewed State improve its policy making, adopt best practices, and comply with established standards and principles' (Pagani 2002: 6, 4). The metaphor used within the OECD is keeping its interdependent members 'in step'; that is, it aims to achieve policy co-operation and conformity among its members in order to avoid the 'dangers of being out of step' (1988d, ch. 5).<sup>61</sup>

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<sup>61</sup> The OECD is not alone in using the 'in step' metaphor. Aubrey, for example, cites US Assistant Secretary of State for European Affairs William Tyler, who, when discussing the OECD in 1964, said that co-operation in the OECD did not mean 'uniform national policies'; rather, the 'primary aim of policy coordination in the OECD is to ensure that national policies develop in step with each other' (1967: 103-104).

Multilateral surveillance and peer pressure, or what the OECD once called 'the confrontation method', are the mechanisms by which conformity can be achieved (OECD 1964: 6). Sullivan explains that:

in the 'complex process called "peer pressure" ... [s]ubtly but powerfully, ideas and standards advocated by a majority of committee members gain the agreement of all or nearly all and are shaped to account for the views of dissenters. ... Ultimately peer pressure makes international co-operation among 29 countries possible (1997: 99).

In a similar vein, Bayne, who claims that the OECD has 'no sticks', notes that policy comparison and mutual criticism 'is a subtle discipline' that can be 'quietly effective' in that '[g]overnments can be induced to adapt their policies in practice, when they would never accept a formal obligation to do so' (1987: 28; see also Bakker 1996: 114; OECD 1964: 8). Multilateral surveillance, too, is perceived to have considerable influence on members and their policies, with Putnam and Bayne describing it as the 'most portentous development' of the original G-5 summits. They cite an American advocate arguing that multilateral surveillance is: 'the one means by which we can keep our economies from again moving off in radically different directions' (1987: 182). Later, they note that surveillance was seen as a way to 'oblige members, through "peer group pressure", to accept more international discipline in preparing economic policies' (1987: 216).<sup>62</sup> The OECD itself notes the success of these methods: 'Mutual examination by governments, multilateral surveillance and peer pressure to conform or reform are at the heart of OECD effectiveness' (2004).

These observations highlight an aspect of the two conformity mechanisms that is often neglected: the reason that they are successful at reaching consensus is because they are inherently coercive. Peer pressure and multilateral surveillance have tangible effects on a country's policy choices, 'with political pressure exerted on *unwilling* countries to *make them toe the line*' (Bakker 1996: 6; emphasis added).<sup>63</sup> Consensus arises from countries being monitored and pressured by

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<sup>62</sup> Putnam and Bayne note that, at meetings of G-5 finance ministers in 1983-84, 'French and American fiscal laxity were alike sharply criticized, as multilateral surveillance was used to induce "deviant" governments back towards the international policy median' (1987: 177).

<sup>63</sup> The result of these mechanisms, then, is that countries may be forced to implement policies that, left to their own devices, they would not have chosen to pursue. Importantly, Bakker notes that although the OECD has sought more contact with the Dynamic Asian Economies and some Latin

their counterparts and by the OECD Secretariat to change their policies. Such pressure can be seen in a positive light: Aubrey, for example, argues that reluctant governments do not find it easy to 'hold out against a thoroughly documented and well-reasoned case' (1967: 28).<sup>64</sup> Fabrizio Pagani's OECD paper concludes that peer pressure and peer review: 'can create a catalyst for performance enhancement which can be far-reaching and open-ended' (2002: 13). However, such pressure can also be negative if it is based less on a well-argued case and more on the need to conform simply to keep in step with one's peers, and the distinction between the two is not always clear. Countries may find it difficult to resist such pressure, especially when, as Sullivan observes: 'No country likes to feel itself on an entirely different wave-length from all its partners' (1997: 99; see also Putnam and Bayne 1987: 262). In an early discussion of its work, the OECD itself noted that: 'countries finding themselves alone against practically all the others are subject to strong moral pressure stemming from the universal acceptance of the need for flexibility and adaptation in economic policy-making' (1964: 8). Forty years later, the danger to a country of obtaining a reputation for being inflexible and unwilling to adapt, which may have negative consequences for investment, remains a powerful motivation for a country to conform.

The difficulty of assessing the impact of the OECD's 'teeth' with regard to these measures, that is, how much 'bite' the OECD actually applies, is that the discussions in which both of these conformity-inducing tools are applied occur 'behind closed doors'. While, as noted earlier in the chapter, closed-door discussions are considered to be positive because they allow governments to be more 'flexible' in their positions, such an argument overlooks the potential negative implications of governments being subjected to covert pressure to conform. It overlooks both accountability and the importance of openness to decision-making, as former World Bank chief economist Joseph Stiglitz highlights in an oft-cited article in which he castigates the IMF for 'secrecy'. He pithily observes: 'Smart people are more likely to do stupid things when they close themselves off from outside criticism and advice' (2000: 60; for citations of

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American countries since the late 1980s, some of these countries 'are still hesitant to get too involved in OECD work because *they fear the obligations which might result from peer pressure in the OECD*' (1996: 121; emphasis added).

<sup>64</sup> Aubrey is citing Lincoln Gordon 1956, 'The Organization for European Economic Cooperation', *International Organization*, February: 7.

this article, see Forbes 2000, Hewett 2000, Powell 2000).<sup>65</sup> The argument for secrecy also neglects the fact that closed-door discussions limit the amount of information that citizens have about what their governments are doing, or conceding, on their behalf, effectively creating a 'democratic deficit' or, rather, an 'accountability' deficit in 'global economic governance' (Risse 1999: 12; see also Stiglitz 2000; Jonsson 1993: 471).<sup>66</sup> On some accounts, this is a necessary evil. Scholars have long recognised that governments involved in international bodies have to play what is known as a two-level game: negotiating at one table with their own citizens and at another table with their fellow international players (Putnam 1988; Putnam and Bayne 1987: 10).<sup>67</sup> When the matter being negotiated is controversial, such as trade issues or the MAI, adverse publicity may increase the politicisation of the issue and limit the leeway that policy-makers have at the international negotiating table (Risse 1999: 11). However, the OECD's 'deliberately low profile' (Bayne 1987: 28) does not fulfil the demands for transparency and accountability that are an integral part of the organisation's mantra of good public management within its member governments.<sup>68</sup> The

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<sup>65</sup> Stiglitz argues that 'openness is most essential in those realms where expertise seems to matter most', and continues his attack on the IMF and the United States Treasury with the claim that the 'folly' of these bodies in their dealings with Asia and Russia might have been 'much clearer, much earlier' had they invited greater scrutiny (2000: 60).

<sup>66</sup> The 'democratic deficit' applies as much to non-member countries as it does to the citizens of OECD members. The OECD's founding Convention makes it clear that the organisation's interests are international in terms of contributing both to the development of the world economy and sound economic expansion in member and non-member countries, and the organisation openly acknowledges that it has increased its focus on the world outside its membership (see the OECD web site and the growing number of OECD reports on non-member countries). However, the OECD is an 'an "off-camera" forum' (Huntley 1980: 68), which means that most countries in the global economy have no official part in negotiating the 'global' policy that the organisation is setting and promoting. For example, although non-member countries were expected to sign up to the MAI, the deal itself was to be negotiated only by OECD members, with only a few non-member countries granted observer status; see Kelsey (1999: 315-352). The international 'democratic deficit' is important given Huntley's claim that the OECD is a mechanism 'serving the interests of the advanced nations' (1980: 73).

<sup>67</sup> Today, a complicating factor is that a government now has to play on three levels: at the domestic table, the inter-governmental table, and the multinational corporation table; see Smouts (1993: 449).

<sup>68</sup> On this point, Bayne, who claims that the OECD 'seems very *accountable*' because it is 'consensus-based and its member governments must answer to their electorates' and 'very *transparent*, as it publishes a huge amount', notes that this accountability and transparency is in output, rather than input (2003: 239; emphasis in original). He observes:

Since the OECD produces voluntary cooperation rather than formal agreements, very little of its work actually has to go to parliaments. Hardly anyone gets into the meetings where deals are struck except government officials (or sometimes ministers) and OECD staff (2003: 239).



secrecy may also allow the OECD to apply more 'bite' than citizens of its member states would find comfortable, especially given the weight that OECD views may then be given in domestic policy discussions. This will be explored further below.

Of course, given the differences in size and economic 'clout' between OECD members, it would be foolish to assume that the coercive aspects of peer pressure and multilateral surveillance apply equally to all members. However, the general point stands for the organisation's small and medium-sized countries, which may be particularly affected by confrontation both in the policy discussions at the OECD and in the preparation of reports such as those of the Economic Development and Review Committee. These reports, published as 'Economic Surveys', are prime examples of the peer review and multilateral surveillance functions of the OECD. They contain assessments of a country's current economic situation and existing policies as well as forecasts and policy recommendations, which the OECD then urges the country to implement. The way that these reports are used, both internationally and domestically, undermines the claim that the OECD has no ability to enforce its policy decisions, in that the reports are seen as 'report cards' or 'score cards' of a country's performance and are publicised as such in the media.<sup>69</sup> Internationally, in a world in which mobile capital judges countries according to their 'competitiveness', a negative OECD report may have significant

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This view neglects a number of important issues, not least of which is Bayne's own observation, noted in the Introduction of this thesis, about the independence and influence on governments of organisations such as the OECD (2003: 230).

<sup>69</sup> For Australian and New Zealand examples, see Macdonald (2003), Murphy (2003a, 2003b), Wade (2003), O'Loughlin (2002), *Australian Financial Review* editorial (2001), Gittens (2001b), O'Loughlin and Wade (2001), Wright and AAP (2001), NZPA (2000), Reuters and NZPA (2000), Smellie (2000), Henderson (1999a, 1999b), Wade (1999a, 1999b). Many of the OECD's other publications, which rank members countries in areas such as taxation or education, also function as report cards. For example, a taxation report in October 2003 ranks Australia as the sixth-lowest taxed OECD nation, a fact that Treasurer Peter Costello highlights, see Fabro (2003: 5). In a similar vein, an OECD education report in November 2002 was reported under the headline, 'Plaudits for our teachers' (Cervini 2002: 11), and its *Employment Outlook* in July 2002 was reported under the headline, 'OECD bestows seal of approval' (Mitchell 2002). The latter article noted the OECD's attribution of Australia's success in reducing unemployment to the Howard Government's implementation of reforms along the lines of those suggested in the OECD's Jobs Strategy.

It is worth noting here David Dolowitz's comment, in a discussion of policy transfer, that:

an individual or country might be placed under pressure to engage in policy transfer by the perception of being a laggard in the international arena—*particularly when they are placed poorly in OECD reports* or other international benchmarking exercises (2003: 103, emphasis added).

consequences.<sup>70</sup> Domestically, depending on what the report says, the government, opposition parties and interest groups can use its contents to support their claims for particular policies.

One controversial aspect of these 'report cards' that raises questions as to whether they reflect the authority of the OECD itself or that of its member governments centres on whether the country reviews are written by the OECD or by national officials. This question appears to return to the dichotomy between the OECD as a toothless watchdog and the OECD as a watchdog with fangs. The OECD claims that the reports are written within the organisation and that they are outspoken to the point of creating problems with members (see OECD 1964: 12-16, and Pagani 2002: 22-24, for details of the process).<sup>71</sup> Sullivan offers the example of the German government, which 'once issued an instant and furious press release to refute OECD arguments', and notes that other members have 'held up publications of their Economic Surveys for months' trying to get a different tone or prescription – 'only sometimes successfully' (1997: 49). One Australian official said the reports could be 'robust': '[They] do say to France that your minimum wages are too high, that you spend too much on social protection' (Interview, Paris, 19 February 1999).<sup>72</sup> This view echoes an earlier OECD claim that, in the preparation of the reports, 'neither examiners nor examinees mince their words' (1964: 13),<sup>73</sup> although Bayne contends that the need to agree can lead to 'rather dense and oracular prose, with criticism expressed in coded language which has to be read between the lines'

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<sup>70</sup> For example, one could assume that investors would pay attention to the OECD's December 2003 report on Japan, which calls for bold policy reforms on the grounds that the country is beset by 'serious and inter-related' problems that had resulted in it slipping 'from being one of the richest OECD economies to around the average' (Pearson 2003: 14).

<sup>71</sup> David Henderson states that the country surveys are drafted by the Secretariat, redrafted in light of comments from the country and discussion in the EDRC, and published under the authority of the committee (1993: 16).

<sup>72</sup> On OECD reports generally, the official said the reports were critical if they needed to be because:

People in the Secretariat see themselves as professionals. They are not in the business of writing mealy-mouthed things that don't say anything if there's something to be said. They have a certain professional integrity that they want to preserve for the organisation. If the organisation becomes a mealy-mouthed, wishy-washy place, then it is not going to benefit anyone.

<sup>73</sup> The OECD observes, 'The atmosphere is one of frankness and constructive criticism, made easier by the fact that what is said is under confidential seal' (1964: 13).

(1987: 28).<sup>74</sup> In a similar vein, Bakker observes that the ‘wording of sensitive passages’ can involve ‘a considerable tussle between the Secretariat, the country concerned and the delegations from other countries’ (1996: 117).<sup>75</sup>

Undoubtedly, the reviewed country has some input, but the extent is said to range from consultation with a country’s officials ‘as part of the initial data collection and as a routine courtesy’ once a first draft is prepared, to negotiating and signing off on the text (Haslem 2000; Kelsey 1999: 69).<sup>76</sup> Kelsey argues that the latter occurs with the New Zealand reports, and claims that, if criticisms by OECD economists survive the negotiating process, ‘they may be relegated to footnotes, while the major policies that the government wants to plug are generally (but not always) included in the reports’ (1999: 69). She argues that, in New Zealand, the media portrays the reviews ‘as objective assessments of how well the country is doing, and the government perpetuates the illusion’ (1999: 70). However, Kelsey stops short of Michael Henderson, who scathingly dismisses the country review process as ‘nothing short of fraudulent’ (1981: 798). He argues that ‘not a word appears in the published survey which is not considered acceptable by the government whose policies have been assessed’, although the ‘myth’ persists that they sometimes contain comments that governments may not like to be made public (1981: 798).<sup>77</sup> From this, Henderson concludes that ‘the “confrontation” process is informative but rarely ...

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<sup>74</sup> However, Bayne also notes that the OECD can state critical views ‘trenchantly if need arises’ and cites a review of one country in which the OECD condemned the country’s ‘institutional bottlenecks, bureaucratic attitudes, labour market rigidities, failure to innovate, poor management and inefficient use of financial resources’ (1987: 28); see also Aubrey (1967: 28).

<sup>75</sup> Pagani argues that it is the possibility of attempts by the reviewed country to ‘unduly influence the final outcome’ that is the main threat to the credibility of the peer review process (2002: 13). He notes:

The involvement of the reviewed State in the process and its ownership of the outcome of the peer review is the best guarantee that it will ultimately endorse the final report and implement its recommendations. However, the State’s involvement should not go so far as to endanger the fairness and objectivity of the review. For example, the State under review should not be permitted to veto the adoption of all or part of the final report (2002: 13).

<sup>76</sup> Ian Henderson, writing in *The Australian* about the OECD’s 1999 economic survey of Australia, neatly side-steps the controversy by stating that the report was prepared ‘in co-operation with the Treasury’ (1999a).

<sup>77</sup> Michael Henderson contends that this practice varies between members, with some insisting on writing ‘almost every word’ of their own survey, while others ‘allow the secretariat some latitude’ (1981: 798).

contentious' because each delegation realises that its pressing or embarrassing questions may 'provoke retaliation in time' (1981: 798).

Given that the OECD's proceedings are confidential, it is difficult to adjudicate between these views, especially when the statements of OECD and national officials are contradictory.<sup>78</sup> However, such uncertainty does not diminish the effects of the reports in enhancing the authority of the OECD (thereby supporting my portrait of the OECD as 'fanged' watchdog). It is the way the reports are used as a product of an impersonal, non-partisan, professional, technical OECD, rather than their actual authorship, that is important to the process of multilateral surveillance in keeping countries 'in step'. Regardless of who actually specifies the content of the reports, it is the OECD's rational-legal authority and command of technical expertise that provides the 'bite' to spur particular actions. The important point is that the 'conclusions [of the reports] have some influence over the political decision-making process in the countries concerned', with the 'prestige' of the OECD being 'used to considerable domestic advantage' (Bakker 1996: 117; Henderson 1981: 798).<sup>79</sup> Thus, the OECD's 'fangs' can work either for or against the government, depending on the content of the review.<sup>80</sup> As Chris Pierson observes, parties in opposition see themselves as governments-in-waiting, 'and only ever a general election (and a little good fortune) away from holding the reins of state power' (2003: 95). This means they are looking for ammunition with which to attack the government's policies and with which to build their own alternatives. An OECD report critical of existing policies can supply what they need.<sup>81</sup> When the political parties

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<sup>78</sup> For example, information that I obtained from interviews in Paris differed to that obtained by Kelsey; see Kelsey (1999: 69). A subsequent paper by a member of the OECD's Directorate for Legal Affairs (Pagani 2002) offers a different view again. Pagani describes a detailed process of approval in which the 'examined country' is able to argue for text changes that are accepted only if the Secretariat and other delegations agree.

<sup>79</sup> This is not to suggest that this occurs only with OECD reports. Looking at other international bodies, Putnam and Bayne note that G-7 members use G-7 communiqués to support their viewpoints, although this usually works to the advantage of the governments: 'given the care with which the communiqués are drafted, there are few actual examples of summit declarations that were subsequently exploited by a government's adversaries at home' (1987: 261).

<sup>80</sup> Michael Henderson considers the advantage to be with the government, '[b]ecause it is not well known that governments must approve their surveys before they can be published' (1981: 798), but this claim rests on his assumption that the government effectively writes the report, and that the report supports the policy direction that the government wants to pursue.

<sup>81</sup> For example, in 2000, New Zealand's Opposition (National Party) used the OECD's *Economic Survey: New Zealand* to attack the Labour Government, with then Opposition Leader Jenny Shipley

themselves do not play this point-scoring game with the reports, the media may instigate the competition over which party's policies best fit with OECD recommendations.<sup>82</sup> An OECD paper on peer review notes that peer pressure is most effective '[w]hen the press is actively engaged with the story' because media involvement often brings the public scrutiny necessary to 'stimulate the State to change, achieve goals and meet standards' (Pagani 2002: 6).

## THE OECD: EPISTEMIC COMMUNITY AND IDEAS MONGER

As noted above, the OECD's *raison d'être* is to harmonise its members' policies in order that they avoid actions that would harm their economies and put the aims of increased economic growth and higher standards of living at risk. I have argued that one way that the OECD can achieve such harmonisation is to apply the mechanisms of multilateral surveillance and peer pressure in order to push members towards, or coerce them to comply with, an 'agreed' consensus on policy actions. According to my argument, the mechanisms of peer pressure and multilateral surveillance give the OECD more influence over policy than a cursory examination of the OECD's rules and procedures would suggest. These instruments combine with the organisation's distinct and independent voice to give the OECD both 'bark' and 'bite'. National delegates engaged in policy discussions at the OECD find themselves under pressure from their fellow delegates, the OECD Secretariat, and organisational mechanisms that may leave

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urging Finance Minister Michael Cullen to pay attention to the OECD report, 'which showed the Government's policy settings were "profoundly damaging" and were moving New Zealand in the wrong direction' (NZPA 2000). Shipley used the OECD's 'objective expertise' in her attack, arguing: 'The OECD report is a significant piece of analysis from a body which has provided valuable advice and analysis to New Zealand throughout our 27 years of membership' (NZPA 2000). In response, Cullen attacked the OECD's recommendation for New Zealand to introduce a capital gains tax as an 'extreme, socially unacceptable and economically unnecessary' measure that would be 'political suicide' (NZPA 2000). While this exchange may support the view that the OECD writes the reports independently of the reviewed government, it may also – in this case – reflect the independence of the New Zealand Treasury; see Miskin (1997). In another example, Australia's Opposition (Labor Party) used the 1999 OECD report on Australia to attack the Howard Government's work-for-the-dole scheme, saying: 'the OECD assessment confirms that people with insufficient skills are not receiving adequate training assistance from the Howard Government' (Wade 1999a).

<sup>82</sup> For example, a report in the *Australian Financial Review* in February 2003 compares Coalition and Labor positions with OECD *Economic Outlook* recommendations that countries should introduce policies to prevent early retirement (Murphy 2003a). Outlining the OECD's policy suggestions, the report notes that Treasurer Peter Costello had given such policies the 'tick of approval' the previous year whereas Labor was against forcing workers to defer their retirement. That is, while the parties' comments were not directly related to the OECD report, they were, nonetheless, held up in contrast against the OECD's recommendations.

them with little option but to make significant concessions from their original positions and acquiesce to the preferred policy line. However, there is another means by which the OECD may secure conformity among its members, and that is through the ideas that the organisation seeds in the minds of its members, and the policy problems and solutions that these ideas acknowledge as legitimate. In the final section of this chapter, I will explore the role of the OECD as a 'knowledge actor' or 'ideas monger', before arguing that another way of understanding this is to see the OECD as an 'epistemic community' whose ideas may come to construct the 'reality' or 'truth' of the situations that face policy-makers and delineate the options from which policy-makers select solutions.<sup>83</sup>

International organisations such as the OECD are 'knowledge actors' who help to transfer the intellectual matter that underpins policies by diffusing lessons, building consensus and entrenching ideas (Stone 2000: 10). Such actors provide essential services for policy-makers by acting as resource banks for information, advocating policy ideas and inculcating awareness of experience in different domains, and spreading ideas and information through their networks (Stone 2000: 11). Thus, any analysis that views the secretariats of international organisations as 'weak, inefficient and chiefly ornamental' overlooks their crucial role as 'clearing houses' for information, '[e]specially in issue-areas where information is a more important resource than brute force' (Jonsson 1993: 473). International organisations are at the 'confluence of [the] transnational exchange of ideas'; they gather information from different countries' policy experiences, mediate and synthesise the acquired knowledge, and interpret it for their members (Howlett and Ramesh 1999: 16). This means that much of the information used in national and international decision-making 'either emanates from, or has "passed" and been processed by, international civil servants' (Jonsson 1993: 474).

Understood in this way, the OECD can be seen as a linchpin for lesson-drawing or policy transfer, which Dolowitz and Marsh define as:

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<sup>83</sup> I am not arguing that the ideas necessarily originate within the OECD for, as Keating observes: 'in many cases it is impossible to know where an idea has originated' (2003: 435). Nor am I examining at this stage how ideas function in policy-making; that will be discussed in the next chapter. Here, I am concerned with the OECD's role in dispersing policy ideas.

the process by which knowledge about policies, administrative arrangements, institutions and ideas in one policy system (past or present) is used in the development of policies, administrative arrangements, institutions and ideas in another political system (2000: 5).

Both the OECD and its precursor, the OEEC, have acted to facilitate the exchange of such information, the result of which is what Aubrey calls an 'educational effect' in which members came to 'know the economy and problems of another state' (1967: 28). Through such education, members come to acquire 'a sense of the interdependence of the policies of all members states' (Aubrey 1967: 28), but they also draw from it possible solutions to their own policy problems. The role of the OECD in this process is depicted as passive; it is simply the conduit through which information is exchanged. Rose, for example, who describes the OECD as a 'prime example of an "ideas-mongering" international institution', emphasises that it has no authority to issue laws and regulations and no sanctions with which to force a country to change a program (1993: 69). Rather, it hosts meetings that members' officials attend to 'exchange ideas with policymakers from other countries', and prepares papers and distils lessons from case studies that 'other nations can choose to adopt if they wish' (1993: 69).<sup>84</sup> The current OECD Secretary-General offers a similar view, arguing that the organisation's strength lies in the sharing of information, ideas, and 'experience of what works and what does not' (Johnston 1998). He observes that:

Governments can and do make economic policy mistakes, but by sharing experiences, submitting to outside 'sounding boards' and undergoing peer reviews, OECD governments have learned collectively from their mistakes – and from their successes (1998).

Thus, the suggestion is that the OECD acts as a facilitator, rather than an instigator, of lesson-drawing and policy transfer between its members and, increasingly, between members and non-members.

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<sup>84</sup> In a similar vein, *The Economist* (1994: 17) argues that much of the OECD's value lies in its function as the venue in which member states willingly exchange ideas and experiences. It argues that the close involvement of government officials in the OECD's work makes them 'more willing' to collect data to be used in international studies and makes governments:

more apt to heed the lessons of such studies. Indeed, the OECD is one of the few places where government officials can talk frankly with their opposite numbers, and so learn from one another's mistakes.

However, as noted above, the OECD is not simply a transmission vehicle through which members pass policy ideas, but is an active participant in its own right. It gathers information on policy options from its members, but it screens them through its own filter of 'best practice' and offers its own independent view of policy problems and solutions back to its members. In this way, it functions as what Peter Haas describes as an epistemic community:

a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area (1992: 3).

According to Haas, epistemic communities have a shared set of normative and principled beliefs, shared causal beliefs, shared notions of validity, and a common policy enterprise (1992: 3).<sup>85</sup> These shared beliefs and notions combine to give the community 'its own broader worldview'; community members have the same understanding of the world and how it works. The result, Haas argues, is that, when called on for advice, epistemic communities 'bring with them their interpretations of the knowledge [of problems and solutions], which are in turn based on their causally informed vision of reality and their notions of validity' (1992: 21). Thus, when policy-makers consult the epistemic community, they receive the community's version of 'the "reality" or "truth" of the situation at hand' (1992: 21).

Haas argues that policy-makers turn to epistemic communities in order to cope with the increasingly complex world in which they operate and the uncertainty they feel with regard to the many responsibilities of modern international governance (1992: 12). He claims that, in an uncertain world in which states are strongly dependent on each other's policy choices for success in obtaining their goals, there is a demand for information of the sort that epistemic communities can supply (1992: 3).<sup>86</sup> As noted above, governments are increasingly treating

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<sup>85</sup> In this, Haas acknowledges that they resemble Thomas Kuhn's 'broader sociological definition of a paradigm, which is "an entire constellation of beliefs, values, techniques, and so on shared by members of a given community" and which governs "not a subject matter but a group of practitioners"' (1992: 3, fn 4, citing Kuhn 1970: 175, 180). Kuhn's notion of paradigms will be elaborated in the next chapter.

<sup>86</sup> Haas notes that, faced with an ever-widening range of complicated and technical issues on the international agenda, a larger and more interactive international political system, and an expanded global economy and modern administrative state, decision-makers seek 'new and different' sources of advice on current issues and future trends (1992: 12, 13). Epistemic communities can: articulate the cause-and-effect relationships of complex problems and provide policy advice about the likely results of the various courses of action; help states (or factions within it) to identify their interests;



international organisations as independent, authoritative sources of ideas and solutions to policy problems (de Senarclens 1993: 453; see also Bayne 1997: 365). Epistemic communities are seen to offer the professional, scientific, rational, and technical advice that has come to be associated with modern bureaucracies and that appears to respond to the 'growing technical nature of problems' (Haas 1992: 11). Haas notes that, in supplying information, community members become 'strong actors at the national and transnational level as decision-makers solicit their information and delegate responsibility to them' (1992: 4). As a result, he says, if the community can consolidate its position within national administrations and international secretariats, 'it stands to institutionalize its influence and insinuate its views into broader international politics' (1992: 4).

The extent to which the OECD *has*, in fact, been able to institutionalise its views within its member states is not the point at issue in this thesis, which is focused more narrowly on an examination of the OECD's main policy ideas, their underlying assumptions, and the impact that changes in these ideas may have had on the organisation's understanding of social justice. However, the mechanisms by which the OECD attempts to institutionalise its views go to the heart of why it is important to examine in depth the OECD's commentary, analysis and policy advice. The formal mechanisms through which the OECD can disseminate its ideas to members have been canvassed above, but there are a number of less formal mechanisms that should be noted. One important mechanism is the definition of alternatives. Haas uses E.E. Schattschneider's pithy comment that, 'The definition of the alternatives is the supreme instrument of power', to underpin his claim that epistemic communities can have a considerable impact on policy because they can limit the number of choices available to policy-makers (1992: 16, citing Schattschneider 1975: 66). While decision-makers retain the actual choice of policies, community members can influence the options from which they choose, 'pointing out which alternatives are not viable on the basis of their causal understanding of the problems to be addressed' (Haas 1992: 16).

Another important mechanism for the dissemination of ideas is the networks that develop between the OECD and national officials. The OECD claims that

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frame the issues for collective debate; formulate and propose specific policies; and identify salient points for negotiation (1992: 2).

about 40,000 senior officials from national administrations come to OECD committee meetings each year to 'request, review and contribute to' the Secretariat's work (2001c). Policy officials from different countries meet at the OECD, ostensibly on an 'equal footing', which leads to the development of what Bakker calls 'a certain *esprit de corps*' as they exchange information and ideas (1996: 120). In his volume on international financial institutions, Bakker highlights the importance of personal contacts. He notes that regular meetings result in policy-makers getting to know others in their field fairly well, which 'creates a basis of trust which can be very valuable when it comes to the need for prompt action' (1996: 8). In addition, he contends: 'Multiple informal contacts can lead policy-makers to adopt the same priorities, so that policy is better coordinated' (1996: 8).<sup>87</sup>

Ideas are central in these exchanges between the OECD and officials, both in Paris and at home. In Paris, the discussion of policies while they are still being made, 'before national negotiating positions are frozen', means that ideas can play an important formative role (Aubrey 1967: 143). Visits to the OECD and participation in working parties, high-level meetings, and other discussions also add to the sense of 'ownership' that officials feel towards policy directions worked out in the forums (Siegel 1985: 193-194). Even when no formal agreement on policy directions or common undertakings is reached, policy-makers take ideas home from Paris. As Sullivan observes in the OECD's official history: 'officials return to their capitals with an enhanced understanding of their colleagues' thinking and with *ideas* that will find their way into national legislation or regulations' (1997: 98, emphasis added; see also Rose 1993: 69). It is, Sullivan notes, an 'innocent-sounding device, but the fact is that OECD committees do serve as a crucible for members' future actions' (1997: 98). G  linas sees nothing innocent in such exchanges, arguing that the OECD's training and development programmes, meetings, symposia, and seminars are a principle mechanism through which the 'neoliberal faith propagation office'

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<sup>87</sup> Steve Burrell, writing about the G-8, observes that not all the big decisions are made in formal meetings; rather, he says, "'corridor summits" and bilateral backroom negotiations can often provide the most significant breakthroughs' (2001a: 24). The point is equally valid for the OECD, with David Henderson noting that the main purpose of meetings at the OECD is to 'enable delegates to see each other, to interact both within and outside the committee rooms, [and] to inform and influence one another' (1993: 19).

disseminates its 'ultraliberal' globalisation ideology (2003: 120, 118).<sup>88</sup> Those who visit the OECD may maintain their links with the OECD as the ideas develop. The OECD notes that, 'even from home', national officials have electronic access to OECD documents and can exchange information through a data network (2001c).

This 'alumni effect' arising from networks not only spreads ideas from the OECD to domestic policy-makers, but also consolidates the organisation's position within national administrations, thereby allowing it to become indirectly represented in national policy-making processes (Jonsson 1993: 474). Such representation may manifest itself in a number of ways:

- policy-makers may look to the OECD as a source of ideas.<sup>89</sup> In this way, the OECD's interpretations of policy problems and their preferred policy solutions come to frame the terms of deliberations.
- policy-makers may have their own ideas, but will use the OECD's ideas to 'legitimise their own preferred solutions' (Howlett and Ramesh 1999: 16; Haas 1992: 15; Harrison and Mungall 1990: 58, Cassen 2001). In this way, if the policy has problems, 'the decision makers have the option of pointing to the information given to them by the experts and spreading the blame' (Haas 1992: 15-16).

In both cases, policy-makers can argue that the policy suggestion came from, or is supported by, a 'neutral' international organisation, and can thereby play down the partisan nature of policy options (Cassen 2001). This returns to the notion, outlined above, of international organisations as independent sites of authority, which partially arises from their control over 'technical' expertise. As more and more issues raised in the inter-governmental arena are cast as technical, there is an associated increase in the deference paid to technical expertise (Haas 1992: 7-12; see also de Senarclens 1993: 460). As noted above, technical advice is not unbiased, but the bias is not always obvious. Here, we need to recall Haas's observation that, when policy-makers consult the epistemic

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<sup>88</sup> He notes: 'Each year, some 60,000 senior civil servants and politicians of all kinds file into its Château de la Muette offices in Paris to retrain themselves in neoliberal policy and management' (2003: 120).

<sup>89</sup> For example, Chris Pierson observes that, in welfare policy, international agencies such as the OECD are 'increasingly a clearing house for an international epistemic community of (social) policy makers who draw on OECD information as a ready source for the reform agenda at home' (2003: 87); see also Rose (1993: 69).

community, they receive the community's version of 'reality' as based on the community's beliefs (1992: 21). Thus, the community has 'great social and political influence' because it articulates the dimensions of reality (Haas 1992: 23).

In addition to the 'technical' arguments, policy-makers can gain extra domestic political leverage by pointing to an internationally agreed policy consensus.<sup>90</sup> Aubrey argues that being able to cite such a consensus gives policy-makers additional support for their stance, strengthening their hands against interest groups or permitting a 'new thrust from a different angle' (1967: 146; see also Bayne 2003: 230). In either case, an international consensus can provide a buttress for a government that wants to maintain or introduce policies that may not have wide public support. As Aubrey observes: 'implementation is much easier if one can explain the need for such action by reference to collective responsibility in a large group of nations whose problems are similar' (1967: 147). This 'international endorsement' can be seen to have a 'real impact in domestic politics' (Putnam and Bayne 1987: 261). Putnam and Bayne note that, in the 1980s and 1990s, co-operative action provided support for 'painful and unpopular' adjustment policies in that governments could 'point to others who were making the same sacrifice' (1987: 98, 261-262; Bayne 2003: 230). However, as noted earlier, an international consensus can also be used to apply pressure to a 'rogue state' to bring its policies into line (Finnemore and Sikkink 1998: 903). Policy-makers may use the OECD to bolster their policy choices, but they are also open to policy suggestions from the OECD. The result is that members are not simply picking and choosing what they want; rather, the close ties may mean that the set of ideas currently in fashion at the OECD may become the dominant paradigm, which members are then expected to use to formulate domestic policies. In this way, the 'common strategies' at which the OECD arrives via what are said to be co-operative processes, 'increasingly define the outer limits of the range of viable policy options across a growing number of issues' (Ougaard 1999: 13).

The result of these informal mechanisms by which the OECD disseminates ideas is that its long-term influence may lie more in 'the cumulative effect of its

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<sup>90</sup> Aubrey calls this a '[m]ore subtle, but even more important ... collateral effect that radiates back home from Paris' (1967: 146).

continuing process of information sharing and policy formation by osmosis' than in the formal decisions or recommendations that it reaches (Huntley 1980: 67; Aubrey 1967: 144). Huntley makes this claim in his examination of the OECD and goes on to observe that:

member countries tend to arrive at the same general policies (not invariably, to be sure, but often) because their own governmental apparatus receives the same information from which to derive decisions. Moreover, the international institution and the domestic apparatus of all of its members are so linked that subtle pressures are inevitable, often pervasive, and on many occasions strong enough to *force conformity to a general norm* (1980: 67; emphasis added).

At a superficial level, this conformity may seem unproblematic. As noted earlier in this chapter, the OECD views itself as a 'club of like-minded countries', with membership 'limited only by a country's commitment to a market economy and a pluralistic democracy' (2001c). Such 'like-mindedness' suggests that members could be expected to march in step, sharing similar ideas about how the world works and structuring their policies accordingly.<sup>91</sup> In this sense, members would be unperturbed by the OECD's interpretation of policy problems and solutions because it is likely that they would interpret policy problems and the range of possible solutions through a similar underlying framework of assumptions. Johnston is adamant that the OECD does not offer a single model to its members; rather, it offers: 'a framework for countries to develop their own institutions and approaches in support of the three principles that bind its members – pluralistic democracy, respect for human rights and open market economies' (Johnston 1998). However, this underestimates the impact of 'a common set of values and a common store of information and interpretation' (Harrison and Mungall 1990: 63) in ensuring conformity to a narrow band of policy ideas.

The OECD itself has made explicit the need for the analysis underpinning multilateral surveillance to be 'based on agreed foundations' (1988d: 24). In a publication examining the reasons why members change their economic policies, it blames 'differences in countries' *ideas and views* on economic policy' for economic 'difficulties' in the early 1980s and warns that, although there was

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<sup>91</sup> As will be discussed in later chapters, the OECD's official history claims that, for nearly 20 years after it was established, the organisation, like most of its members, 'marched to the music of Lord Maynard Keynes' (Sullivan 1997: 50).

now a 'greater degree of consensus, such differences remain an inevitable source of possible problems' (1988d: 23, emphasis in original).<sup>92</sup> It further cautions that peer pressure, which, as outlined above, is seen as essential to members' co-operation, is 'fully effective only if the peers share a broadly agreed view of the objectives to be pursued, and the way in which the economic system works' (1988d: 23). Some scholars also view the sharing of ideas in the OECD as benign because of the like-mindedness of member countries. Huntley, for example, notes that OECD members 'borrow ideas and coordinate planning at the intellectual and intergovernmental levels', which 'tend[s] to reinforce the common characteristics of their economies' (1980: 38). What is neglected here is that OECD members may be 'like-minded', but they are not identical. Members may share some common political values, such as the commitment to free markets and pluralistic democracy, that the OECD proclaims, but they may diverge on such aspects as how much freedom a 'free' market should have and the role of government in society. Such differences often are overlooked because of the tendency to amalgamate countries that share similar broad philosophies into a singular, 'shorthand' unit as though they share exactly the same philosophy.

The pursuit of a single set of policy ideas may, in fact, be problematic and undermines the claim that international organisations, including the OECD, are apolitical in character. Bakker argues that the statutes on which international financial organisations are founded 'generally state that the economic and political systems of member countries will be respected' (1996: 6). In the OECD, this means respecting market economies and pluralistic democracies. However, policy advice that leans towards the 'promotion of free markets' (Bakker 1996: 6) tends to treat all market economies as being fundamentally the same; that is, it assumes that all countries apply exactly the same weightings to the market/state divide. Yet, this is clearly not the case, as Gosta Esping-Andersen elaborated in his *The Three Worlds of Welfare Capitalism* (1990).<sup>93</sup> The disparities between OECD

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<sup>92</sup> This publication, *Why Economic Policies Change Course*, is another example of the organisation's distinct and autonomous voice. It explicitly notes that responsibility for the analysis in the study 'lies entirely with the OECD and not with Member governments ... the interpretations and assessments provided are exclusively those of the OECD' (1988d: 8).

<sup>93</sup> See also Hall and Soskice, who divide the OECD members into three groups:

Among the large OECD nations, six can be classified as liberal market economies (the USA, Britain, Australia, Canada, New Zealand, Ireland) and another ten as coordinated market economies (Germany, Japan, Switzerland, the Netherlands,

members have several implications for lesson-drawing and policy transfer. For example, Rose argues that when states look outside their borders for policy 'lessons': '[I]like-mindedness in political values is a key element in choosing friends and neighbours to turn to' (1993: 102). That is, countries look to those who think most like themselves. The result, he contends, is that: 'No one country can be an exemplar for all advanced industrial nations because countries differ in their dominant political values and in what they choose to do with their wealth' (1993: 108).<sup>94</sup> Thus, poorer countries that do not want a 'big' government are more likely to look for policy lessons to the United States and Japan, which, although wealthy, have limited social programs. They are less likely to look to the Scandinavian countries, which choose to spend more on social programs (Rose 1993: 108-109). Yet, the United States, Japan, and the Scandinavian countries all belong to the OECD.

This argument suggests that the OECD should face significant difficulties in pursuing a single policy direction among its disparate members and, increasingly, the wider world. Yet, as later chapters of this thesis will demonstrate, the OECD has persisted in offering members an understanding of policy problems and solutions based on a particular world-view. Over the 40 years since the OECD's inception, this view has changed from what can be called Keynesian social democracy to neo-liberalism. While the impact of this world-view on policies within member countries will not be explored in this thesis, it is possible that its effect is considerable, given the centrality of the OECD's role as an ideas-monger for its members.<sup>95</sup>

## CONCLUSION

As noted in the Introduction to this chapter, there are two sets of views on the OECD: one sees the OECD as a benign organisation, comprising unimportant

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Belgium, Sweden, Norway, Denmark, Finland, and Austria) leaving six in more ambiguous positions (France, Italy, Spain, Portugal, Greece, and Turkey) (2001: 19, 21).

They omit Luxembourg and Iceland from the list because of their small size, and Mexico 'because it is still a developing nation'.

<sup>94</sup> Hall and Soskice argue that it is the differences in the structures of the European economies that have made agreement on 'best practice' so difficult (2001: 53-54).

<sup>95</sup> A test of the policy transfer between the OECD and its members may be a fruitful topic for future research.

technocrats; the other views it as an influential think-tank spreading its neo-liberal policies to member governments and, increasingly, the wider world. Arguments presented in this chapter contend that claims that the organisation is unimportant pay insufficient attention to the OECD's ability to influence policy directions. The OECD is more than a toothless watchdog; that is, it is more than a data collection agency and source of technical expertise for its members. Rather, the OECD has fangs; it is an organisation with both bark and bite. That said, much of the OECD's influence can be linked to the way it functions as an epistemic community or a network of professionals whose recognised expertise gives it an authoritative claim to knowledge in policy areas in which its members seek advice. When members consult the OECD, they receive the OECD's interpretation of the 'reality' of the policy problems that they face, as well as what they can consider as legitimate solutions. As Haas observes, the responsibility for articulating 'reality' gives the community great social and political influence (1992: 23), and it is this influence that many scholars overlook with regard to the OECD. When they contend, as, for example, Ougaard does, that the OECD is without political power in that it is 'not a centre for authoritative decision-making', they ignore the import of what Ougaard himself acknowledges: that 'the OECD is seriously involved in the *production of knowledge* about major problems facing the international community, in the identification of viable policy paths and the development of strategies' (1999: 11, 13; emphasis added).

It is the OECD's 'knowledge' about social justice and related issues, and what it identifies as viable policy solutions in this area, that is a concern of this thesis. While there is valuable research to be done on the impact of the OECD's ideas on its members (that is, whether they introduce the OECD's recommended policies), an important first step in such research is identifying the OECD's ideas, and the assumptions about the world and how it works that the ideas carry with them. Thus, the focus of this thesis is an examination of the change in the OECD's ideas over time and the implications of the change for the OECD's understanding of social justice and related issues. One argument to be explored is the notion that ideas are hard to change once they are incorporated into the institutions that implement and enforce policy; that is, ideas become embedded in institutions. Once embedded, ideas continue to have effects on policy by becoming the taken-for-granted or unconscious assumptions behind policy discourse and policy practice. The point to be taken from this chapter is the role



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that international organisations, such as the OECD, have in affecting these taken-for-granted or unconscious assumptions. As outlined above, international organisations play an autonomous role in the evolution of the international order through the production and dissemination of the norms, values, knowledge, ideas and interests needed for its development. They can build and publicise support for their norms and rules because they are defining 'reality' for policy-makers, setting out their vision of how the world works, what policy problems exist, and how they can be resolved. The capacity for international organisations, such as the OECD, to stimulate policy discussions and, more importantly, to set the terms of the discourse and the parameters of what may be considered in the discussions, has implications for the formulation and shaping of policy that are rarely teased out.

## CHAPTER 2

# IDEAS: OF MADMEN AND ACADEMIC SCRIBBLERS

### INTRODUCTION

In the previous chapter, I observed that the OECD, despite being among the most well known of the world's international organisations, has seldom been subjected to detailed scrutiny. I noted that the lack of significant scholarship on this inter-governmental body left open a wide range of approaches for study, but that my interest arose from the way the OECD functioned as an epistemic community, acting as an ideas monger for its members and, perhaps more arguably, the wider world. I argued that, if the OECD's main tasks are to formulate, promulgate, and, via peer pressure and multilateral surveillance, ensure that its members (and non-members) implement its recommended policy options, then we need to know more about the ideas on which these recommendations are based. Several authors have cited the OECD as a source of neo-liberal ideas. Critics take the view that the OECD is one of the main perpetrators of pro-market ideology, foisting unpalatable neo-liberal and globalisation ideas on to an unsuspecting public (Gélinas 2003: esp. 118-120; Scholte 2000: 241; Crouch 1997: 357; Kelsey 1997: 17; Martin and Schumann 1997: 160). Others simply note that the OECD has a 'strongly pro-market liberalisation and neo-liberal' orientation and has 'grown in influence'

(Goldfinch 2000: 49; Argy 2000: 121; Bell 1998: 163).<sup>1</sup> However, most of these authors rely on only a few, scattered OECD publications to make their case, or they fail to provide any evidence to support their claims.<sup>2</sup>

In contrast to the generalisations in this scholarship, I want to offer a systematic examination of the OECD's policy assessments and recommendations as contained in the organisation's main economic and social policy publications. Thus, a central concern of this thesis is an examination of the OECD's policy thinking: What are the OECD's policy ideas? How have they changed since the organisation's inception in 1961? What are the implications of this change for the OECD's understanding and treatment of social justice and related issues? As such, my concern is not with the origin of the OECD's ideas (that is, whether they originated in the OECD or outside the organisation), who in the OECD developed or championed the ideas, or the mechanisms by which the OECD's policy ideas are transferred to its members. Rather, I want to explore the ideas themselves (what underlies the policy assessments and recommendations that the OECD puts forward in its documents), how and why these ideas are important to the organisation's policy formulation, what has happened to these ideas over time, and the implications of the new ideas on previously held conceptions of social justice. My argument, to be supported with evidence in later chapters, is that there has been a shift in the OECD's policy ideas from what can be described as Keynesian welfare liberalism to neo-liberalism. While the OECD itself acknowledges this shift, it does not acknowledge its implications. That is, the unacknowledged, and perhaps unintended, result of

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<sup>1</sup> Fred Argy describes the OECD as a place where what he calls 'hard liberal' ideas may be found, but then says the organisation, like the International Monetary Fund (IMF), 'basically express the unrepressed views of Treasury and central bank people' (1998: 56, 234, 259 fn 4).

<sup>2</sup> Shaun Goldfinch's comments draw on his interviews with 180 'leading economic policy makers and policy influentials in Australia and New Zealand' (2000: 12). He finds that the OECD scores the second-highest (behind the Australian Treasury) when respondents are asked which important institutions and individuals contributed ideas to economic policy-making in Australia from 1983 to 1993 (2000: 43, table 2.7). Several Australian respondents 'noted the importance of IMF, OECD and World Bank writings on their perceptions and understanding of economic policy', and one observed that '*pragmatic ideas* and applied economic studies, *especially those produced by the OECD and the World Bank*' were more important influences than "'high falutin'" theory' (2000: 49, 39; emphasis added). However, while Goldfinch makes liberal use of OECD statistics and comparisons in his discussion of economic policy-making in New Zealand, he does not pursue an examination of the content of the OECD's policy ideas. I suggest that Goldfinch's evidence reinforces my argument that it is important to know what ideas the OECD is promoting.

this shift in policy ideas is a fundamental change in the OECD's notions of social justice.

However, before examining the OECD's policy ideas in detail, I want to look at ideas more generally, explore the debate over how ideas function in policy-making and look at a model outlining how we may understand shifts in policy ideas across time. Ideas matter to policy. John Maynard Keynes noted this more than 60 years ago, when he concluded his book, *The General Theory of Employment, Interest and Money*, with the following observation on the power of ideas to influence policy-making:

[T]he ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. ... [I]t is ideas, not vested interests, which are dangerous for good or evil (1936: 383-384).

However, since Keynes's pithy summary of the importance of ideas to the selection of policy options, the research of academic scribblers of a different kind – political scientists – has shifted to concentrate on other factors influencing policy, such as institutions, interest groups, state structures, and, more recently, the impact of globalisation. In his examination of some of this research, John Kurt Jacobsen argues that there was a temporary 'surge' of research into ideas in the late 1960s:

when many scholars, struck by the spectacular failure of rational and quantitative methods to anticipate the social upheavals of that era, challenged what they regarded as the analytical myopia of the "behavioural" revolution in the social sciences (1995: 283).

He observes that this surge subsided in the 1970s when the dominant interest-based and rational-choice models gave 'little if any' credence to ideas, 'which at best were deemed minor intervening variables' (1995: 284). Eventually, Jacobsen contends, ideas re-emerged as a focus for research in the late 1980s, a move he attributes to a renewed impatience with 'the inability of rational interest-based models to explain, let alone predict, policy outcomes', combined with 'the evident onset of another period of prolonged socioeconomic change' (1995: 284).

Thus, ideas, those 'voices in the air' pursued by madmen in authority, are back on centre stage, with the study of ideas becoming, in one reviewer's words: 'a cottage industry in political economy' (Blyth 1997a: 229). However, much of the current research into the relationship between ideas and policy still tends to focus on factors external to ideas. Although some researchers assert that ideas exert independent influence on policy choices, much of the literature on ideas appears to suggest that it is factors outside the ideas themselves, for example, institutional structures, elite interest groups (politicians, officials and economists), and historical factors, such as earlier solutions to policy problems, that have the most impact. Such approaches do not accord ideas a 'life of their own', but use them to 'help other forms of explanation' (Blyth 1997a: 241; Goldstein and Keohane 1993: 3, cited in Blyth 1997a: 231).

Therefore, key debates in the current literature on ideas and policy-making centre on conflicts over the role of ideas; that is, whether the ideas themselves have an independent effect on policy or whether their impact depends on interest groups, elites, or institutional structures. A study of the ideas promulgated by the OECD since its inception in 1961 that isolates the OECD's ideas from individuals and policy-transfer mechanisms may offer insights into this dispute. Such a study, by focusing solely on the ideas and not on the individuals promoting them, or the formal institutional structures that facilitate or constrain their implementation, should reveal something about the ideas themselves and how they function. Insights could include, for example, whether there is anything about ideas that adds to their impact. It could be that the way a set of ideas frames, or presents, a particular policy issue, and the discourse intrinsic to that set of ideas, adds to the influence of those ideas on policy choices. According to this reasoning, even if factors outside the ideas themselves, such as formal institutions (that is, rules and procedures), constrain the options open to policy-makers, the ideas themselves have an impact which is not determined by those institutions.<sup>3</sup> The ideas affect both what can be considered a policy problem and what can be considered a viable solution. In this way, ideas can effect change, even where the nature of formal institutions would suggest that little change is possible. Thus, such a study places ideas

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<sup>3</sup> The distinction between formal and informal institutions will be noted later in this chapter and explored fully in the next chapter.

front and centre in policy-making analysis rather than using them as ‘minor intervening variables’ (Jacobsen 1995: 284).

Before moving to explore the OECD’s policy ideas, I first want to discuss policy ideas more generally: what ‘ideas’ are in the context of my discussion, how and why ideas may change over time, and how a change in ideas on means to achieve goals may affect the goals themselves. In this chapter, then, I will examine some general definitions of ideas and the role of ideas in policy-making before exploring, in a more extended discussion, a framework for understanding policy and policy changes. In this discussion, I will argue that Peter Hall’s Kuhnian-inspired model of paradigms and scientific revolutions offers a useful way of understanding the dominance of a particular set of ideas, what happens to policy ideas over time, and how one set of policy ideas comes to replace another.

### **IDEAS DEFINED (WHAT IS MEANT BY ‘IDEAS’?)**

The definition of ‘idea’ most appropriate to the discussion of *policy ideas* (rather than, say, philosophical ideas) in my thesis is that of a ‘way of thinking’ or a ‘conception of something to be done or achieved; an intention, a plan of action’ (Fowler and Fowler 1964: 601; Brown 1993: 1303). Ideas in the policy-making context are generally seen as a shared way of thinking; as ‘shared beliefs’. That is, they are shared understandings of what constitutes a policy problem and what can be done about it. Thus, ideas reflect what we believe about the nature of the world and how it works. Jacobsen makes an explicit statement to this effect, noting in his review of some of the ideas literature, that: ‘Like all the authors, I treat economic ideas as “shared beliefs”’ (1995: 287). However, he distinguishes economic ideas, which are the ‘*means* to reach socially approved ends’, from ‘consensual social beliefs’, which ‘shape the legitimate *ends* of economic activity’ (1995: 287). Economic ideas, he says, are ‘*explicitly* programmatic about the organization of production and the distribution of its benefits and burdens’ (1995: 286-287; emphasis in original). Shared social beliefs set the overall goals of policy, while shared economic beliefs determine the methods by which these goals can be achieved.

Such a division has problems in that it implies that changes in economic ideas on *means* have no effect on socially approved *ends*, when, as will be argued below, this may not be the case.<sup>4</sup> Despite the difficulty, however, Jacobsen's general definition of ideas as 'shared beliefs' stands, in that both his economic and social beliefs are shared, and thus his definition remains useful. Hall is less explicit in his definition of ideas, but can still be seen to understand ideas as shared beliefs. As will be discussed in more detail below, Hall sees ideas as interpretative frameworks or 'policy paradigms', which can be understood as 'shared conceptions about the nature of society and the economy' (1989: 383).

In his review of some of the literature on ideas, Mark Blyth is more cautious about the definition of ideas, arguing that, in many treatments of ideas in policy-making, definitions simply reflect the wider theory in which they are embedded. In a somewhat circular, 'chicken-and-egg' argument, he claims that the choice of institutional analysis largely determines 'the type of ideas employed, their theoretical level, and their explanatory scope', while, at the same time, the view of ideas and what they do circumscribes the type of institutional analysis that can be employed (1997a: 231). Thus, he contends, the two main schools of institutional theory, the historical institutionalism of authors such as Peter Hall and Kathryn Sikkink and the rationalist institutionalism of authors such as Judith Goldstein and Robert Keohane, have distinctly different approaches. Whereas historical institutionalists understand ideas to 'exist prior to individuals and give meaning and content to their preferences', for rationalist institutionalists: 'all factors anterior to individuals (such as ideas and institutions) must be reducible to the actions (and hence the preferences) of individuals' (Blyth 1997a: 239). Goldstein and Keohane make this explicit in the opening sentence of their work, *Ideas and Foreign Policy*: 'This book is about how ideas, which we define as beliefs held by *individuals*, help to explain policy outcomes ...' (1993: 3; emphasis added).

Blyth argues that this emphasis on individuals results in rationalist institutionalists having the 'toughest time' with ideas. Their pre-commitment to

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<sup>4</sup> John Kurt Jacobsen notes that the categories are not mutually exclusive, and that actors 'often try to alter ends to fit the means they favor' (1995: 287). But this does not adequately cover the point that changes to ideas on *means* may inadvertently, or deliberately, change the *ends*. See, for example, King (1999: ch. 8).

methodological individualism inescapably leads them to prioritise individuals over ideas, such that while '[i]deas may be Weber's "switchmen of history," ... in this version of events they must be reducible to the individuals in the signal box' (Blyth 1997a: 240). Blyth's criticism is justified, but, in the end, even rationalist institutionalists conform to the general definition of ideas as 'shared beliefs' in that, ultimately, an individual's belief must be shared by at least some others in order to be implemented as policy. Goldstein and Keohane acknowledge this when they note that their work focuses on the 'impact of particular beliefs – *shared by large numbers of people* – about the nature of their worlds' (1993: 7; emphasis added). They go on to explicate three types of beliefs: principled beliefs, causal beliefs, and world-views. Principled beliefs, they contend, are the 'normative ideas' of right and wrong, and just and unjust, that underpin particular policy decisions, while causal beliefs are beliefs about means–ends relationships, 'which derive authority from the shared consensus of recognized elites' (1993: 10). They also argue that: 'Causal beliefs imply strategies for the attainment of goals, themselves valued because of *shared* principled beliefs, and understandable only within the context of broader world views' (1993: 10; emphasis added).

Elsewhere, Blyth proposes his own definition of ideas. Economic ideas, he says, are: 'ideologies which agents use to restructure domestic institutions, shift political boundaries and alter patterns of distribution' (1997b: 232).<sup>5,6</sup> He sees 'economic ideology' as:

an interpretive framework which attempts to describe and systematically account for the workings of the economy by defining its constitutive elements and providing a general understanding regarding their 'proper' and therefore 'improper' relations (1997b: 234; see also Heilbroner 1990: 101-116).

Thus, he contends, the framework provides 'a vision that specifies how these elements *should* be constructed' (Blyth 1997b: 234; emphasis in original). Such 'interpretive frameworks', like those in Hall's work, are still 'shared beliefs' in

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<sup>5</sup> Blyth's specification of 'economic' ideas does not preclude the application of his definition more broadly, especially as he himself argues that: 'what we believe to be possible or desirable in the political world depends a great deal on what we believe about the nature of the economic world' (1997b: 232).

<sup>6</sup> Blyth's definition of ideas as ideologies and subsequent use of the latter term (albeit sometimes interchangeably with 'ideas') has the potential to be confusing in my discussion of his argument. To avoid this confusion, I will use the term 'idea' unless in a direct quotation.



that they provide their adherents with definitions and understandings of 'the way the world works'. Desmond King pursues a similar theme, arguing that policy-makers require an 'evidential' or 'knowledge' base to devise policies, and that ideas, promulgated by experts and politicians, underpin the 'knowledge' that policy-makers use to identify policy choices (1999: 28-29). Again, ideas in this context can be understood as 'shared beliefs' in a particular construction of how the world works.

## **THE ROLE OF IDEAS IN POLICY-MAKING**

### **(WHAT DO IDEAS DO? HOW DO IDEAS AFFECT POLICY?)**

In the Introduction to this chapter, I claimed that ideas matter to policy – but how exactly do they matter? Scholars appear divided on the issue, with the literature reflecting considerable debate over whether ideas have an independent role in policy or whether they are reliant on other factors, such as interests and institutions. Earlier, I noted that, after a hiatus, scholars have returned to focus on the role of ideas in policy-making, and I observed that much of this research looks to factors external to ideas for explanations, such as institutional structures, elite interest groups, and historical policy choices (that is, earlier solutions to policy problems). Blyth reviews some of this literature on the role of ideas in policy-making and argues that the renewed interest in ideas is not a 'serious examination of the role of ideas in the realm of political economy' (1997a: 229). Rather, he contends, this new 'cottage industry' is: 'little more than an ad hoc attempt to account for theoretical problems apparent in the two main schools of institutionalist theory [historical and rationalist]' (1997a: 229). He contends that neither school asks, 'what are ideas?' and 'what do they do?', looking instead at 'what stabilises?' and 'what causes change?' (1997a: 231). As a result, historical institutionalists focus on how ideas become embedded in institutions, structuring and constraining future policy options to particular paths, while rational institutionalists focus on how individuals use ideas as devices to further their interests.

Thus, some scholars prioritise interests over ideas in policy-making, while others prioritise institutions. The focus on these issues has overshadowed factors internal to the ideas themselves and how these factors influence policy options. That is, analyses of the role of ideas in the policy-making process have focused on how policy-makers use ideas as tools to achieve their goals or they have

looked to restraints imposed by existing ideas becoming embedded in institutions. As a consequence, these analyses have paid insufficient attention to the impact on policy options of factors intrinsic to the particular ideas, such as their associated discourse and their informal institutions. By informal institutions, I mean the norms, values, attitudes, implicit codes of conduct, and so on that underpin human interaction. The difference between formal and informal institutions is explored in the next chapter.<sup>7</sup> The result of this inattention, as Blyth contends in his review, is that many scholars ‘reduce ideas to “filler” ... rather than treat them as objects of investigation in their own right’ (1997a: 229). In this section, I want to canvass some of the debates on the role of ideas in policy-making, especially those relating to ideas and interests and ideas and institutions, although I will reserve a more detailed discussion of the latter for the next chapter. Here, I want to lay the groundwork for my claim that prioritising either interests or institutions underestimates the impact of the *content* of the ideas themselves on the options available to policy-makers.

Desmond King, in his book, *In the Name of Liberalism*, examines how liberal democracies have introduced a range of social policies that, more correctly, may be described as ‘illiberal’ in nature. He concludes:

Some policies – pursued by governments for political reasons – assume illiberal characteristics insofar as they violate the two core principles of liberalism, that is equality of treatment and respect of individual freedom (1999: 24).

His most recent examples are the ‘workfare’ policies of the United States and Britain, which, he argues, have mobilised the ‘idea of obligations’ at the expense of the previously dominant idea of social rights. According to policies based on this ‘idea’, there are: ‘no rights without responsibilities’ (Giddens 1998: 65). Those receiving unemployment benefits are obliged to look for work, and policies are aimed at ensuring that welfare systems do not discourage individuals from this search.<sup>8</sup> Thus, he contends, workfare schemes are based

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<sup>7</sup> I suggest that many of the theorists looking at ideas and institutions over-emphasise the stability of institutions because they focus too much on formal institutions (that is, rules, laws, structures, organisations, and so on) and pay insufficient attention to the informal institutions (that is, norms, values, attitudes, implicit codes of conduct, and so on) that underpin human interaction.

<sup>8</sup> King attributes many of these ideas, which underpin the ‘third way’ policies of British Labour Prime Minister Tony Blair (among others), to Anthony Giddens. In this instance, he cites Giddens (1998), ‘We’re in the family way’, *The Times Higher Education Supplement*, 18 September (King 1999: 252). More generally, see Giddens (1998).

on a 'new contract between the citizen and the Government based on responsibilities and rights' (1999: 252). King concludes that this contractualist workfare, by emphasising the obligations and responsibilities of the individual over the rights enjoyed by that person, contravenes liberal principles by treating some people unequally (1999: 256). The sanctions associated with the workfare regimes 'relegates unemployed persons, and some other recipients of assistance, to second-class status in the polity' (1999: 257).<sup>9</sup>

In building this argument, King looks to the role of ideas in policy-making, remarking that democracy 'permits debate and the diffusion of ideas ... in a way which few political systems can emulate or contemplate' (1999: 30). He argues that ideas are important to the policy process, with the employment of ideas and expertise in public policy programmes 'central' to policy-making. He notes that he concurs with Deborah Stone's view that 'the essence of policy making in political communities [is] the struggle over ideas. ... Ideas are at the center of all political conflict' (Stone 1997: 11, cited in King 1999: 30). But, in making this claim, King is careful to differentiate between the ideas themselves and the way that interest groups use ideas, and expertise, to achieve their objectives. King challenges what he calls the 'dominant view' in political science that self-interest alone explains policy choices, with ideas and arguments 'merely the material exploited by politicians for electoral gain' (1999: 32). He acknowledges that politicians 'willingly use ideas to serve their ends', but argues that focusing only on self-interest fails to provide a complete account of the policy-making process and 'marginalizes ideas ... excessively from political decisions' (1999: 32, 35). He argues that, while ideas may be used as instruments for political ambition, 'they are far from irrelevant analytically', and such use 'does not ... dispel their significance as legitimators and, on occasions, stimulants of policy decisions' (1999: 35, 32-33).

King draws attention to the importance of the *content* of the ideas. He notes that, even when ideas are the instrument of political ends, 'they must be intellectually plausible' (1999: 3). More precisely, ideas used to promote particular policy options must be both persuasive and credible, 'since both citizens and policy-makers in liberal democracies value rationality highly and expect coherent

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<sup>9</sup> Contrast King's view with Jacobsen's argument, noted earlier in this chapter, that a shift in the means to achieve policy has no impact on ends.

explanations for policy choices' (1999: 3). Ideas, therefore, must contain a convincing explanation for policy actions that the political combatants can use to justify the superiority of their choices over those that their opponents put forward. Interest groups and elites may use ideas, but the ideas are also able to stand on their own, 'legitimated and rationalized' by claims about what King terms their 'intrinsic validity' (1999: 32). In other words, the content of ideas matters just as much as the competition over the ideas, a point that John Kingdon made some years ago in his work on agenda setting. Kingdon observed that political scientists would 'miss a great deal' if they used only such concepts as power, influence, pressure, and strategy to understand public policy (1984: 131). He argued that a preoccupation with power and influence meant that political scientists 'sometimes neglect the importance of content' (1984: 133). Yet, he continued:

The content of the ideas themselves, far from being mere smokescreens or rationalizations, are integral parts of decision making in and around government. ... Both the substance of the ideas and political pressure are often important in moving some subjects into prominence and in keeping other subjects low on governmental agendas (1984: 131, 133).

In a similar vein, Hall argues for greater emphasis on the ideas themselves, noting that:

it is not necessary to deny that politics involves a struggle for power and advantage in order to recognize that the movement of ideas plays a role, with some impact of its own, in the process of policy-making (1993: 292).<sup>10</sup>

The differentiation between the content of ideas, the way that ideas are used, and the independent role accorded to the former in policy-making, counters the work of those researchers who present ideas simply as tools of interest groups; that is, those who understand ideas to have no independent standing (see the discussions in Blyth 1997a and Jacobsen 1995). According to this line of reasoning, ideas cannot influence policy unless they are adopted by elites, who use the ideas as political tools to achieve their interests, which exist prior to the ideas. In the words of Goldstein and Keohane: 'ideas are just hooks: competing

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<sup>10</sup> Hall offers as an example the events in Britain in the 1970s, observing that:

The contest for electoral power that brought [Margaret] Thatcher to office was certainly central to the triumph of monetarism. ... [However,] the play of ideas was as important to the outcome as was the contest for power (1993: 289).

elites seize on popular ideas to propagate and to legitimize their interests, but the ideas themselves do not play a causal role' (1993: 4).<sup>11</sup> Blyth believes that such an approach sells ideas short. He argues that economic ideas are 'much more than *post hoc* rationalisations for pre-existing interests'; rather, ideas determine the content of individual preferences (1997b: 231; 2002: 309).<sup>12</sup> He claims that ideas must exist prior to interests because ideas are used to form (and change) interests, to make choices and to act (1997b: 235). For this reason, he rejects the conclusion that Jacobsen reaches in his review of some of the literature on the role of ideas in policy-making: that the 'pervasive flaw' in the 'power of ideas' arguments is that they fail to recognise that ideas and interests are 'not separate entities' (Jacobsen 1995: 309). Jacobsen argues that economic ideas matter because they are 'clusters of ideas/interests' that define productive arrangements (1995: 309). Blyth rejects this assessment, arguing that it: 'reinforces the view that what matters are not ideas themselves but how they are used to "reconcile the interests of elites"' (1997a: 247, fn 11).

In contrast, Blyth argues that: 'Ideas are interesting precisely because they define tastes and preferences and give content to "objective material interests"' (1997a: 247, fn 11). We need to recall here Blyth's definition of an economic ideology or set of ideas as an interpretative framework that describes and accounts for the workings of the economy (1997b: 234). The framework outlines the 'optimal state of economic and, by derivation, political affairs' by defining what elements constitute the economy and the polity, the roles of the individual and groups within these elements, and policy goals and the methods to achieve these goals (1997b: 233; 1997a: 246). As noted above, Blyth argues that the framework provides an understanding of the 'proper' and 'improper' interrelations between constitutive elements of the economy and a 'vision which specifies how these elements *should* be constructed' (1997b: 234, emphasis in original). In this way, he suggests, ideas 'serve to redefine existing interests and even create new ones among agents' in that they can 'create a common world-view between economic and political agents who have very different life chances' and 'can build bridges across class and consumption categories'

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<sup>11</sup> On this understanding, the amount of influence an idea has on policy simply reflects the amount of influence of the elites promoting it. As Jacobsen pithily observes: 'the more powerful the sponsors of ideas, the more powerful the ideas' (1995: 295).

<sup>12</sup> I do not take this to mean that ideas can *never* be used as rationalisations for pre-existing interests; rather, their role cannot be reduced solely to this.

(1997b: 233). Thus, Blyth contends, the framework is: 'the means through which agents' expectations of, and preferences for, certain policy choices and political and economic goods are constructed' (1997b: 233). The result, he argues, is that while ideas may provide a rationale for competing interests, they 'also, more importantly, are *the medium through which interests are created, social coalitions are forged and distributional struggles are depoliticised*' (1997b: 235; emphasis in original). Schön and Rein make a similar argument somewhat more succinctly when they observe that it is the ideas, which they discuss as 'structures of belief, perception, and appreciation' or 'frames', held by policy actors that 'determine what they see as *being* in their interests' (1994: 29; emphasis in original). On this understanding, ideas cannot simply be the tools that elites use in a contest to achieve their interests, because the ideas establish what those interests can be. Ideas must exist outside, and prior to, interests.

King argues that ideas and debate, which politicians seek to influence, are among the general features of liberal democracy that contribute to the formation of (social) policy.<sup>13</sup> Ideas are important because they supply the 'evidential' or 'knowledge' base that King contends policy-makers require in order to devise policies (1999: 28). This 'knowledge' is influential because it forms 'part of the intellectual and political discourse within which politicians operate', and it is the 'basis for detailed policy initiatives' (King 1999: 28-29). That is, ideas supply the interpretative framework of how the world works, what is possible within this world, how goals can be achieved and so on, and it is within this framework that policy-makers discuss and formulate policy. King notes two other features of liberal democracy that influence policy that I want to bring into the discussion of ideas: I) the privileged position accorded expertise or specialist knowledge; and II) the constraints imposed by political institutions and policy legacies (1999: 29).

### **I) EXPERTISE**

King argues that the influence of experts and expertise has grown, especially since World War II, as the 'professionalization of social research' and the 'proliferation of a "problem-oriented knowledge elite"' has facilitated a 'greater role for expertise or knowledge in social policy' (1999: 34; see also Haas

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<sup>13</sup> As noted above with regard to Blyth's focus on 'economic' policy, I would argue that, although King focuses on social policy, his arguments are equally relevant more generally.

1992: 7-12).<sup>14</sup> Experts acquire influence, enhanced reputations, 'and sometimes fame', when policy-makers accept and implement their ideas (King 1999: 35; Haas 12-16); that is, when policy-makers come to share the experts' version of how the world works and the associated interpretation of what policy goals and problems are within the realm of what policy-makers can consider and resolve. Once again, the *content* of the ideas being put forward is important in that, as noted above, the ideas have to be intellectually plausible to policy-makers. They must have an intrinsic validity that provides a convincing explanation for what is going on in the world, what actions are possible and the likely outcomes if these actions are pursued. Understood in this way, the ideas provide, as Blyth observes, a 'scientific' and 'normative' critique of the existing economy as well as how it could – and should – be (1997b: 234).

King contends that political endorsement validates one set of expertise, or one set of ideas, by excluding others from the decision: 'political choice constitutes a signal about confidence in the selected knowledge' (1999: 36). Winning the argument about political ideas matters, he concludes, 'since it enables those successful to dominate the content of political discourse', which, as noted above, is the basis for policy initiatives, establishing the boundaries of what can and cannot be considered within the realm of policy goals and action (1999: 292). Haas raises this notion in his discussion of epistemic communities. Here, we need to recall his argument, outlined in the previous chapter, that decision-makers consulting epistemic communities for an understanding of the 'reality' or 'truth' of a situation, receive 'knowledge' based on the communities' interpretation of 'reality' according to its beliefs and notions of validity (1992: 21). Haas argues:

While epistemic communities provide consensual knowledge, they do not necessarily generate truth. The epistemological impossibility of confirming access to reality means that the group responsible for articulating the dimensions of reality has great social and political influence. It can identify and represent what is of public concern,

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<sup>14</sup> As noted in the previous chapter, Haas makes a similar observation in his discussion of epistemic communities when he argues that the 'expansion and professionalisation of bureaucracies', which regard themselves as technicians, policy-makers, and brokers, rather than advocates and partisans, has combined with the 'growing technical nature of problems' to foster an 'increase in the deference paid to technical expertise' (1992: 11).

particularly in cases in which the physical manifestations of a problem are themselves unclear (1992: 23).<sup>15</sup>

When policy-makers endorse an epistemic community's set of ideas, they are accepting the broader world-view enshrined in those ideas. As will be discussed below, the endorsed set of ideas establishes a 'regime of truth' against which other options are judged and dismissed.

A difficulty with the influence of experts and expertise is that, as noted with regard to the OECD in the previous chapter, there is a tendency to view their 'scientific' (or 'technical') knowledge as politically neutral. Experts are seen as professionals whose work is not in favour of one political arrangement or another; their work simply describes what *is*, according to their particular body of 'scientific' knowledge. However, Blyth is emphatic that the choice of the ideas underpinning economic management cannot be simply a choice between value-neutral models. Instead, he contends: 'Economic policy is inherently political in that economic issues, for example, what constitutes the fulfilment of policy criteria such as "efficiency", are ultimately derivative of previous theoretical/ideological statements' (1997b: 234-235). Ideas, he argues, construct:

what Keynes termed that all-important "conventional judgement" about how the economy works, and therefore, what the appropriate roles of the state, capital and labour should be and what policy should attempt to do (1997b: 240).

These assumptions about the nature of the economy 'privilege the claims to resources of one group over the claims of another' in that they justify and demand particular allocations of resources (Blyth 1997b: 235). The result is that competing agents can use their different ideas, with their associated different understandings of roles and allocations, as 'a resource to attack and restructure existing institutional and distributional arrangements ... challenging the "accepted" view of the economic world on which such institutions are based' (Blyth 1997b: 235, 233).<sup>16</sup>

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<sup>15</sup> Here, Haas offers the example of threats to the ozone layer (1992: 23).

<sup>16</sup> Haas offers a similar argument, noting that, even when an issue is considered to be 'technical': policymaking decisions generally involve the weighing of a number of complex and nontechnical issues centering around who is to get what in society and at what cost. Despite the veneer of objectivity and value neutrality achieved by pointing to the input of scientists, policy choices remain highly political in their allocation consequences (1992: 11).

However, Haas then contradicts some of his own observations by arguing that:



Blyth uses his account to explain a shift in the political 'middle' to the right over the past 20 years, in the context of a move within OECD states away from Keynesian principles of economic management towards monetarism (1997b: 232). He argues that the monetarist propositions that refuted some of Keynesianism's key claims were 'highly political' in that they also provided the ideological underpinning for fundamental shifts in policy direction. Monetarism not only offered ideas that directly attacked Keynesianism, but also included 'other politically "useful" ideas', such as the natural rate of unemployment and the primacy of inflation, which supplied a new view of state-society relations that 'allowed the depoliticising of distributional conflicts and the abandonment of long-standing policy commitments, such as full employment' (Blyth 1997b: 233). Again, it is the content of the ideas that is important, with the ideas themselves justifying, among other things, the emphasis on some policy goals over others. Blyth contends that monetarism's ideas were more than 'hooks' for pre-existing interests because, in moving away from the Keynesian emphasis on redistribution and growth towards the monetarist emphasis on inflation and monetary stability, the ideas reconstructed 'expectations of, and preferences for, certain policy choices and political and economic goods' (1997b: 233). Ultimately, Blyth claims, the political 'middle' is not a fixed point, but represents 'a particular understanding of the world which is contestable' (1997b: 240). Parties and politicians, then, can 'shift the middle' to their advantage, if they can win the contest to define the 'reality' of that world (Blyth 1997b: 240). Thus, while the influence of experts and their expertise may have grown, it is important to note that experts do not offer politically neutral models of the world; rather, each community of experts offers a set of ideas that favours a particular political arrangement of state and society.

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Especially in cases in which scientific evidence is ambiguous and the experts themselves are split into contending factions, issues have tended to be resolved less on their technical merits than on their political ones (1992: 11).

This statement suggests that Haas is arguing that, generally, when 'scientific evidence' is not 'ambiguous', issues are resolved with reference to 'technical' evidence. The confusion here is that, according to Haas's own argument, the interpretation of 'technical' differs according to the set of ideas and the associated construction of 'reality' that is being used. The group winning the political contest is able to define what counts as 'technical' according to its own beliefs and notions of validity (ideas). This is not to argue that 'technical' comparisons are never possible; rather, that we should be cautious about assuming that they are always possible.

## II) INSTITUTIONS

The role of institutions and policy legacies, and whether or not they impose constraints on the acceptance and implementation of new ideas, is the subject of a considerable amount of debate in the literature on the role of ideas in policy-making. The main argument, which will be touched on here and canvassed in more detail in the next chapter, is that ideas are hard to change once they are incorporated into the institutions that implement and enforce policy; that is, ideas become absorbed into 'reinforcing organizational and normative structures', such as the regulatory apparatus of the state, thus becoming 'embedded in institutions' (Goldstein and Keohane 1993: 13, 12). Once embedded, ideas continue to have effects on policy by becoming the taken-for-granted or unconscious assumptions behind policy discourse and policy practice (Blyth 1997b: 236). In this way, the endorsement of one set of ideas constrains policy-makers' choices by eliminating or overshadowing other sets of ideas. Policy-makers are seen as 'path-dependent', or confined to examining current problems with reference to past solutions. According to this argument, Colin Hay and Daniel Wincott summarise:

the order in which things happen affects how they happen; the trajectory of change up to a certain point itself constrains the trajectory after that point; and the strategic choices made at a particular moment eliminate whole ranges of possibilities from later choices while serving as the very condition of existence of others (1998: 955).

Simply stated, the argument is that 'history matters' because policy-makers are tied both to previous interpretations of policy problems and solutions that have become embedded in institutions and to the policy courses set by earlier choices and their associated longer-term commitments. Thus, the role of ideas in policy-making is limited once a set of policy ideas is selected, and this results in a degree of policy inertia.

Proponents of the notion of ideas becoming embedded in institutions privilege the role of institutions over that of ideas in policy-making, a privilege that other scholars dispute. King, for example, argues that scholars emphasising embedded ideas and path dependency are guilty of overstating the solidity of administrative arrangements and underestimating the role of ideas in policy changes. In his view, such a perspective 'marginalizes the importance of ideas and exaggerates the rigidity of institutional arrangements for policy-making and

implementation' (1999: 43). While these arguments and counter-arguments will be explored further in the next chapter, King's point about the alleged rigidity of institutions needs to be emphasised here. Arguments for embedded ideas and path dependency suggest that policy-makers find it difficult, if not impossible, to implement radical change because they are tied to existing policy options delineated by the ideas embedded in institutions. Yet, as Blyth rightly observes: 'Radical, rapid [policy] changes occur' (1997a: 245).

An example of such radical change, in which ideas were considered to play a significant role, comes from Hall, who compares the responses of the Conservative governments of Edward Heath (1970-74) and Margaret Thatcher (1979-83) to unemployment and recession (1993: 290). He notes that, while both Conservative Party leaders had promised to lower inflation, cut taxes, and reduce the role of the state in the economy, Heath responded to the economic problems by returning to Keynesian reflation and interventionist policies, while Thatcher held fast to her government's promised course. Hall attributes the difference partly to Thatcher having learned from Heath's mistake, but mostly to the content of the monetarist ideas in which she believed. He contends that, whereas the policy platform on which Heath was elected had no underpinning in an alternative economic theory, Thatcher could appeal to the 'more fully elaborated' monetarist paradigm for authoritative arguments with which to resist a return to 'failed' Keynesian policies. Thus, Hall concludes, when faced with recession, Heath had nothing to offer except a return to Keynesian reflation, while the coherent monetarist paradigm supplied Thatcher with 'authoritative arguments' with which to resist pressure to return to the ailing Keynesian ideas enshrined in the prevailing institutions.<sup>17</sup>

Blyth acknowledges the role that some scholars assign to ideas, 'in and of themselves', as causal factors of radical change, noting that ideas gain special salience at times of great change because such periods are 'typically highly ideological' and 'normal politics' no longer apply (1997a: 245). But, he highlights

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<sup>17</sup> Hall uses this example to suggest that his model of policy paradigms provides a basis for a better understanding of the variations in state autonomy. He claims that analyses that argue that institutional structures determine a state's capacity to resist societal pressures cannot explain periods when a state with an unchanging structure seems autonomous. However, a coherent policy paradigm can enhance state autonomy by placing policy-makers in a stronger position to resist societal interests (1993: 290).

the contradiction in 'appeal[ing] to ideas as simultaneously promoting change and stasis' (1997a: 245). The question, then, is how we can explain ideas as both a source of inertia, at the centre of a constrained, path-dependent set of policy options, and as a source of change. Hall offers one explanation, using a Kuhnian-inspired model of paradigms and paradigm shifts ('scientific revolutions').

## PARADIGMS AND PARADIGM SHIFTS (HOW AND WHY IDEAS CHANGE OVER TIME)

Thomas Kuhn's work on paradigms and scientific revolutions has been described as the 'touchstone' for research into the influence of ideas on policy, although, as will be discussed below (and see footnote), its application to policy analysis has some, though not, I believe, insurmountable, limitations.<sup>18</sup> According to Kuhn, paradigms are accepted orthodoxies based on past scientific achievements that 'some particular scientific community acknowledges for a time as supplying the foundation for its further practice' (1970: 10).<sup>19</sup> A

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<sup>18</sup> I acknowledge that Kuhn's model deals with the 'hard' sciences and that there is a need for caution when appropriating hard science models for use in the social sciences in two important respects. First, we cannot assume that the social sciences work according to a series of universal, immutable laws as we expect in the hard sciences. Second, as Hall notes, policy paradigms are 'by definition never fully commensurable in scientific or technical terms'. Each paradigm contains its own, different account of how the world works, which means 'it is often impossible for the advocates of different paradigms to agree on a common body of data against which a technical judgment in favor of one paradigm over another might be made' (Hall 1993: 280; see also footnote 16 in this chapter). However, in response to the first point, using the framework of a 'paradigm shift' does not appear to be too great a sin in that I am using it only as descriptive shorthand to discuss how we might understand policy change over time. I make no claims that the model explains all policy shifts, and, in fact, will go on to argue that the choice between paradigms is inherently political. In response to the second point, Hall's observation does not negate the case I want to make about the influence of ideas themselves. Rather, it serves to support the case that there are factors intrinsic to ideas that add to their dynamism. If a judgment between policy paradigms cannot be based on 'hard scientific evidence', then the selection of one set of ideas over another (or others) is a political contest over which paradigm (set of ideas) can gain the most adherents and become accepted as the most convincing in explaining particular policy problems. My argument is that this contest is not always about formal institutions or path-dependency or interests, but can reflect the content of the idea and its associated discourse. For example, the concept of 'there is no alternative' contained within the neo-liberal paradigm contributed to its success in becoming the dominant paradigm. This will be discussed later in the chapter.

Brian Easton's observation that a crucial difference between a natural science 'revolution' (paradigm shift) and a policy revolution is that the latter is contested and debated in a way that the former is not (1997a: 263-264), supports my first point and does not alter my second.

<sup>19</sup> Kuhn later acknowledges that critics have underscored the 'large number of different senses' in which he uses the term 'paradigm' in his book, *The Structure of Scientific Revolutions*, and notes that one commentator found 'at least twenty-two different usages' (1977: 294). He argues, however,

paradigm becomes accepted when it is seen as more successful than its competitors at explaining problems (or 'puzzles') that the scientific community concerned has come to recognise as acute (Kuhn 1970: 23). However, Kuhn argues, 'it need not, and in fact never does, explain all the facts with which it can be confronted' (1970: 18). Scientists use the knowledge contained in their paradigm to solve 'puzzles' and the solutions are then added to the paradigm itself. Kuhn suggests that such 'mopping up' operations constitute what he calls 'normal science' or the 'fact-gathering ... empirical work undertaken to articulate the paradigm theory' (1970: 27). Such normal-scientific research resolves some of the paradigm's residual ambiguities and permits the solution of problems to which it had drawn attention (Kuhn 1970: 27).

However, an accepted paradigm can lose its dominant position to another when the number of problems that it cannot explain 'accumulate to the point of throwing the reigning model into crisis' (Jacobsen 1995: 293; see Kuhn 1970: chapters 6, 7, and 8). Kuhn describes such change as a 'revolution' because the transition from one paradigm to another is not an incremental, cumulative process, achieved by an extension of the old paradigm, but a 'reconstruction of the field from new fundamentals' (1970: 85). The reconstruction changes the field's basic theoretical generalisations as well as many of its methods and applications. As Kuhn observes: 'When the transition is complete, the profession will have changed its view of the field, its methods and its goals' (1970: 85).<sup>20</sup> An important point here is that the new paradigm is not simply a different view of how the world works, it *is* how the world works; that is, it is not that the paradigm's practitioners 'see something *as* something else; instead, they simply see it' (Kuhn 1970: 85; emphasis in original).<sup>21</sup> The new paradigm introduces a

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that the usages can be divided into two sets: one is 'global, embracing all the shared commitments of a scientific group; the other isolates a particularly important sort of commitment and is thus a subset of the first' (1977: 294). For my purposes, these difficulties do not undermine the general conception of Kuhn's work on paradigms and paradigm shifts that is summarised above and that can be seen as underlying many of the discussions of ideas.

<sup>20</sup> Note the difference here with Jacobsen's argument, outlined above, which split methods (shared economic beliefs) from goals/ends (shared social beliefs). According to Kuhn's argument, and the one that I will elaborate in the next chapter, such a distinction would not be possible. To change one's view of methods inevitably affects one's view of goals. For example, changing the methods to achieve one goal (such as economic growth) may have consequences for other goals (such as social justice). This will be discussed further in Chapters 5 and 6.

<sup>21</sup> In his discussion of ideas, King refers to political endorsement privileging a particular set of knowledge 'at that point in time', and acknowledges that, in this sense, although the *content* of knowledge or expertise employed in social policy-making changes, its *role* as source of policy

new tradition of scientific practice 'conducted under different rules and within a different universe of discourse' (Kuhn 1970: 85).

Hall offers a Kuhnian model of paradigms and paradigm shifts as an analytical framework to explain the influence of ideas on policy, as well as how ideas change and how this affects policy.<sup>22</sup> According to Hall, ideas matter in policy-making because they provide a framework through which policy-makers understand the world and how it works. This 'interpretative framework', or common understanding of the world, is the means through which policy-makers discern policy problems and solutions.<sup>23</sup> More precisely, Hall says, this 'framework of ideas and standards ... specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing' (1993: 279). The result is that policy-makers discuss and design policy within a 'system of ideas and standards which is comprehensible and plausible to the actors involved' (Anderson

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formation does not (1999: 36). This reflects Kuhn's point that, 'though the world does not change with a change in paradigm, the scientist afterwards works in a different world' (noted in Euben 1969: 25). The content of the ideas may change, bringing a new 'shared belief' in the way the world works, but the *role* of the ideas in the policy-making process (or the way a paradigm is used to underpin policy) remains the same.

<sup>22</sup> There are, of course, other ways to understand ideas in the policy-making process. Blyth, for example, proposes a three-stage 'life-cycle' of an economic idea, with *discursive*, *instrumentalist*, and *reconstitutive* phases. In the *discursive* phase, agents 'contest the definition, meaning and solution of the problems identified by opposing economic ideologies'; in the *instrumentalist* phase, 'these ideas are co-opted and deployed by agents attempting to redefine distributional boundaries and reform institutional arrangements'; and in the *reconstitutive* phase, 'an economic ideology becomes embedded through policy practice in the apparatus of the state and the economy, and serves to reconstitute a "social bargain" ['a self-reinforcing compact between labour, capital and the state'] over time' (Blyth 1997b: 234). Blyth argues that his suggested three phases coincide with the effects he posits ideologies (ideas) as having. The *discursive* phase corresponds to the period when ideas alter agents' perceptions of interest; the *instrumentalist* phase to the period when ideas are used to facilitate new patterns of collective action; and the *reconstitutive* phase to when new ideas become embedded in state and economic institutions (1997b: 234).

King also suggests a three-stage pattern to policy-making: first, 'a political problem becomes too great to be neglected (such as unemployment) or a lobby group pushes an issue onto the political agenda', or problems 'arise as a result of earlier measures (such as the size of the welfare budget)'; second, the 'initial interest compels a systematic study or collection of relevant data to determine the scope of the problem and the best way to alleviate it' (1999: 39); and third, bipartisan support endorses a particular range of policy actions. King notes that the first two stages 'may well be structured to favour a particular interpretation ... and hence resolution of the issue' (1999: 39).

<sup>23</sup> I am reading an interpretative framework in the terms outlined above: as a system of 'shared beliefs'.

1978: 23, cited in Hall 1993: 279).<sup>24</sup> Policy options formulated within this framework cannot be other than 'intellectually plausible', persuasive and credible, which, as noted above, King observes they must be in order to be accepted and implemented, because such options are based on the accepted world-view of what can be achieved through policy and how. Hall contends that the framework is embedded in the terminology that policy-makers use to communicate their work, 'and it is influential precisely because so much of it is taken for granted and unamenable to scrutiny as a whole' (1993: 279).

Hall describes these interpretative frameworks as 'policy paradigms', which he says are 'rather like the scientific paradigms that Thomas Kuhn has identified' (1993: 279). Using this 'Kuhnian' account to explain how one policy paradigm or set of ideas succeeds another, Hall argues that if 'economic' theorising is seen as Kuhn's puzzle-solving, then 'one theory succeeds another primarily because it defines and solves puzzles in a more satisfying way' (1989: 9).<sup>25</sup> The successor theory is seen to be 'better at explaining the empirical observations that remained anomalous in terms of the earlier theory' (1989: 9).<sup>26</sup> In simple terms, it offers policy-makers a more plausible account of the hows and whys of current problems and their possible solutions. Hall notes that, while attempts may be made to 'stretch' the terms of the existing paradigm to cover anomalies, such stretching 'gradually undermines the intellectual coherence and precision of the original paradigm' (1993: 280). Worse, he contends, if the existing paradigm is 'genuinely incapable of dealing with anomalous developments', then the experimental adjustments to existing policy can result in policy failures that undermine the paradigm's authority even further. Hall believes his Kuhnian model of paradigms and paradigm change offers a conceptual framework for understanding the process of policy shifts and the 'characteristics that tend to render new ideas economically persuasive' (1993: 284; 1989: 8). That is, it offers a means of understanding why one set of policy ideas is chosen over another. According to the Kuhnian model, a policy paradigm (set of ideas) is selected as

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<sup>24</sup> That is, the paradigm sets the underlying conception of 'reality' that makes certain policy courses more 'rational' and 'realistic' than others (Euben 1969: 25).

<sup>25</sup> Hall's emphasis on 'economic' theorising is important to the point made in footnote 31.

<sup>26</sup> Discussing the rise of the Keynesian paradigm, Hall offers the prolonged unemployment of the inter-war period as one such anomaly that could account for the acceptance of Keynesian ideas; that is, Keynesianism's understanding of the causes of, and solutions to, unemployment were more plausible than those of the then-prevailing ideas (1989).

long as it serves both to describe current policy problems and to offer plausible solutions ('normal science'). When the paradigm is no longer seen to do this, then another replaces it ('paradigm shift').

Hall elaborates his Kuhnian analogy by disaggregating the policy-making process into three levels, which he argues can be used to identify three distinct kinds of changes in policy: the overarching goals that guide policy (third-order change), the techniques or policy instruments to achieve these goals (second-order change), and the precise settings of these instruments (first-order change) (1993: 278). He maps these policy changes on to Kuhn's model of paradigm shifts, claiming that first-order and second-order change can be seen as 'normal policy-making', or a 'process that adjusts policy without challenging the overall terms of a given policy paradigm', much like Kuhn's 'normal science'. Third-order change, however, is 'marked by the radical changes in the overarching terms of policy discourse associated with a "paradigm shift"' (Hall 1993: 279). First-order and second-order changes can be understood as preserving the general pattern or direction of policy, while third-order change is a 'disjunctive process associated with periodic discontinuities in policy' or a complete change in policy direction (Hall 1993: 279). Thus, Hall's model can be used to answer Blyth's question, noted above, about ideas as a source of both inertia and great change; first-order and second-order change can be seen as inertia while third-order change (or a paradigm shift) represents radical change.<sup>27</sup>

Hall applies this model to explain the shift from Keynesianism to monetarism in Britain between 1970 and 1989, arguing that British macro-economic policy-making in this period 'clearly revolved around this sort of policy paradigm', with events displaying 'many of the features a Kuhnian model would lead us to expect' (1993: 279, 284).<sup>28</sup> The Keynesian paradigm was dominant in most of the post-war period:

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<sup>27</sup> Michael Howlett argues that the speed of the paradigm shift depends on whether or not there is an accompanying change in key actors/interests (2002: 244). The shift is rapid when there are new ideas and new actors, and slow when there are new ideas only. I find this claim unconvincing because it suggests that existing actors cannot change their ideas, and hence their policies.

<sup>28</sup> Hall's account is not uncontested. Peter Kerr and David Marsh, for example, advance what they call a 'multidimensional approach' to explain Thatcherism, arguing that Thatcherism is not as 'transformative' in terms of undermining and replacing the post-war consensus as some authors claim. See Kerr and Marsh (1999) and, more generally, Marsh et al. (1999).



[Keynesian ideas] specified what the economic world was like, how it was to be observed, which goals were attainable through policy, and what instruments should be used to attain them. They became the prism through which policy-makers saw the economy as well as their own role within it (Hall 1993: 279).

Hall argues that, throughout this period (1970-1989), policy-makers made first-order changes every year, sometimes more than once a year, adjusting the settings of fiscal and monetary instruments in response to policy outcomes and new developments. They also made second-order changes at 'less frequent junctures', with changes in policy instruments in this period including a change in the system of monetary control and a new system for controlling public expenditure. However, he contends, the election of Margaret Thatcher's Conservative government in 1979 brought an 'intense break' in policy when, '[n]ot only were the settings of policy changed but the hierarchy of goals and sets of instruments employed to guide policy shifted radically as well' (1993: 283-284). The Thatcher government made a third-order change, altering policy goals according to a monetarist set of ideas: inflation replaced unemployment as the pre-eminent concern of policy-makers, balanced budgets and tax reductions replaced macro-economic efforts to reduce unemployment, monetary policy replaced fiscal policy as the principal macro-economic instrument, and state regulatory interventions (including incomes policies and exchange controls) were eliminated (Hall 1993: 284).

Hall argues that such changes exemplify a paradigm shift, with the monetarist paradigm, based on different policy prescriptions and a 'fundamentally different conception of how the economy itself worked', replacing the Keynesian paradigm. This replacement, he contends, brought an associated 'radical shift' in the order of goals guiding policy, as well as the policy instruments and settings of those instruments used to achieve the new order.<sup>29</sup> Moreover, Hall argues, 'these changes were accompanied by substantial changes in the

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<sup>29</sup> Here, Hall underplays his own Kuhnian analogy, talking of a shift in the *order* of goals and not recognising that the full implication of Kuhn's comment, noted above, that a paradigm shifts alters the view of 'the field, its method and its goals'. The new paradigm's view of goals could mean that some goals have changed so that they are not necessarily the same as they were under the previous paradigm or have been eliminated altogether. In this way, a paradigm shift may change more than the *order* of goals; it may *change the goals* themselves. For example, the prioritisation of economic growth over social justice issues may make it impossible to achieve the latter, or may result in new understandings of what achieving social justice means. See King's comments, noted above, re workfare, and Chapter 6 of this thesis.

discourse employed by policymakers and in the analysis of the economy on which policy was based' (1993: 284). Policy-makers came to believe that the Keynesian paradigm had failed to 'fully anticipate [or] explain' economic developments in this period, including inflation and stagnating levels of growth and employment. These 'anomalies' raised doubts over the adequacy of Keynesian analyses of the economy such that the 'Keynesian doctrine gradually lost coherence and credibility in the eyes of politicians, officials and the public' (Hall, 1993: 285). In contrast, the monetarist paradigm was seen as a 'coherent and highly developed alternative', and thus became the principal challenger to the ailing Keynesian paradigm (Hall 1993: 286).<sup>30</sup>

## IDEAS: DISCOURSE, FRAMES, AND NAMES

So far, I have discussed in this chapter a broad definition of ideas and examined some of the views on the role of ideas in policy-making. In the previous section, I outlined Hall's use of a Kuhnian model of paradigm shifts to explain the change in policy ideas over time. Hall's framework, which he uses to analyse

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<sup>30</sup> Hall argues that monetarism had 'substantial' political appeal in that it offered a 'coherent challenge to the policies of the Labour government' and public appeal in that it offered a 'simple but appealing prescription' to resolve both economic problems and the government's much-publicised difficulties with the unions (1993: 286). However, its appeal was not universal. Mark Wickham-Jones discusses a letter signed by 364 British economists who specifically rejected monetarism, arguing that there were alternatives that should be considered (1992: 171-185). Wickham-Jones uses the economists' statement as a basis for rejecting the 'idea of a Kuhnian paradigm failure' as an explanation for the shift to monetarism, arguing that there was 'no consensus on the failure of the existing paradigm or what should replace it' (1992: 183). However, this ignores an important component of the monetarist set of ideas: the notion that 'there is no alternative'. Wickham-Jones himself notes that a major criticism that the Thatcher government and others could level at the dissenting economists was their lack of an elaborated alternative to the government's monetarist line:

It was not enough to suggest that alternative policies would work better without specifying what the alternatives would be. But the economists couldn't spell out policy details because they didn't agree as to which policy would lead to recovery ... (1992: 179).

Such a statement suggests that a Kuhnian model of paradigm failure and replacement does offer a way of understanding the shift, as Hall claims. Faced with a number of worsening economic problems, monetarism's opponents could not agree on a coherent, plausible answer, *including Keynesianism*. That is, while there may not have been a consensus that Keynesianism had failed, there was also no consensus that it was working. Thus, the Keynesian paradigm was failing in that it was no longer seen as the dominant world-view. To labour this point, in the social sciences, a dominant paradigm does not have to be the *only* paradigm, but it must attract enough adherents to its world-view to make it dominant. While Keynesianism achieved this for a time, this consensus broke down enough for it to lose its dominance. Monetarists, on the other hand, were not only suggesting a coherent paradigm that explained both problems and solutions, but a paradigm containing a specific rejection that any other understanding of the world would work.

the shift in ideas in Britain between 1970 and 1989, offers one explanation of how ideas can be agents of both policy inertia and radical policy change. Ideas promote policy inertia when they form the accepted paradigm that policy-makers use to understand the world; the paradigm (set of ideas) provides the conventional wisdom and underlying assumptions used to define problems, assess their severity and formulate solutions. Ideas promote policy change when they are perceived as being either significantly better or significantly less able than an alternative paradigm at explaining policy problems.

However, as outlined so far, the model appears to treat ideas and their role in policy-making as apolitical: a paradigm change occurs because, on a scientific-technical judgment of economic processes and outcomes, a new paradigm is technically more proficient at achieving the desired goals. Yet, such an understanding surely is misleading. Paradigms in the social sciences are inherently political, not only in the sense noted above (in which they form and align interest groups which then use them to attack and change conventional wisdom), but also in the more intangible sense in which the paradigm itself 'frames' policy problems and solutions. In the latter, both the content of the ideas themselves and the discourse used to express and implement them act to constrain (or enhance) the options available to policy-makers. It is to these issues that I now turn.

I noted above (footnote 18) that there are some limitations to the application of Kuhn's work to policy analysis and I drew attention to Hall's qualification regarding his drawing on the Kuhnian image of scientific progress to examine the dynamics of the policy process. In his discussion of policy paradigms, Hall is careful to note Kuhn's point that paradigms are not scientifically or technically commensurate, and observes that this means that the replacement of one policy paradigm by another is likely to be 'political in tone' or 'more sociological than scientific' (1993: 280). Each paradigm offers its own, distinct, understanding of how the world works, which means the advocates of different paradigms may find it 'impossible ... to agree on a common body of data against which a technical judgment in favor of one paradigm over another might be made' (Hall 1993: 280).<sup>31</sup> This means that, not only is the selection of one paradigm over

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<sup>31</sup> Hall later contradicts the argument he makes here. Although he has acknowledged that the selection of one paradigm over another will be 'political in tone' because each paradigm's different

another (or others) a contest between policy agents for political dominance, but that issues of authority, such as whose advice policy-makers should believe, are central and also become a contest (Hall 1993: 280).

This suggests a return to the claim that ideas are not important in themselves, but are simply the tools of interests. Blyth is dissatisfied with this account and criticises Hall's model for casting the transition between paradigms as an 'essentially elite process' in which '[i]nsulated bureaucratic and political elites become the bearers of different "policy paradigms" [sets of ideas]' (1997a: 237). As noted above, he argues that placing emphasis on elites misses the way such ideas, or 'ideological schemas', serve to discredit existing patterns of collective action and to develop new ones. Such emphasis tells us about process, or the way ideas are used, but not about selection, or the way one set of ideas comes to dominate. It tells us nothing about the content of the ideas themselves and whether this has any impact in the dominance of one set of ideas over another. Or, as Blyth contends: 'The elite game may tell us how the ideas get from the blackboard to the party, but not how or why certain ideas come to be accepted over others' (1997a: 237). He wants the mechanism through which ideas pass 'from academic debate to popular consciousness' clarified (1997a: 237). That is, to return to Keynes's eloquent terms noted at the beginning of this chapter, he wants to know more about the means by which 'madmen in authority' and the general public come to accept the ideas of some 'academic scribbler[s]' over others.

One way that ideas may filter through to popular consciousness is via a constitutive part of the ideas themselves: their discourse. By this, I mean the discourse with which a paradigm articulates policy problems and solutions; that

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world view makes scientific and technical comparisons between paradigms impossible, he still treats paradigms as though they are only technical and not political constructs. He argues that 'not all fields of policy will possess policy paradigms as elaborate or as forceful as the ones associated with macroeconomic policy-making' (1993: 291). Indeed, such paradigms 'are most likely to be found in fields where policymaking involves some highly technical issues and a body of specialized knowledge pertaining to them' (1993: 291). These statements imply that a judgment between competing paradigms can be made on the basis of their 'technical' and 'knowledge' content. Yet, Hall has already noted that the incommensurability of the scientific and technical aspects of paradigms makes such a judgment impossible. Thus, his use of the 'elaborate' and 'forceful' macroeconomic paradigms ignores the fundamental disagreements over the 'technical' aspects of competing economic paradigms that make the choice of dominant paradigm not just 'political in tone', but extremely political.

is, the interpretative structures it provides to make known, contextualise, and give meaning to policy issues. My argument here is that ideas have an inherent range of articulatory practices that serve to 'frame' and 'name', outlining a view of policy problems and solutions that is based on the ideas' understanding of 'reality' and the construction of state-society relations. The discourse of a paradigm articulates the way that the ideas constitute and organise social and political relations, expressing the inherent underlying assumptions and ensuring their passage through the broader community. As this discourse is adopted and used, it comes to permeate society as the values, attitudes, beliefs, and social mores that support the paradigm's established order. It becomes the taken-for-granted, common-sense context through which ideas are interpreted and understood. That is, it becomes the *uncritical* and largely *unconscious* way in which a person perceives the world (Simon 1982: 25). As the paradigm's norms and values permeate society and the paradigm becomes dominant, the existing order as established in the paradigm becomes natural and inevitable; it becomes the unspoken and unchallenged norm.<sup>32</sup> Other options become incomprehensible, as they do not fit within the paradigm's construction of reality. Thus, when the paradigm's order of things is accepted, it can 'prevent demands from becoming political issues or even from being made' (Lukes 1974: 38). In the following section, I will elaborate on this argument, noting that the content of the ideas themselves and their constituent discourse act to constrain (or enhance) the options available to policy-makers, setting limits (or offering opportunities) that policy-makers then use to their advantage. I begin with a general discussion of discourse before moving on to 'frames', or the interpretative structures through which ideas portray policy problems and solutions, and 'names', or the terms of the ideas.

As outlined above, Hall describes a policy paradigm as an interpretative framework through which policy-makers understand the world and how it works. Paradigms specify policy goals and the methods to achieve them, as well as the 'very nature of the problems they are meant to be addressing' (Hall 1993: 279). However, the paradigm also constructs the world it purports to explain. This occurs in the way that the paradigm includes and excludes 'problems' from its explanation, and the way it portrays or 'frames' the policy

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<sup>32</sup> Or, at least, unspoken and unchallenged by those who benefit from it. I am indebted to my colleague Angela Pratt for discussions on this topic. See Pratt (2003: ch. 2) with regard to hegemonic discourse and concepts of sovereignty, nationhood and 'whiteness'.

problems it aims to explain, their severity, and their possible solutions.<sup>33</sup> A paradigm defines what can be seen as a policy concern, and, conversely, what cannot. Kuhn himself acknowledges that a paradigm allows the scientific community to include some problems within their purview while rejecting others. He explains that a paradigm, while it is dominant, or taken for granted as supplying the explanation of how the world works, gives a scientific community 'a criterion for choosing problems that ... can be assumed to have solutions' (1970: 37). He goes on:

To a great extent these are the only problems that the community will admit as scientific or encourage its members to undertake. ... A paradigm can, for that matter, even insulate the community from those socially important problems that are not reducible to the puzzle form, because they cannot be stated in terms of the conceptual and instrumental tools the paradigm supplies (1970: 37).

This suggests that, when scholars apply a Kuhnian paradigm model to policy-making, they need to pay attention to how the paradigm represents the policy problems, what it includes and what it leaves out.

One way to discover this is to look at the discourse of a paradigm, or the way it articulates policy problems and solutions. A discourse approach to ideas is sensitive to language, which is 'not seen as a series of terms which reflect some aspect of reality, but is regarded as constitutive of realities' (Outshoorn 2000: 5). Or, as Nancy Fraser and Linda Gordon note: 'the terms used to describe social life are also active forces shaping it' (1997: 78). Thus, discourse affects 'what is seen and how [it] is described' (Bacchi 1999: 10). I raised the importance of being able to define reality in the previous chapter in the discussion of the OECD as an epistemic community. I noted that an epistemic community has its own world-view, which underpins its interpretation of policy issues and what is real and/or valid, and that policy-makers receive this 'reality' or 'truth' when

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<sup>33</sup> For example, according to the Keynesian paradigm, substantial and prolonged unemployment was an inevitable outcome of the capitalist process. Given this 'frame' or understanding of the problem of unemployment – that left to its own devices, capitalism inevitably produced unemployment – the fault was seen to lie with market, not individual failure. The Keynesian solution, then, was for the state to intervene to minimise the instability of the business cycle, thus keeping unemployment to a minimum. The monetarist paradigm frames the problem and the solution in a different manner. According to the monetarist paradigm, markets are held to clear (supply equals demand), thus the level at which the market clears is the level of full employment or the 'natural rate' of employment that the economy can support. This 'frame' means that 'unemployment, whatever its level, is by definition voluntary' (Blyth 1997b: 232). That is, it is not a problem that the state can resolve through intervention in the market, but one of individual choice.

they consult an epistemic community. As part of this discussion, I quoted Haas's use of Schattschneider's comment that, 'The definition of the alternatives is the supreme instrument of power', to underpin his observation that an epistemic community can affect policy outcomes because it can limit the choices available to policy-makers (1992: 16). While decision-makers retain the actual choice of policies, community members can influence the options from which they choose, 'pointing out which alternatives are not viable on the basis of their causal understanding of the problems to be addressed' (Haas 1992: 16).

Here, I want to use a similar argument with regard to a paradigm's discourse; that is, discourse is part of the process through which a paradigm constructs reality and highlights particular issues for attention while ignoring or disregarding others. As Jacobsen observes, the way to gain some control over outcomes is to persuade players to accept a definition of the situation, 'because how a problem is defined determines the nature of the solution' (1995: 292). However, as noted above, Jacobsen's argument is rooted in his prioritising interests over ideas, whereas I would argue that a preoccupation with the links between ideas and institutions, interest groups or elite groups pays insufficient attention to the effects of the discourse intrinsic to a set of ideas. The control over definition is not confined to institutions, interests or elites; rather, the discourse of a paradigm allows it to define (or 'frame and name') policy issues in a way that is comprehensible to that set of ideas and that may add to their independent influence. That interests and elites may then use these ideas does not undermine the point that the ideas have an internal capacity to define 'reality' or 'truth'.

In pursuing this approach to ideas, I am following Albert Yee, who states that an adequate explanation of how ideas become policy requires an analysis of the 'causal mechanisms or capacities' of ideas that 'render the meanings of ideas and beliefs compelling to actors' (1996: 102). Yee argues that viewing 'networks of ideas and systems of belief' as languages or discourses can illuminate the factors that enable ideas and beliefs to affect policies. Among these factors are the ways that discourse 'gives meaning to the way that people understand themselves and their behaviour', 'generates the categories of meaning by which reality can be understood and explained', and 'makes "real" that which *it* describes as meaningful' (George 1994: 29-30, cited in Yee 1996; 99; emphasis in original).

Yee notes that these discourses or discursive practices are also seen to form and reinforce 'knowledge disciplines and regimes of truth' (1996: 99). Keeley makes this point clear when he observes:

A dominating or hegemonic discourse provides a 'regime of truth', a means of assessing not only whether statements are true or false but also whether they have a meaning at all or are mere nonsense. ... A regime of truth goes beyond agenda setting and 'decisions and non-decisions.' It endorses certain language, symbols, modes of reasoning and conclusions (1990: 91).

He goes on to note that those who do not use these languages, modes of reasoning, and so on, 'may seem unintelligible, mad, or at least beyond the pale of accepted argument' (1990: 91). Formulations found outside this dominant discourse 'either have never gained formal recognition as regimes of truth or have lost that status', and can be understood as 'subjugated knowledges' (1990: 91).

A dominant paradigm, then, can be seen as setting the 'regime of truth' through which policy issues are viewed; the regime has a construction of state-society relations that sets what can intelligibly be understood as a policy problem and what solutions can be considered. Thus, Hall describes political discourse as a prevailing set of political ideas that includes:

shared conceptions about the nature of society and the economy, various ideas about the appropriate role of government, a number of common political ideals, and collective memories of past policy experiences (1989: 383).

These ideas 'provide a language in which policy can be described within the political arena and the terms in which policies are judged there' (Hall 1989: 383). Hall argues that new sets of economic ideas (such as Keynesianism or monetarism) enter this 'universe' of political discourse when they become the 'object of official scrutiny and debate' and they are 'accorded a particular niche within the web of meaningful concepts and associations' that make up the political discourse (1989: 383). He then contends that the nature of the prevailing discourse can 'have a major impact on the likelihood that a new set of policy ideas will be accepted', working to the advantage or disadvantage of new policy proposals. That is, the prevailing political discourse 'lends representative legitimacy to some social interests more than others, delineates the boundaries of state action, ... and defines the context in which many issues will be



understood' (Hall 1993: 289). Thus, the prevailing discourse privileges some policy lines over others, because 'some proposals will be immediately plausible, and others will be barely comprehensible' (Hall 1989: 383; 1993: 289).

This returns us to the arguments of both King and Hall noted earlier; that the success of a policy agent in the contest over *ideas* matters as much as attaining formal *power*, because winning the argument over ideas 'enables those successful to dominate the content of political discourse' (King 1999: 292). Hall notes that a perennial feature of politics is the 'struggle both for advantage within the prevailing terms of discourse and for leverage with which to alter the terms of political discourse' (1993: 290). For Hall, policy paradigms are only 'one feature of the overall terms of political discourse' (1993: 290), and are, therefore, one of the levers that policy actors can use in their quest for dominance. Again, this suggests that ideas are simply the tools of interests, with no causal impact in their own right, yet this underplays the influence of the constituent discourse of a set of ideas. Hall himself notes that, when '[o]rganized interests, political parties, and policy experts' are successful in the struggle over ideas, they can affect policy 'without necessarily acquiring the formal trappings of influence' (1993: 290). He offers as an example a political party's arguments during an election campaign, which 'may push forward political debate in such a way as to advance particular lines of policy', even when the party loses the election (1993: 295, fn 58). An additional example comes from King, who notes that, since the 1980s, the 'idea of obligations' has been incorporated into policy-making lexicon, being marshalled in social policy debates in both the United States and Britain and becoming a widely accepted, and widely used, concept (1999: 21). The result, King contends, is that workfare, 'a classic expression of ... contractual obligation', now has political support from both the political left and right, and '[e]ven political theorists' find obligations associated with workfare 'an acceptable ... element of citizenship in a liberal democracy' (1999: 21).

## I) FRAMES

Discourse provides 'frames' or interpretative structures through which ideas may be understood easily. At its simplest, a frame is a 'set of simplifying assumptions' that individuals use to process complex information (Costain et al. 1997: 206). That is, a frame: 'provides a story that helps individuals interpret the world around them and their place in it' (Costain et al. 1997: 206; see also Snow

and Benford 1992: 136-138). Frames make the story clear to observers: they outline 'the nature of the problem, the blame for the problem, and the solution to the problem' (Costain et al. 1997: 206). They are 'underlying structures of belief, perception, and appreciation' that determine 'what counts as a fact and what arguments are taken to be relevant and compelling' (Schön and Rein 1994: 23). Thus, frames construct a particular view of reality on a particular issue, or, as Donald Schön and Martin Rein note:

[frames] select for attention a few salient features and relations from what would otherwise be an overwhelming complex reality. They give these elements a coherent organization, and they describe what is wrong with the present situation in such a way as to set the direction for its future transformation (1994: 26).

In this way, then, frames can be seen as essential to 'making sense of social reality' because they are 'contextual cues giving order and meaning to complex problems, actions and events' (Schön and Rein 1994: 30; Norris 1997: 2).

Pamela Oliver and Hank Johnston argue that framing is the process through which a set of meanings or 'frame' is invoked to communicate the content of an idea, thereby indicating how the content is to be understood (2000: 8). On this understanding, frames can be seen as an integral, though distinct, part of a paradigm's discourse: the paradigm provides the overarching understanding of how the world works, and the frames provide the stories or contextual explanations that enable the ideas to be easily and immediately understood. In this way, frames act to reinforce the beliefs, values and norms inherent in the ideas because they are the lens through which actions are interpreted and accepted. As noted above, policy-makers base their actions on a particular understanding of how the world works, or, more specifically, as Hall notes:

Policymaking in virtually all fields takes place within the context of a particular set of ideas that recognize some social interests as more legitimate than others and privilege some lines of policy over others (1993: 292).

That said, policy-makers still have to 'rationalize their actions in terms that will draw popular support, provide a semblance of consistency, and motivate those who have to carry out the relevant policies' (Hall 1993: 291). Frames help them do this, utilising the conventional wisdom as set out in the political discourse to conjure a particular image of the problem and the appropriate solutions. Thus, as Hall observes, even when the motivation for policy is 'simply an overarching

metaphor, such as the “war on drugs” or the “problem of welfare mothers”, the metaphor and its attendant elaborations can structure many aspects of what is to be done’ (1993: 292).<sup>34</sup>

Carol Bacchi explores the role of frames in policy-making, concluding that policy proposals ‘frame’ policy problems, in that they identify what is of concern and what can be done about it. Thus, Bacchi argues: ‘[policy] “problems” do not exist out there, in the social world, waiting to be addressed and answered, ... [rather], “problems” are created by the policy community’ (1999: 199). She argues that policy issues cannot be understood as ‘existing independently of the way they are spoken about or represented, either in political debate or in policy proposals’ because ‘[a]ny description of an issue or a “problem” is an interpretation, and interpretations involve judgement and choices’ (1999: 1). This leads Bacchi to conclude that the frame, or what she terms a ‘problematization’, of a policy issue is only one among many possible constructions. She notes that, if policy problems are ‘inaccessible outside of the ways they are problematized’, then policy analysis must focus on the problematisations rather than the problems, looking at what ideas lie beneath a problematisation. Bacchi suggests an analytical framework based on the overarching question, ‘what’s the problem?’, which she breaks down into a number of component questions. These include:

- what is the ‘problem’ represented to be?
- what presuppositions are implied or taken for granted in the problem representation that is offered?
- what effects are connected to this representation of the ‘problem’?
- what is left unproblematic in particular representations?
- how would responses differ if the ‘problem’ were represented differently? (1999: 2).

Warren Samuels suggests a similar approach when he observes that the ‘definition of reality is formulated and expressed’ through the words and symbols that economists use, which means that, when looking at the discourse of economics, there is a need to examine the implicit theorising, preconceptions,

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<sup>34</sup> For example, King notes that ‘the remorseless ascription of the poor as an underclass differentiated behaviourally from the mainstream of society played no small role in justifying workfare [policies]’ (1999: 292).

and normative assumptions that are 'deliberately or inadvertently entered into analysis by use of certain words' (1990: 13).

Bacchi argues that a 'focus on interpretations or representations means a focus on discourse', which she defines as 'the language, concepts and categories employed to frame an issue' (1999: 2). An examination of the discourse of policy 'assists in identifying the frames used to construct "social" problems', with a 'what's the problem?' approach supplying a tool for uncovering the frames (Bacchi 1999: 199).<sup>35</sup> Such an approach also usefully reflects Schön and Rein's point that frames are usually 'tacit', meaning that they are 'exempt from conscious attention and reasoning' (1994: 23).<sup>36</sup> This means that, although frames 'exert a powerful influence', they are rarely explicated; rather, 'they belong to the taken-for-granted world of policy-making' (Schön and Rein 1994: 34). This suggests that, in order to understand the influence of a policy paradigm on problems and solutions, we need to make explicit the ideas comprising the paradigm as well as the implicit frames and assumptions on which the paradigm's policy proposals are based.

## II) NAMES

An important component of discourse that is intertwined with framing is 'naming', or the actual terminology used to articulate ideas. As noted above, language does not simply describe reality, it constructs reality. Nancy Fraser and Linda Gordon argue that, in the 'struggle to define social reality', particular words and expressions can become focal, 'functioning as keywords, sites at which the meaning of social experience is negotiated and contested' (1997: 78). They claim that:

Keywords typically carry unspoken assumptions and connotations that can powerfully influence the discourses they permeate – in part by constituting a body of *doxa*, or taken-for-granted commonsense belief that escapes critical scrutiny (1997: 78).

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<sup>35</sup> Again, I would argue that it is possible to apply Bacchi's approach more broadly than social policy because asking 'what is the problem?' also serves to illustrate the frames underpinning, for example, interpretations of economic policy problems and solutions.

<sup>36</sup> Oliver and Johnston also note that framing is often achieved 'tacitly', through 'subtle linguistic and extralinguistic clues' (2000: 8).

In a similar vein, Schön and Rein highlight the importance of naming to discourse, when they note that: '[t]hings are selected for attention and *named* in such a way as to fit the *frame* constructed for the situation' (1994: 26; emphasis added). Thus, names and keywords may carry the same tacit assumptions that frames carry, adding to the uncritical and unconscious way that a person perceives the world. Names may not be queried because their meanings are common sense; people 'know' what the terms mean.

'Naming' includes the use in frames of the 'generative metaphor'; that is, the carrying over to a new situation a familiar understanding of a term 'with the result that both the familiar and the unfamiliar come to be seen in new ways' (Schön and Rein 1994: 26). For example:

- the use of the phrase 'blighted or slum area' when discussing urban renewal programmes. Schön and Rein argue that this term is based on a metaphor of disease and cure; the 'blight' must be removed and the area rebuilt (1994: 27).
- the use of the terms 'obligation' and 'mutual responsibility' when discussing social policies. As noted above, the 'idea of obligations' serves to strengthen the 'contractual obligation' of welfare recipients to work in return for income support (King 1999: 21, 22). The use of the language of contract reinforces the notion that it is legitimate to ask people to fulfil some obligations in return for the government providing benefits, training or other programmes (King 1999: 276).
- the use of the term 'crisis' with regard to ageing populations and public pensions when discussing public spending policies. The result is a fear of 'national ruin' unless pension spending is immediately constrained. For example, Francis Castles notes that: 'National treasuries, irrespective of country-specific demographics, use the supposedly ineluctable consequences of a "greying" population as a mantra to be invoked against all proposals for enhanced public spending' (2002: 141).<sup>37,38</sup>

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<sup>37</sup> However, Castles challenges the alleged inevitability of the 'national ruin' about to be wrought by the hordes of elderly in 'Europe, the OECD and, if the World Bank is to be believed, the world as a whole', arguing that there is no cause for such a 'moral panic' (2002: 141-155; 2001: 8-11). His analysis shows that: 'there is no unequivocal evidence of direct or indirect ageing effects [on public spending] that need be of serious concern' (2002: 154). More precisely, he contends: 'The aged are not the problem; some pension systems are' (2001: 11). Castles's work highlights the problem noted in the previous chapter of treating all OECD countries as though they had similar problems and similar approaches to policy. Castles notes that one reason for being sceptical of the ageing population 'crisis' is that most research has used 'highly aggregated data', and has not

Whereas the above examples show the language being used to support frames that constrain policy options, there are also examples where the language is used to construct frames that enable particular policy directions. A striking example is an influential, but informal, element of the monetarist paradigm that has since been utilised in the neo-liberal and globalisation paradigms: the notion that 'there is no alternative'. The effect of this language and the frame it constructs, which cannot be formalised into any rule or procedure, but is incorporated informally, albeit powerfully, into the discourse of these paradigms, is to privilege the paradigm's ideas over those of potential challengers. In making this claim, the paradigm claims a legitimacy that alternative ideas have to overcome before they can make their own claims. Alternative ideas first have to prove that they are legitimate or valid alternatives, worthy of consideration, before they can go further to prove their viability. Mark Wickham-Jones notes the impact of this expression when discussing Thatcher's single-minded pursuit of monetarism:

Mrs Thatcher ... would continue on course regardless of pressures from either advisers, or colleagues, or (indirectly) the electorate. Hence her famous phrase 'the lady's not for turning' at the party conference of 1980 and the widely touted acronym TINA – 'There Is No Alternative' (1992: 174).<sup>39</sup>

The 'TINA' concept became influential in a number of countries in the 1980s and 1990s, including New Zealand and Australia (for discussions, see Kelsey 1999;

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disaggregated spending in the manner required to establish a link between ageing and spending on pensions, health care, age services and debt financing (2002: 143). In addition, 'while the policy forecasters' warnings for coming decades are almost invariably couched in universal terms, national expenditure and ageing profiles have varied widely in recent decades' (2002: 143). His conclusion is that there is clear evidence of divergent patterns across countries, and 'to read lessons on the potential effects of population ageing from the experience of those countries with the most extensive and generous programs involves a distortion' (2002: 155). Castles is not alone in his views; Hay, too, notes the uneven distribution of the 'demographic timebomb' (2001: 13-16). See also the discussion in McDaniel (2003).

<sup>38</sup> 'Crisis' has been used elsewhere to justify action. Goldfinch notes with regard to economic liberalisation in Australia and New Zealand:

While the extent of the economic crisis has sometimes been overstated, perceptions of crisis played an important part in facilitating the introduction of far-reaching and rapid change by encouraging the belief that such change was necessary and that it needed to be introduced quickly (2000: 20).

<sup>39</sup> Pierre G elinas also notes the use of this phrase, observing:

Whenever Mrs Thatcher's government had to choose between these prescriptions [public spending cuts] and the welfare of its own citizens, she had the habit of saying 'There is no alternative!' This phrase would be repeated so often in her speeches that some satirists christened her Mrs TINA (2003: 91).

Stillwell 2000: 7, 153; Easton 1997b: 226; Goldfinch 1997: 73-74; James 1992: ch. 15).<sup>40</sup> In a similar vein, Matthew Watson notes that the Blair Government's use of the discourse of the inevitability of globalisation to justify a range of neo-liberal policies in Britain (1999: 125-143; see also Hay 1998).<sup>41</sup> He argues that this occurred despite there being 'limited evidence that Britain is locked into a globalised political economy' that leaves the government no choice in its economic policy (1999: 131-136). The result, he concludes, is that it is not the 'reality' of globalisation that is shaping British economic policy, but the 'dominant discursive construction of that reality' (1999: 125). Thus, the terms that policy-makers use to discuss policy issues 'constrain and enable often in highly specific ways' (Hall 1993: 291-292), delineating and delimiting both policy problems and possible solutions.

An important point that must be noted here, however, is that the understandings of a particular term or phrase may vary over time depending on the dominant paradigm and its ordering of state-society relations. Thus, a word or phrase that has a particular meaning at one point in time may later have a significantly different meaning or interpretation. Fraser and Gordon offer an excellent example of this in their work tracing what they term the 'genealogy of dependency'; that is, they examine the different meanings accorded over time to a word that they describe as a 'keyword of politics'. They note that contemporary American understandings of dependency are dramatically different to earlier interpretations, such that, today, policy-makers from both sides of politics agree that 'dependency' is bad for people, undermining their motivation to be self-supporting, and isolating and stigmatising them (1997: 78). They observe that, today, the term has become a 'powerful ideological trope'

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<sup>40</sup> The term became so widespread and influential that critics have come to speak in this language, raising the question, 'is there an alternative?', see Stillwell (2000: 7); Kelsey (1997: ch. 14); Easton (1997a: ch. 8). See also the title of Bennholdt-Thomsen et al. (2001). Stillwell notes that what he calls the 'TINA syndrome', 'is a particular obstacle to the consideration, let alone the implementation, of an alternative political economic strategy' (2000: 153).

<sup>41</sup> Paul Hirst and Grahame Thompson discuss the alleged 'inevitability' of globalisation in their book, *Globalization in Question*, noting that the image of a global economy 'is so powerful that it has mesmerized analysts and captured political imaginations' (1999: 1). The point I would emphasise here is encapsulated in their opening statement, in which they observe:

Globalization has become a fashionable *concept* in the social sciences, a *core dictum* in the prescriptions of management gurus, and a *catchphrase* for journalists and politicians of every stripe (1999: 1; emphasis added).

That is, although globalisation has no single, defined meaning, it is a term that carries a wealth of meanings that can be used to justify particular policy directions.

most often used to describe 'the Black, unmarried, teenaged, welfare-dependent mother' (1997: 98). Fraser and Gordon conclude that this conception of dependency is opposite to its pre-industrial English usage, when dependency meant subordination or gaining one's livelihood by working for someone else, which meant it 'was a normal, as opposed to deviant, condition' (1997: 81). They record a number of shifts between these two extremes:

- The 18<sup>th</sup> and 19<sup>th</sup> centuries brought a period of 'industrial dependency', when white, male workers became 'independent', leaving 'paupers', 'colonial natives', 'slaves' and 'housewives' as dependants.
- Between 1890 and 1945, American 'welfare dependency' split non-wage-earning dependency into two: 'good' household dependency (wives and children) and an increasingly 'bad' or dubious charity dependency (recipients of relief) (1997: 85-87). They note that the development of public assistance in this period intensified the distinction 'between the deserving and the undeserving poor' (1997: 90).<sup>42</sup>
- In the post-industrial period, 'good' dependency has disappeared, with 'everyone ... expected to "work" and to be "self-supporting"' (1997: 94). Thus, 'the honorific term "independence" remains firmly centered on wage-labour, no matter how impoverished the worker' (1997: 98).

The effect of the contemporary interpretation of dependency on policy options is significant. Fraser and Gordon argue that today's understanding of dependency divides into two streams when it looks to the cause of dependency: one contends that poor, dependent people have something more than a lack of money wrong with them, and the other that dependent people choose to take welfare rather than work (1997: 98-99). The result, they note, is a different approach to policies to resolve dependency: the former spurs policy-makers to look at means of improving self-responsibility among 'dependants', generally through work, while the latter prompts policy-makers to focus on the manipulation of incentives to encourage 'dependants' to choose work (1997: 98-99). However, both approaches are predicated on a different conception of state-society

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<sup>42</sup> Fraser and Gordon note that the use of the term in the United States is complicated by a two-track welfare system that distinguishes between 'non-welfare' programmes, such as unemployment and age pensions, and 'welfare' programmes, such as aid to families. They argue that most Americans still distinguish between these forms of assistance, and see only the former as creating 'dependence' (1997: 91).



relations and the associated roles and responsibilities of the state and society than earlier interpretations of dependency. Thus, the new world-view underpins a new vision of policy problems and possible solutions. I will argue in Chapter 6 that it is possible to see this shift in the OECD's understanding and treatment of social justice and related issues. I will explore the implications of the shift in that chapter.

Understanding the impact of a new dominant paradigm on pre-existing terms that are carried over into the new discourse is critical when examining policy discussions across time, and this is a main focus of my thesis. We should recall that issues to be examined include changes to the OECD's ideas over time, and the implications of these changes for the organisation's understanding and treatment of social justice and related issues. The argument is that, after a paradigm shift, people may not 'know' what they think they 'know' when they hear policy-makers such as the OECD using particular names and frames. As Robert Lieberman observes, changes over time in the interpretation and framing of 'deeply rooted' concepts may mean that terms such as 'liberty' or 'equality' may be invoked to support significantly different practices 'by people who all the while believe themselves to be upholding a timeless and unchanging political tradition' (2002: 702). For this reason, it is essential that the underlying assumptions about the meanings of what appear to be continuous terms are made explicit. The alternative is confusion, as could be seen, for example, in July 2000 when World Economic Forum managing director Claude Smadja, commenting on protests outside a forum meeting, noted that protesters' concerns – including social justice and inclusion – had been on the forum's agenda 'for some time' (Powell 2000: 4). The problem is that, while both the forum and the protesters use the term 'social justice', their understanding of the term is not necessarily the same.<sup>43</sup>

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<sup>43</sup> The same point applies with regard to protesters and the World Bank and IMF. Preparing for major anti-World Bank protests in April 2000, Bank president James Wolfensohn said: 'It's a bit demoralising when you see that there is a mobilisation for social justice, when you think that that's what we're doing every day' (Forbes 2000: 15). Preparing for disruption to the half-yearly IMF meeting at the same time, acting head Stanley Fischer said: 'We have the same goal as the demonstrators. We want to reduce poverty' (Forbes 2000: 15).

## CONCLUSION

In this chapter, I have explored a number of arguments regarding the role of ideas in policy-making. I have suggested that one approach to Blyth's question as to how ideas pass 'from academic debate to popular consciousness' (from 'academic scribblers' to 'madmen in authority' and the wider public) is to focus more on the discourse intrinsic to a paradigm. When applied to an analysis of the influence of ideas in policy-making, a discourse approach helps to answer some of Blyth's dissatisfaction with Hall's model of paradigm shifts; that is, how ideas can be both the source of policy inertia, at the centre of a constrained, path-dependent set of options, and, at the same time, act as a source of change. A paradigm becomes dominant when policy-makers believe it to be better than the alternatives at explaining how the world works. The paradigm becomes the dominant world-view, containing the 'conventional wisdom' or 'common sense' understanding of how the world works and what can be done about it. However, a dominant paradigm not only has the ability to define policy problems and solutions, it also sets and dominates the discourse, which is then used to portray what can be seen as problems and solutions. To an extent, the paradigm becomes self-supporting by the way it frames and discusses policy issues and explanations.

Blyth recognises this to an extent when he observes that: 'Once embedded in institutions ... economic ideologies continue to have effects on policy by becoming the taken for granted or unconscious assumptions behind policy discourse and policy practice' (1997b: 236). But, this view is too narrow, given the standard understanding of institutions as formal rules, laws, and structures. Blyth does offer a slightly broader definition of institutions as: 'those organisational arrangements, accommodations and understandings between elements of a coalition which serve as the basis of the coalition and reconstitute the coalition as whole' (1997b: 236). However, this does not go far enough, given that he goes on to talk of institutions being 'erected in line with the economic ideology which underpins a particular coalition' (1997b: 237). I would argue that the ideas do not have to be 'embedded' or 'erected' in *formal* institutions in order to have lasting effect.<sup>44</sup> Their discourse, or the terms and concepts they use to

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<sup>44</sup> Hall appears to note a version of this argument in the introduction to his edited collection, *The Political Power of Economic Ideas: Keynesianism Across Nations*, when he says that, while the 'adoption

describe policy issues, have an important impact on *informal* institutions, or the values, attitudes, social mores, and taken-for-granted, common-sense understandings that underpin human interaction. The paradigm establishes the 'regime of truth', which gives the ideas a legitimacy that competing points of view cannot claim. Alternative conceptions of policy problems and solutions, couched in different terms and based on a different understanding of how the world works, can be dismissed as being outside the sphere of the current policy discussion. They are, in Keeley's terms, 'unintelligible' and 'beyond the pale of accepted argument'. For example, as noted above, the 'no alternative' frame adds to its influence because competing ideas first have to argue and somehow prove that they are a legitimate alternative, worthy of consideration, before they can begin to try to overcome whatever ideas 'TINA' is being used to support.

Thus, the discourse of a paradigm may add to its influence in a way that needs further examination. A final example serves to illustrate my point. In his study of Thatcherism, Stuart Hall highlights Margaret Thatcher's successful appropriation of monetarist ideas *and their discourse* to create a new philosophy that would appeal to the public. He notes Thatcher's 'disarticulation' of the Keynesian orthodoxy and her replacement of Keynesianism with a different orthodoxy of the 'free economy' and the 'strong state' (Hall 1983, cited in Howarth 1995: 125). He observes that:

Neither Keynesianism nor monetarism ... win votes as such in the electoral marketplace. But, in the discourse of 'social market values', Thatcherism discovered a powerful means of translating economic doctrine into the language of experience, moral imperative and common sense ...

Thatcher was able to translate and disseminate the abstract themes of neo-liberal economics into a new political 'philosophy' ripe for popular consumption (Hall 1983, cited in Howarth 1995: 126, 125).

Thatcher's use of monetarist ideas and their discourse can be seen to target the informal institutions underpinning Britons' understanding of the world and how it works, and, in this way, change the 'common-sense' conceptions that

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of Keynesian policies is one of the firmest measures of the influence of Keynesian ideas', the ideas also acquired influence in other ways. He continues:

In some cases, they transformed the intellectual environment of economics and, in others, they altered the terms of political discourse in such a way as to legitimate a variety of policies and make new combinations of political forces possible (1989: 7).

However, he does not develop this argument in the way that I am suggesting.

people have of the constitution and organisation of state-society relations within that world. That is, changing the informal institutions changes the uncritical, unconscious perceptions that people have about their roles and responsibilities within the world and what they can and cannot expect from the state.

This highlights the importance of *informal* institutions to the acceptance and implementation of ideas. If a paradigm's discourse articulates the way the paradigm constitutes and organises social and political relations, and this discourse comes to permeate society, becoming the *lingua franca* in which policy issues are discussed and resolved, then it forms and maintains the informal institutions – or the values, attitudes, beliefs, and so on – that support the paradigm's established order. This suggests that those who argue that new ideas have little impact because old ideas are 'embedded in institutions' are paying insufficient attention to the impact that new ideas, and their constituent discourse, have on informal institutions. That is, the way that new ideas reconstruct the unspoken norms that underpin state-society relations and conceptions of acceptable policy problems and solutions. For this reason, any examination of the OECD's ideas must look to the organisation's discourse, and the 'names' and 'frames' that it contains. It must explore the informal institutions that the discourse constructs to render the ideas comprehensible. However, before turning to this examination, I first want to explore further the argument that ideas are embedded in institutions.

## CHAPTER 3

# IDEAS AND INSTITUTIONS, FORMAL AND INFORMAL

### INTRODUCTION

In the previous chapter, I discussed the role of ideas in policy-making, arguing that ideas are important, independent variables in policy-making and that their frames and discourse add to their influence. I looked at how and why ideas change over time, offering Peter Hall's Kuhnian-influenced model of paradigms and paradigm shifts as one way of understanding such changes, and I observed that a change in ideas on means to achieve goals could affect the goals themselves. According to Hall's model, ideas cause policy inertia, in which policy is constrained to a particular range of options, when they become the dominant paradigm, or the accepted way of understanding policy problems and policy solutions. Ideas bring radical change when a new paradigm becomes the dominant set of ideas, replacing the existing paradigm and offering a different framework to interpret the world, the policy problems allowed within this world and the possible solutions to such problems. However, some of the literature on ideas suggests that ideas seldom bring radical change because the old ideas are embedded in institutions, making policy change difficult to effect. This line of reasoning is used to argue that the shift from the Keynesian paradigm to a neo-liberal paradigm, although expected to bring a dramatic change in terms of policy goals, instruments, and outcomes, has, in fact, had little impact. Thus, some scholars claim that the ascendancy of neo-liberal ideas, with their negative views of the welfare state, has had little effect in practice on the Keynesian

welfare state. They argue that, despite 20 years of alleged 'attacks', the welfare state remains relatively unchanged, with continued high spending and incremental, rather than radical, policy reforms pointing to a considerable level of welfare-state resilience. Such assertions suggest that a paradigm shift, or shift in the dominant set of ideas, while dramatic in terms of world-view, has had little effect in practice.

If the argument about the resilience of the welfare state is true, how can we explain such an apparent contradiction between a major shift in ideas and a minor shift in practice? Those arguing for the tenacity of the welfare state tend to highlight the role of institutions and institutional stability. They claim that ideas become incorporated into the institutions that implement and enforce policy, and that this makes policy options hard to change. Policy-makers are 'path dependent' because they not only inherit policy responsibilities from previous administrations, but they are tied to the solutions outlined by earlier ideas. These responsibilities, problems, and solutions have become embedded in a particular set of institutions, to which, importantly, the public has become attached. Thus, these arguments contend, policy-makers are caught by previous policy choices (and their associated longer-term commitments) and by public opinion. New ideas are considered to have little impact because of the difficulties in changing the existing institutions.

However, I suggest that such arguments over-emphasise the stability of institutions because they focus too much on formal institutions (that is, rules, laws, structures, organisations, and so on) and pay insufficient attention to the informal institutions (that is, norms, values, attitudes, implicit codes of conduct, and so on) that underpin human interaction. A paradigm shift, or change in dominant ideas, brings with it a new set of informal institutions that construct a particular arrangement of social and political relations that is consistent with the way that the new set of ideas understands how the world works. By this, I mean that new ideas offer a new interpretation of the world, which changes the way of thinking about policy problems and solutions, *and* the way of thinking about government and the nature and scope of legitimate authority, as well as who and what is to be governed and how. These changes in the underlying view of the organisation of state-society relations modify or overturn existing institutions, making radical policy change inevitable. As noted in the previous chapter, the

prevailing set of ideas defines what elements constitute the economy and the polity, the roles of the individual and groups within these elements, and policy goals and the methods to achieve these goals (Blyth 1997b: 233; 1997a: 246). That is, the paradigm provides an understanding of the ‘proper’ and ‘improper’ interrelations between constitutive elements of the economy and a ‘vision which specifies how these elements *should* be constructed’ (Blyth 1997b: 234, emphasis in original). Viewed in this way, the effect of a paradigm shift on practice becomes more obvious: the new ideas have a profound effect on the view of the state and its role, and on the assumptions that underpin economic and social policy. While, superficially, formal institutions may appear to remain relatively static, they inevitably shift when there are changes in the informal institutions providing their *raison d’être*. That is, the changed reasoning underpinning the existence of formal institutions results in new policies and new formal institutions. Again, this is consistent with Kuhn’s observation of the effect of a paradigm shift, noted in the previous chapter: that a shift changes the view of the field, the method, and, importantly, the goals.

In this chapter, I will explore the link between ideas and institutions, focusing on the impact of new ideas on the informal institutions that underpin state-society relations, and arguing against a view of institutions as wholly path dependent. I will first examine the argument that ideas become embedded in institutions, thus constraining policy options, before contending that such claims overlook the longer-term impact of incremental change to policy and pay insufficient attention to the informal institutions underpinning policy. I will then suggest that policy-makers are less path dependent and ‘locked in’ to existing policy options than arguments for embedding allow, and are less vulnerable to a potential electoral backlash than such arguments claim. Rather, the discourse and informal institutions of a new dominant paradigm offer policy-makers a number of ways of effecting change.

## INSTITUTIONS AND INSTITUTIONAL STABILITY

David Henderson’s treatise on economic liberalism opens with a forward from economists Milton and Rose Friedman in which they make the following claim:

Judged by practice, we have, despite some successes, mostly been on the losing side. Judged by ideas, we have been on the winning side. The public in the United States has increasingly recognised that

government is not the universal cure for all ills ... The growth of government has come to a halt, and seems on the verge of declining as a fraction of the economy. We are in the mainstream of thought, not as we were 50 years ago, members of the derided minority (Friedman 1998, cited in Henderson 1998: 8-9).<sup>1</sup>

This succinct statement reflects a broader view that, despite a shift over the past two decades in ideas about the role and worth of the 'welfare state', from a positive view to a negative view, in practice there has been no radical change in the welfare state, and retrenchment has been pursued only cautiously.<sup>2</sup> Many scholars note that, judged by aggregate expenditure, the welfare state has been remarkably resilient, and state spending as a percentage of gross national product has not, in fact, declined significantly (Castles 2001; Keating 2000a: 35; Keating and Mitchell 2000: 129; Kuhnle 2000: 235; Kuhnle and Alestalo 2000: 3; Pierson 1996: 174-175, 1994: 4; Wilding 1992: 203). Francis Castles, for example, contends that, contrary to the notion of a wholesale retreat of the state in the 1980s and 1990s, 'even the most cursory examination of the relevant data' reveals that welfare state expenditure represented a larger proportion of total public expenditure in this period than it had previously (2001: 3, 5).

The continuity of welfare spending supports Pierson's view (1994, 1996) that, although former United States president Ronald Reagan and former British prime minister Margaret Thatcher are accused of 'dismantling the welfare state' in the 1980s, both achieved only 'occasional successes' (Pierson 1994: 164). According to Pierson, the 'more frequent outcome was one of initially aggressive efforts giving way to embarrassed retreat', meaning that, ultimately, 'the welfare state remains largely intact' (1994: 164, 179). More recently, looking at Australia, Michael Keating contends that, when assessed by what governments are actually doing, the Australian welfare state is not doing any less than previously, and the most that can be said is that it is expanding less rapidly (2000b: 58, 59). Further afield, the very title of Stein Kuhnle's edited collection, *Survival of the European*

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<sup>1</sup> The forward is an extract from the 'Epilogue' to their memoirs: Milton and Rose D. Friedman 1998, *Two Lucky People: Memoirs*, Chicago: University of Chicago Press.

<sup>2</sup> The term 'welfare state' here denotes a general concept of some level of state, rather than private, provision. This fits with what Gosta Esping-Andersen has called the 'common textbook definition' of a welfare state as involving 'state responsibility for securing some basic modicum of welfare for its citizens' (1990: 18-19). I acknowledge the work of Esping-Andersen (1990) and Castles and Mitchell (1993), among others, on types of welfare-state regimes, but such a detailed specification is outside the scope of my current discussion.



*Welfare State*, notes the endurance of the welfare state, which 'remains strong', with empirical evidence for an alleged collapse in the welfare state 'usually meagre or entirely absent' (Kuhnle 2000: 235; van Kersbergen 2000: 19).

The general conclusion of these scholars is that the welfare state has been under economic, political and social pressures, but these strains have generated only minor, incremental changes in policy rather than fundamental shifts (Pierson 1996: 172; van Kersbergen 2000: 30).<sup>3</sup> This is not to argue that this is the only view of what has been happening to the welfare state over the past two decades, or that claims for the stability of the welfare state are uncontested. Rather, it is one view that is advanced with regard to developments in the welfare state, and it is based on a particular line of reasoning that I want to discuss here. The reasons advanced for policy 'stability' in the tenacious welfare state centre on two main themes: I) path dependency and institutional lock-in, in which current policies are constrained by institutional structures, pre-existing policy frameworks or long-term commitments tied to earlier policies; and II) the electoral hazard of going against public opinion, which remains generally in favour of the welfare state.

## **I) PATH DEPENDENCY**

A common argument about the function of ideas in policy-making is that ideas are hard to change once they are incorporated into the institutions that implement and enforce policy. According to this view, ideas create institutional structures of various kinds that commit policy-makers to particular policy choices or paths, thus making them path dependent. Policy-makers are tied to previous interpretations of policy problems and solutions, as well as the paths set by previous policy choices and their associated longer-term commitments, which they have inherited from previous administrations. Such 'path dependency' leads to policy stability (or inertia) because the same ideas as used previously are

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<sup>3</sup> Pierson studies four countries (Britain, the United States, Germany, and Sweden), which he says 'vary widely' in the design of their pre-existing welfare states, and concludes that, judged by 'reforms that indicate structural shifts in the welfare state', there is a 'surprisingly high level of continuity and stability' in all four countries (1996: 157, 159). The measures he uses to assess the amount of change in the welfare state include whether or not there have been significant increases in reliance on means-tested benefits, major transfers of responsibility to the private sector, and dramatic changes in benefit and eligibility rules that signal a qualitative reform of a particular program (1996: 158).

again utilised to solve existing and new problems. The argument is that ‘history matters’, which means both that previous policy options constrain today’s choices, and that it is not possible to understand today’s policy choices without reference to the norms, conventions, and so on, on which they are built. In this section, I will explore the notion of path dependency in two sub-sections: I-I) informal institutions and I-II) institutional lock-in.

### **I-I) Path dependency: informal institutions**

Debates about ideas and institutions share the notion that ideas (or shared beliefs) can be preserved by becoming absorbed into the regulatory apparatus of the state and economy, thus becoming ‘embedded in institutions’. By institutions, scholars mean formal *and* informal structures that guide human behaviour and organise life. These structures include the obvious political and bureaucratic institutions of government, such as the legislature, executive, electoral system, courts, agencies to implement and enforce policies, laws, rules, and so on. However, they are also defined more generally to include less obvious elements such as the ‘arrangements, accommodations and understandings’ that serve as the basis of a society’s organisation (Blyth 1997b: 236). Douglass North, in his book *Institutions, Institutional Change and Economic Performance*, defines institutions as the ‘humanly devised constraints that shape human interaction’, and says they can be formal, such as rules, or informal, such as conventions and codes of behaviour (1990: 3, 4). The major role of institutions, he claims, is to ‘reduce uncertainty by establishing a structure to everyday life’ (1990: 3). Robert Goodin repeats this theme, proposing what he calls a ‘minimalist definition’ of institutions as ‘a stable, valued, recurring pattern of human behaviour’, or, more fully, ‘organized patterns of socially constructed norms and roles, and socially prescribed behaviors expected of occupants of those roles, which are created and re-created over time’ (1996: 1, 21, 19).<sup>4</sup> In a similar vein, James March and Johan Olsen view institutions as ‘collections of standard operating procedures and structures that define and defend values, norms, interests, identities and beliefs’ (1989: 17).<sup>5</sup> They expand this in a later

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<sup>4</sup> See also Michael Hill, who observes that institutions are: ‘regularized practices *structured* by rules and resources “deeply layered in time and space” (J.B. Thompson 1989, cited in Hill 1997: 63; emphasis in original).

<sup>5</sup> Many scholars acknowledge March and Olsen’s definition of institutions. Those who accept it include Goldstein and Keohane (1993: 20) and Hill (1997: 85); those who reject it include Rose (1993: 123).

work in which they argue that 'life is organized by sets of shared meanings and practices' or 'rules and practices which are socially constructed, publicly known, anticipated and accepted' (1996: 249). They contend that the '[a]ctions of individuals and collectivities occur within these shared meanings and practices, which can be called institutions and identities' (1996: 249).

Broadly speaking, then, institutions include the *formal institutions* of government, bureaucratic agencies, and laws and rules, as well as the *informal institutions* of norms, values, attitudes, implicit codes of conduct, and operating procedures.<sup>6</sup> Some scholars contend that ideas become embedded in these institutions, becoming incorporated both into the formal institutions of rules, laws, and structures, and into the informal institutions of societal expectations and understandings of why particular formal institutions and policies are necessary. Thus, the institutionalised ideas become both the official, and enforceable, structures and laws of a polity and the 'taken for granted or unconscious assumptions behind policy discourse and policy practice' (Blyth 1997b: 236;

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<sup>6</sup> Such a broad definition can be contested, but many of the criticisms do not withstand scrutiny. Richard Rose, for example, argues that broad definitions 'confuse the organizations delivering programs with informal behaviour patterns and the programs themselves' (1993: 123). He pithily observes: 'Lumping everything together encourages the false belief that changing institutions necessarily changes program outputs' (1993: 123), which suggests that he views the link between institutions and outputs as complicated, rather than straightforward. Rose favours a narrow definition of institutions as public agencies, or the 'formal organizations of government involved in implementing and delivering programs', and argues that these are necessary, but are not necessarily important (1993: 123). Rather, he contends, they are simply the intervening variable or the 'black box between program outputs and the demands of the public and elected politicians for action' (1993: 123). It is at this point that his argument begins to fall apart. From here, he goes on to contend that institutions 'represent clusters of political interests and values', which means they can mobilise opposition to policy options that they perceive as 'inconsistent with their established interests' (1993: 124). In Rose's words: 'Strictly speaking, it is not the institution's form but its political clout that constitutes an obstacle [to whatever policy is being suggested]' (1993: 124). But this means that Rose's 'black box' is more complicated than his narrow definition of 'institutions' allows. Institutions cannot simply be unbiased, bureaucratic, technical organisations processing demands into outputs, but must be structures comprising bureaucratic processes, values and interests that can affect policy outcomes. Thus, when Rose argues that new programs cannot be adopted where there is no 'institutional capacity' to do so, he cannot mean only 'the default of an organization with the capacity to deliver a service' (1993: 125) because factors such as norms and conventions affect institutional capacity as much as formal structures. For this reason, I follow Hill's logic that the 'mixing of informal and formal is justifiable', because we cannot treat 'constraints built into rule books as if they are necessarily firmer than custom and practice' (Hill 1997: 89). Hill supports his viewpoint with reference to Philip Selznick, who emphasises the need to study organisations as institutions because the term 'organisation' suggests 'a certain bareness, a lean no-nonsense system of consciously coordinated activities ... [whereas an] "institution" ... is more nearly a natural product of social needs and pressures – a responsive adaptive organism' (Selznick 1957: 5, cited in Hill 1997: 165).

Berman 1998a: 26-27). The implications of this will be explored further below. The important point here is that policy options arise from what North calls 'a mixture of informal norms, rules, and enforcement characteristics [that] together defines the choice set and results in outcomes' (1990: 53). Thus, policies are 'manifestations of powerful institutional rules which function as highly rationalized myths' that are built into society as reciprocated interpretations and that are underpinned by public opinion, the views of important constituents, knowledge legitimated through the education system, social prestige, laws, and court interpretations (Meyer and Rowan 1977: 343, 341).

What this means, as North highlights, is that *formal* institutions are only a small ('although very important', he notes) part of the constraints that shape choices, with the 'governing structure' of interactions 'overwhelmingly defined by codes of conduct, norms of behavior and conventions' (1990: 36). *Informal* institutions are pervasive in that they extend, elaborate, and modify formal rules, reinforcing or undermining them, partly by shaping the categories used in official rules, as well as the interpretation and enforcement of these rules in practice (North 1990: 40; Stone 1997: 283).<sup>7</sup> They socially sanction norms of behaviour, and internally enforce standards of conduct, which allows policy-makers to predict behavioural responses with a 'high probability of accuracy' because they supply the codes of conduct ('especially [those] that determine which actions are not allowed') that make sensible the formal rules and procedures (Kerremans 1996: 223).<sup>8</sup> While informal institutions pose problems for scholars in that they

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<sup>7</sup> Deborah Stone uses the term 'unofficial rules', which she defines as social customs and traditions, informal norms, moral rules and principles, and by-laws and private associations (1997: 283). Of course, the term 'rules' suffers from the same multiplicity of meanings as the term 'institutions', as Elinor Ostrom observes (1986: 3-7). Ostrom eventually plumps for an understanding of rules as: 'prescriptions commonly known and used by a set of participants to order repetitive, interdependent relationships' (1986: 5). She adds that rules are the result of 'implicit or explicit efforts by a set of individuals to achieve order and predictability within defined situations ... [and] are thus artifacts that are subject to human intervention and change ... [and] should *not* be equated with formal laws' (1986: 5, 6; emphasis in original). This is not to suggest that informal institutions are not enforceable; in fact, the opprobrium following the breaking of a social code may be as effective in controlling say, aberrant behaviour, as a formal law.

<sup>8</sup> See also the discussion in March and Olsen (1996: 251-253) on institutions and the interpretation of a 'logic of appropriateness'. Claus Offe notes that institutions:

establish standards, both normative and cognitive, as to what is to be held normal, what must be expected, what can be relied upon, which rights and duties are attached to which positions, and what makes sense in the community or social domain for which an institution is valid (1996: 199-200).

are harder to describe and be precise about than formal institutions, North warns that this does not diminish their importance (1990: 36). He cautions scholars against examining only formal institutions, saying that doing so gives 'an inadequate and frequently misleading notion about the relationship between formal constraints and performance' (1990: 53; see also Stone 1997: 283).<sup>9</sup>

The symbiotic nature of formal and informal institutions is considered to constrain the influence of new ideas on policy options because it complicates the process of institutional, and thus policy, change. Formal institutions cannot successfully be changed without an associated change in their supporting informal institutions. Attempts to alter only the former give rise to an unsustainable tension as the new formal institutions clash with society's norms and expectations. Such tension can manifest itself in protests against the changes, flagrant breaches of the new formal institutions, or voter backlash, a topic to which I will return below. The argument is that informal institutions are harder to change because they are deeply ingrained within a society's culture and have 'tenacious survival ability' (North 1990: 45; see also March and Olsen 1996: 258). Values and beliefs incorporated into informal institutions 'determine what is or is not acceptable politically; they also create symbolic attachments that cannot be easily abandoned' (Rose 1993: 39). As North states:

Although formal rules may change overnight as the result of political or judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies (1990: 6).

He contends that the tension between 'discontinuous' or 'radical' change in formal rules and the 'survival tenacity' of informal institutions eventually resolves itself through more limited change, with compromise or 'restructuring' of the overall institutions producing a new outcome that is less revolutionary (North 1990: 91).

The argument here is not that formal and informal institutions are motionless; they evolve and continually alter the choices available to policy-makers (North 1990: 6). However, institutional change is understood to occur through small steps taken slowly. Institutions change in response to changes in society, and when policy-makers perceive that they could do better by altering the existing

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<sup>9</sup> Hermann and Lorenz agree, noting that socio-political and cultural factors underpinning the European welfare state 'may not be visible through the study of formal institutions' (1997: 13).

institutional framework at some margin, thus leading to *marginal* adjustments to its complex of rules, norms and enforcement (Kerremans 1996: 224; North 1990: 8, 83). But the changes are slow, Kerremans contends: 'because they have to be realized by socialization, a restructuring of routines and sometimes the redefinition of codes of conducts' (1996: 224).<sup>10</sup> The result is what North argues is the 'single most important point' about institutional change: that it is 'overwhelmingly incremental', with fundamental change 'an aggregation of literally thousands of specific small alterations' (1990: 89). To return to the paradigm model advanced in the previous chapter, such incremental change fits with Kuhn's notion of 'normal science', which shifts to accommodate new puzzles, eventually leading to paradigm failure and replacement; that is, the fundamental change that North discusses (see Easton 1997a: 263). The eventual fundamental change is not disruptive to institutional stability because it has occurred very, very slowly. It is this stability that provides important elements of order in politics and is said to make change to the complex of institutions possible across both time and space (March and Olsen 1989: 54, cited in Boase 1996: 289; North 1990: 83). Policy-makers are path dependent because they are tied to options supported by informal institutions, which can be changed only incrementally and, therefore, slowly.

### **I-II) Path dependency: institutional lock-in**

Another argument for path dependency centres on the notion of institutional lock-in. One obvious example of such lock-in is that policy-makers inherit from their predecessors both the formal, bureaucratic structures that implement and enforce policy and the longer-term policy commitments that these contain. These institutional structures and commitments impose constraints on the options available to policy-makers, with, for example, a newly elected government path dependent in many of its policy choices because it inherits the responsibility of administering the programmes that its predecessor enacted. This means that most programmes are 'not of [the new government's] own choice, but inherited from administrations that left office decades or even generations ago' (Rose 1993: 39).<sup>11</sup> 'Pay-as-you-go' public pension schemes are examples of such

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<sup>10</sup> As March and Olsen observe, change 'occurs through mundane processes of interpretation, reasoning, education, imitation and adaptation' (1996: 257).

<sup>11</sup> Even where policy-makers are not newly elected, but simply have new ideas, the problem remains: options are constrained by earlier or inherited commitments.

inherited, long-term policy commitments, and thus have been the cause of considerable anxiety to those seeking to reform the welfare state (Pierson 1996: 153; Hay 2001: 15).<sup>12</sup>

The path dependency constructed by these institutional structures and commitments leads to arguments that governments are 'prisoners' of their institutions and 'immobilised by the dead weight of past commitments' (Boase 1996: 290; Pierson 1996, cited in Pollack 1996: 442). Policy-makers find that they cannot simply abandon formal institutional structures and commitments because, as noted in the previous sub-section, they are underpinned by informal institutions embedded in society's culture and, as importantly, public expectations (a point to which I will return).<sup>13</sup> They are also hard to change because courses of action, once initiated, are difficult to reverse. Formal institutions, policy-makers, organisations, and individuals adapt to particular arrangements, and make commitments that render the costs of change, even to potentially more efficient arrangements, higher than the costs of continuing along the same path (Pierson 1996: 175).<sup>14</sup> Rose contends that previous circumstances thus determine both the specific content of the program and lock in commitments to a course of action that current policy-makers may regard as inferior to practices elsewhere, yet are unable to change (1993: 39; see also Pierson 1996: 175).

Many scholars illustrate this point with the work of two authors, W. Brian Arthur and Paul David, on technology and the way that historical 'accidents' in the process of development can lock in one technology over another (North 1990: 93; Pierson 1994: 43; 1996, fn 86; Rose 1993: 39).<sup>15</sup> According to this argument, the

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<sup>12</sup> See the discussion in Castles (2001) with regard to the alleged 'crisis' of ageing populations in the OECD. Castles argues that the potential problem is not one of demographics but of institutional design: 'The aged are not the problem; some pension systems are' (2001: 11). See also the discussion in McDaniel (2003).

<sup>13</sup> Offe notes: 'institutions provide actors with socially validated standards as to what preferences and goals are licensed and can be expected to meet with approval' (1996: 200).

<sup>14</sup> They develop skills, knowledge and information based on a particular configuration of institutional arrangements (North 1990: 112).

<sup>15</sup> Paul David examines how the QWERTY typewriter keyboard became standardised and fixed (1985), while W. Brian Arthur examines the 'circumstances under which the economy might become locked in by "historical" events to the monopoly of an inferior technology' (1989: 117). Arthur explains the process in the following way:

more that one technology is adopted, the more experience is gained with it, and the more it is improved (Arthur 1989: 116). Once initial steps have been taken down a particular technological track, increasing returns from each new development make the adoption of alternative technologies less and less likely. Eventually, this may lead to one technology winning over another, 'even when, ultimately, this technological path may be less efficient than the abandoned alternative would have been' (North 1990: 93).<sup>16</sup> It is on this point that scholars argue that history matters, and that it is not possible to understand current institutions and their embedded policy options without reference to what has gone before (North 1990: 100; Berman 1998a: 32-37; March and Olsen 1996: 256; Goodin 1996: 10).<sup>17</sup> Pierson notes that lock-in processes accelerate momentum behind one policy path, 'render[ing] previously viable alternatives inaccessible' (1994: 44). This is not to suggest that policy-makers are left with only one option in a 'story of inevitability in which the past neatly predicts the future' (North 1990: 98-99). Rather, path dependence narrows the set of choices facing policy-makers, and links their decisions through time (North 1990: 98). On this point, Joan Price Boase notes that policy choices are path dependent, but not path determined (Boase 1996: 290).<sup>18</sup> Returning again to the notion of paradigms outlined in the previous chapter, such path dependency sits with a concept of

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When two or more increasing-return technologies 'compete' ... for a 'market' of potential adopters, insignificant events may by chance give one of them an initial advantage in adoptions. This technology may then improve more than the others, so it may appeal to a wider proportion of potential adopters. It may therefore become further adopted and further improved. Thus a technology that by chance gains an early lead in adoption may eventually 'corner the market' of potential adopters, with the other technologies becoming locked out (1989: 116).

A more recent example of this is the advantage that Microsoft's Internet interface, Explorer, has enjoyed over its competitors, such as Netscape Communicator. The packaging of Explorer with Microsoft's Windows computer operating system, which is installed on nearly 90 per cent of the world's personal computers, makes it extremely difficult for competitors to attract users to their browser software. The potential adverse consequences of Explorer's dominance in terms of denying consumers choice has led to court actions against Microsoft over its abuse of its monopoly position (see *Courier Mail* 2000).

<sup>16</sup> North argues that it is possible to extend the argument of technological change to institutional change because the contest between competing technologies is only *indirectly* between the actual technologies themselves but is *directly* between organisations embodying the competing technologies (1990: 94).

<sup>17</sup> As Goodin succinctly comments: 'institutions are in essence just ossified past practices', which means that emphasising the importance of institutions amounts to 'emphasizing the importance of things past as determinants of present ... choices' (1996: 10).

<sup>18</sup> North observes: 'Alterations in the path come from unanticipated consequences of choices, external effects, and sometimes forces exogenous to the analytical framework' (1990: 112).



'normal science', or as noted in Chapter 2, scientists use the knowledge contained in their paradigm to solve 'puzzles', and the solutions are then added to the paradigm itself.

The process of technological path dependency can be used to explain how a set of ideas becomes embedded in institutions. The ideas of a dominant paradigm function as what Goldstein and Keohane term 'invisible switchmen' and 'road maps', ordering the world by determining the tracks along which action is pushed (1993: 12).<sup>19</sup> They argue that ideas:

put blinders on people, reducing the number of conceivable alternatives ... not only by turning action onto certain tracks rather than others, ... but also by obscuring the other tracks from the agent's view (1993: 12).

These 'blinders' constrain policy-makers in their choice of policy options because the endorsement of a particular set of ideas overshadows and eliminates, or makes incomprehensible, other sets of ideas.<sup>20</sup> Once a particular set of ideas or 'road map' is selected, Goldstein and Keohane contend, an array of 'reinforcing organizational and normative structures' or institutions is created to implement and enforce them (1993: 13).<sup>21</sup> The ideas become embedded in these institutions ('rules and norms') and 'take on a life of their own', with the institutions acting as the mechanisms via which the ideas shape policy-makers' preferences and choices, driving decisions down one path rather than others (Goldstein and Keohane 1993: 12; Berman 1998a: 25-27; Kerremans 1996: 221). The institutions constrain future policy choices by setting the boundaries around the options that policy-makers can consider, 'shap[ing] the definition of alternatives and

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<sup>19</sup> The authors attribute the 'ideas as switchmen' analogy to Max Weber 1913, *Social Psychology of the World's Religions*, in Gerth and Mills (1958: 280). Goldstein and Keohane contend that ideas guide behaviour by 'providing compelling ethical or moral motivations for action' (1993: 16).

<sup>20</sup> We should recall here the discussion in the previous chapter with regard to a dominant paradigm setting the 'reality' or 'regime of truth' of how the world works and what policy problems and solutions are legitimate and comprehensible.

<sup>21</sup> Here, Goldstein and Keohane are prioritising ideas over institutions; that is, the ideas come first and institutions are then created to implement and enforce them. I noted in Chapter 2 that they prioritise elites over ideas, treating ideas as 'hooks' for existing interests. Peter Hall also separates ideas and institutions, arguing that a paradigm or set of ideas has a status 'somewhat independent of institutions that can be used', but notes that ideas and institutions 'often reinforce each other since the routines of policy-making are usually designed to reflect a particular set of ideas about what can and should be done in a sphere of policy' (1993: 290). The distinction is blurred in some ways, given that informal institutions can be understood as shared beliefs.

influenc[ing] the perception and construction of the reality within which action takes place' (March and Olsen 1996: 251). Institutions become a constituent part of, and maintain, the dominant paradigm, specifying the goals of policy, the instruments to be used, and the very nature of the problems to be addressed. Policy problems or options outside of this embedded framework are implausible and incomprehensible.<sup>22</sup> Thus, institutionalised ideas dominate policy-makers' motivations and perceptions of what is possible when it comes to policy problems and solutions, committing them to particular paths, even if – to an extent – they may want to take a different approach (Berman 1998a: 26-27).<sup>23</sup>

In this way, institutions are said to come to shape the agenda, creating the path for policy-makers to follow. Path dependency commits policy-makers to interpreting the world through the existing paradigm or set of ideas embedded in the institutions, and the existing practices that these institutions have put in place. According to this view, policy-makers are constrained by 'past practice and intellectual inertia' to choosing future options with reference to those that have gone before (Berman 1998a: 14-37; Boase 1996: 289). This means that policy choices made at time T influence the choices made at time T + 1 (Berman 1998a: 33), both in terms of the policy commitments they engender *and* the ideas on which they are based. Sheri Berman argues that policy-makers are bound by 'internal cognitive pressures' to interpret policy problems and solutions according to what they know, with their ideas and programmes 'shaping the way decision-makers [understand] challenges and the potential responses available to them' (1998b: 380).<sup>24</sup> One result is that the 'simplest place' for policy-makers to search for solutions to new or existing policy problems is 'in their own past' (Rose 1993: 51). Decisions are 'fitted to existing rules, norms and traditions', with policy-makers 'lean[ing] heavily on preexisting policy frameworks, adjusting

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<sup>22</sup> That is, the dominant paradigm sets the world-view and the interpretation of how the world works.

<sup>23</sup> For example, when they are faced with a policy problem ('puzzle') that the dominant paradigm cannot resolve.

<sup>24</sup> In her study of Swedish and German social democratic party responses to the Great Depression, Berman argues that party decision-makers were path dependent in the way they approached potential courses of action. The parties 'tried to identify and interpret challenges within existing frameworks and tried to match problems with solutions they had used in the past, rather than search for politically or economically "optimal" solutions' (1998b: 380). They rejected potential courses of action that differed from previous behaviour, and legitimised alternatives only when 'practical or intellectual precedents for them could be found' (1998a: 33).

only at the margins to accommodate distinctive features of new situations' (Kerremans 1996: 223; Pierson 1994: 42).<sup>25</sup>

## II) PUBLIC OPINION AND ELECTORAL HAZARD

In the previous two sub-sections, I outlined the arguments for path dependency and institutional lock-in, stating that policy is based on a complex mixture of formal and informal institutions, and noting that the latter are said to be especially difficult to alter. The ideas embedded or locked in to the institutions supply the interpretative framework within which policy problems and solutions are viewed, ruling out alternative approaches such that the ideas themselves become ossified into a particular set of institutions, forcing policy-makers to follow the policy path determined by those institutions. The result of path dependency and lock-in is said to be institutional stability because formal and informal institutions are confined to a slow, incremental pace of change. In this section, I want to outline another argument for institutional stability and incremental change: public opinion and electoral hazard. According to this view, policy-makers are reluctant to change current policy structures and practices because they fear a backlash from voters who have been inculcated with the dominant paradigm's understanding of the world and who have become attached to the existing policy stance and its associated policy programs. The argument is that policy-makers avoid implementing dramatic changes for fear of being held accountable for unpopular new initiatives arising from a new paradigm (Pierson 1996: 161). That is, new initiatives based on the new paradigm are likely to be unpopular because they are based on an understanding of the world incomprehensible to those living under the existing paradigm.

As discussed above, informal institutions include values, norms, conventions, codes of conduct, beliefs, and so on that function as 'powerful myths' that reinforce, modify, and extend formal institutions. They are 'deeply ingrained in, and reflect, widespread understandings of social reality' that have come to have a

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<sup>25</sup> The implications of this for policy-making are not always interpreted negatively. Offe, for example, argues that such path dependency enables as much as it constrains policy-makers because the institutions 'are commonly known frameworks of regulation that help [policy-makers] to develop the "right" understanding of situations and to anticipate what is likely or unlikely to happen' (1996: 206). In addition, in this way, they can be seen as saving energy and decreasing transaction costs.

'rulelike status in social thought and action' (Meyer and Rowan 1977: 343, 341).<sup>26</sup> Policy-makers who want to succeed in introducing major policy reform based on a new paradigm must, therefore, tackle the informal institutions underpinning and reinforcing existing formal institutions, changing the embedded public attitudes and expectations. However, such change is said to be difficult to achieve because of the self-reinforcing nature of these informal institutions. Claus Offe argues:

Not only are institutions man-made, but also men [sic] institution-made – they are socialized by the educational or 'hidden curriculum' effect of institutions into the values, norms, and rules embodied in them, and as a consequence they know, expect and anticipate that institutions can be relied upon and reckoned with (almost like the objects of nature) (1996: 208).<sup>27</sup>

Thus, existing formal institutions 'incorporate societally legitimated rationalized elements in their formal structures', which act to 'maximize their legitimacy and increase their resources and survival capabilities' (Meyer and Rowan 1977: 352). When formal institutions change according to a new dominant paradigm, but informal institutions remain embedded in society, the result is a tension that policy-makers must overcome in order to have society accept, and conform to, the new policy demands. Overturning or radically altering these existing informal institutions thus requires the reconstruction of some of their component elements to make them illegitimate or irrelevant in the eyes of the public.<sup>28</sup>

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<sup>26</sup> Stone observes that formal rules are interpreted according to 'informal rules of thumb' provided by informal institutions that can become 'so widely known and accepted that they are considered more legitimate than the formal rules that spawned them' (1997: 301). She notes that, when officials 'suddenly stop observing informal rules and instead "go by the book", citizens feel their rights have been violated' (1997: 299). The introduction of new policy that goes against these 'rules of thumb' attracts a similar feeling of rights being violated. In New Zealand, for example, many people rejected attempts to introduce asset-tested charges for overnight stays in public hospitals, refusing to pay for what had traditionally been 'free' health care in New Zealand's public hospitals (see Kelsey 1999: 372).

<sup>27</sup> See also March and Olsen: 'Political actors act on the basis of identities that are themselves shaped by political institutions and processes' (1996: 259).

<sup>28</sup> For example, policy-makers seeking to introduce policies that, say, reduce the eligibility for unemployment benefits are attempting to change not only the formal rules of entitlement, but also the informal institutions of the understanding of state-society roles and responsibilities. To succeed in reducing state support for all unemployed, they must first convince the public that it is not a state responsibility to support all unemployed regardless of differing circumstances. That is, they must change the public expectations of what the state should provide and to whom, and what individuals should do for themselves. This will be explored in later chapters.

Such a task is complicated where public attachment to both the formal institutions and their underlying informal institutions remains strong, as many scholars note with regard to the welfare state. Kees van Kersbergen observes that numerous studies have documented the 'considerable and persisting support of national publics for their welfare states', which are 'well entrenched in national political cultures' (2000: 23). As a result, while the welfare state has been subjected to considerable criticism by those seeking reform, it is said to retain solid basic support from voters and major political parties who remain attached to its central features (Kuhnle 2000: 235; Pierson 1994: 181; van Kersbergen 2000: 23). Pierson, for example, argues that the evidence does not uphold scholarly speculation about declining popular support for the welfare state. Rather, he contends:

the recurrent pattern in public-opinion polls has been a mild swing against the welfare state in the wake of poor economic performance and budgetary stress, followed by a resurgence of support at the first whiff of significant cuts (1996: 175, 161).<sup>29</sup>

He notes that, in Britain, public opinion 'has run strongly, and increasingly, in favor of maintaining or even expanding social provision' (1996: 162). Kelsey offers similar evidence from New Zealand, observing that studies in 1989, 1993, and 1998 showed solid and continuing support for the 'conservative values of the welfare state', despite (at the time of the last survey) nearly 15 years of neo-liberal reforms (1999: 372-373).<sup>30</sup>

One explanation for the strength of public support for the welfare state is that it has become entrenched in formal and informal institutions. That is, the welfare state is firmly established, not only in specific programs, but also in the attitudes and expectations that underpin policy. Using the logic of 'embedded institutions', as outlined above, the argument is that policy legacies and policy feedback associated with the welfare state have altered the political context in ways that are difficult to reverse, with 'expectations and patterns of interaction'

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<sup>29</sup> Pierson cites the example of British public opinion on social policy, which showed 'a modest decline of support for the welfare state preceded the arrival of the Thatcher government but rebounded at the first hint of serious retrenchment' (1996: 162).

<sup>30</sup> Jane Kelsey notes that the surveys of Massey University researchers Paul Perry and Alan Webster show 'remarkable consistency across the decade', with 90 per cent of respondents saying they would be prepared to pay more tax to increase government spending on health and education, and 60 per cent wanting more taxpayer assistance for the unemployed (1999: 373).

being shaped by, and also evolving within, its institutional structure (Pierson 1996: 153; 1994: 39; Boase 1996: 290; March and Olsen 1996: 256). Pierson argues that the most important aspect of this altered, or what he calls 'new', political context was the 'emergence of extensive patterns of government intervention in social and economic life' (1994: 39). He contends that large social programmes are now 'central features of the political landscape', and the political environment and public expectations have altered accordingly, demonstrating the prescience of Schattschneider's 1935 observation that, 'new policies create a new politics' (Pierson 1994: 8; E.E. Schattschneider 1935, cited in Pierson 1994: 39).<sup>31</sup> Thus, the informal institutions underpinning the welfare state have come to include not only public *acceptance* of state intervention, but also public *expectations* that the state will intervene. In this way, the formal institutions of the welfare state are based on powerful underlying informal institutions that include assumptions about the state's role in the polity. Without first tackling these informal institutions, policy-makers seeking to introduce policy reform based on a new paradigm's understanding of state-society roles and responsibilities run the risk of alienating voters inculcated in, and attached to, the institutions of the welfare state. Alienation may lead to electoral backlash.

The fear of voter backlash also relates to the perceived electoral power of interest groups. Pierson argues that the new politics of the welfare state has included the formation of dense interest-group networks and strong popular attachment to particular policies, which have created a level of support that presents a 'considerable obstacle to reform' (1996: 146; 1994: 8).<sup>32</sup> He contends that the new institutions have shaped group identities and interests, 'enhancing the bargaining power of some groups while devaluing that of others' (1994: 31).<sup>33</sup>

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<sup>31</sup> This shift will be discussed in Chapters 5 and 6 in the context of Peter Hall's claim that Keynesian ideas redefined the boundary between the public and private spheres and resulted in a 'major transformation' in the role of the state that was 'one of the hallmarks of the 20<sup>th</sup> century' (1989: 4).

<sup>32</sup> These interests are not confined to external interest groups. Offe observes that institutions 'generate vested interest in their own preservation' (1996: 208).

<sup>33</sup> Pierson refers explicitly at this point to *formal* institutions, such as the rules of electoral competition, the relationship between the legislative and executive branches of government, the role of the courts, and the place of sub-national governments in politics (1994: 31). He says these institutions 'establish the rules of the game for political struggles, shaping group identities and their coalitional choices, enhancing the bargaining power of some groups while devaluing that of others' (1994: 31). Although Pierson makes passing reference to informal institutions, acknowledging that some scholars are identifying the ways that 'formal and informal rules of the

This means that policy-makers wanting to reform the welfare state are no longer on the same playing field as they were when the welfare state was expanding. In Pierson's words:

Welfare state expansion involved the enactment of *popular* policies in a relatively undeveloped interest-group environment. By contrast, welfare state retrenchment generally requires elected officials to pursue *unpopular* policies that must withstand the scrutiny of both voters and well-entrenched networks of interest groups (1996: 143-144; emphasis in original).

Reform in the form of retrenchment thus becomes a 'treacherous', electorally risky, path because 'it imposes tangible losses on concentrated groups of voters in return for diffuse and uncertain gains' (Pierson 1996: 145; van Kersbergen 2000: 29). The fear is that recipients of social benefits are 'relatively concentrated and generally well-organized', and are prepared to punish policy-makers for any negative alteration in their circumstances, whereas taxpayers are unlikely to reward policy-makers for lowering costs (Pierson 1996: 175). Policy-makers thus avoid attempts at radical reform of the welfare state because they fear paying a high cost at the polls (Pierson 1996: 175; 1994: 180-181).<sup>34</sup>

Pierson argues that policy-makers are left so fearful of electoral backlash by affected groups that, even where there is no on-going organised activity in support of claims against the welfare state, policy-makers respond to the '*potentially mobilised*' (1996: 151; emphasis in original).<sup>35</sup> Thus, they are prisoners

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game in political and social life influence political behaviour' (1994: 40), he fails to comprehend how much of his subsequent argument is predicated on the role of informal institutions in shaping society's acceptance and defence of the welfare state. That is, his emphasis on 'interest-group networks' defending their interests pays insufficient attention to the underlying source of 'strong popular attachments' to particular policies.

<sup>34</sup> Pierson claims that 'even halting efforts to dismantle the welfare state have usually exacted a high political price' (1996: 174-175). On this point, Esping-Andersen notes the interesting paradox that, despite beliefs that the backlash against the welfare state ignites when social spending burdens become 'too heavy', anti-welfare-state sentiments in the 1980s were generally 'weakest where welfare spending has been heaviest and vice versa' (1990: 33).

<sup>35</sup> Pat Troy offers an example of this phenomenon in his discussion of Australia's Whitlam Labor government of 1972-75. He notes that one of the pressures on the Coalition parties (then in Opposition) shortly before the Whitlam government's dismissal in November 1975 was that 'they could not afford many of the Government's policies and programs to continue much longer' (1993: 159). He observes:

From their point of view there was a real danger that the processes and the programs of the government could become embedded and be seen by the population as the correct way to approach and order public life (1993: 159).

not only of political and bureaucratic institutions, but also 'societal institutions' such as public opinion, 'specific interests and patterns of interaction' (Boase 1996: 290). While these 'societal institutions' may not be 'perfectly fixed', 'in the short period that politicians have in office, they must be taken as a given' (Rose 1993: 39).<sup>36</sup> The result is that policy-makers find it difficult to move beyond those policy options considered acceptable within the previous dominant paradigm's framework, which is embedded in existing formal and informal institutions. Thus, even when policy-makers favour a new paradigm, they are cautious about pursuing new policy options; rather, in a similar way to the path dependency described above, they are confined mainly to the options embedded in existing institutions. These options may include less extensive reforms than policy-makers may prefer, which also helps to avoid another source of electoral hazard – voter anger at a party's reversal of its traditional policy stance. Berman argues that policy-makers in individual political parties have difficulty changing policy programs because voters use a party's ideas to identify what a party stands for and what policies it will pursue.<sup>37</sup> Voters may regard the actions of a party that contradicts or abandons its earlier ideas as a 'loss of integrity or responsibility' (Berman 1998a: 28), and may respond by withdrawing their support, thus affecting the party's electoral chances. Hence, the reluctance of policy-makers to expose themselves to the electoral risk of radically changing policy.

These arguments for institutional stability offer one explanation for what appears to be the limited impact of new ideas on the welfare state. Policy-makers are said to be path dependent in their policy choices because they are locked in to the institutions and policy commitments inherited from their predecessors, and to the set of ideas and policy approaches embedded in formal and informal institutions, including public expectations and opinion. Informal institutions are said to be more difficult to change than their formal counterparts, with changes requiring resocialisation, a restructuring of routines, the formation of new codes of conduct and so on. These difficulties mean that new ideas are seen to have little dramatic impact. Change does occur, but it is slow and incremental, which makes for institutional stability and seeming inertia in the welfare state. These

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<sup>36</sup> Unless, of course, political parties of different hues agree on the need for a new direction.

<sup>37</sup> King also notes that politics in liberal democracies 'place a premium on ideas (or ideologies) as a source of differentiating between parties and politicians', although he adds that, 'in practice, the differences are rarely as real as is sometimes claimed' (1999: 33).



arguments, either on their own or in combination, help to explain why several studies conclude that the welfare state has not been abandoned, but is being 'adjusted incrementally and reconstructed partially' (van Kersbergen 2000: 22).<sup>38</sup>

## INSTITUTIONS AND INSTITUTIONAL *INSTABILITY*

The arguments outlined in the previous section suggest that the Friedmans are correct in their claim that, 'judged by practice', they and their pro-market (neo-liberal) ideas have, indeed, 'mostly been on the losing side'. According to these arguments, path dependency and fear of electoral backlash have constrained policy-makers seeking to reform the welfare state to incremental change such that, in practice, there is little real change, with policy development confined to tinkering at the margins. In terms of the paradigm shift model outlined in the previous chapter, this means that a new paradigm has little effect on policy *in practice*. That is, although there may be a new set of ideas through which to interpret the world and policy problems, policies and goals remain largely the same because policy-makers can implement only small changes. The result is policy stability, with the shift in paradigm from Keynesianism to neo-liberalism making no significant difference to policy options and policy-making in practice. Yet, this is not the case, as the close examination of the OECD's major policy documents in subsequent chapters will reveal. The disparity occurs because the Friedmans underestimate the implications of their second claim, that: 'judged by ideas, we have been on the winning side'.<sup>39</sup> In the paragraph from their work cited above, the Friedmans themselves offer two ways in which their ideas have been successful: that government is no longer perceived as the 'universal cure for all ills', and that 'the growth of government has come to a halt'. Such claims, if true, suggest not only that there have been dramatic changes in practice such that 'growth of government' has stopped, but that there are likely to be more radical changes in practice in the future because policy-makers will no longer look on government action as the 'universal cure for all ills'.

In this section of the chapter, I will begin to counter the arguments for institutional inertia, arguing that claims for institutional stability based on path

<sup>38</sup> For a list of these studies, see van Kersbergen (2000: 31, endnote 2).

<sup>39</sup> However, not all of their admirers accept this degree of success. For example, David Henderson laments that, while what he calls economic liberalism has made 'significant gains', it is 'too soon to declare victory' for these ideas (1998: 66).

dependency underestimate the impact of incremental policy changes and pay insufficient attention to the effect of new ideas on the informal institutions underpinning policy options. Such claims exaggerate the stability of institutions and fail to explain how and why radical change occurs. Institutional stability arguments also assume that change in informal institutions is one way, from the 'bottom up' (society to policy-makers). This ignores 'top down' pressure to change that occurs when policy-makers using a new set of ideas, and thus a new interpretative framework of policy problems and solutions, deliberately target existing informal institutions that may impede new policies and/or policy reforms based on the new ideas. Such claims also assume that once a new paradigm has been adopted, no further major changes are possible. That is, although Pierson argues that Keynesian ideas changed the political landscape, with 'new policies creat[ing] a new politics', he then ignores the possibility that this could (and did) happen again. He is not the only scholar to do this, as has been noted above in the sections on path dependency and institutional lock-in. These scholars fail to explain why the Keynesian paradigm should be the only one to create 'new politics'.

In the following sections, I will argue that institutional (and thus, policy) stability has been overstated because, first, incremental change is less path dependent, and has more impact, than is assumed, and second, that new ideas have a greater impact on informal institutions than is assumed. New ideas act to undermine institutional stability by changing the very foundations on which formal institutions are built and maintained, especially public understandings of state-society relations and their expectations of the state and of themselves. Thus, neo-liberal ideas have fundamentally altered the way of thinking about government and the understanding of state-society relations that underpinned Keynesianism; they have acted to undermine public support for the welfare state. As Paul Wilding succinctly notes in his discussion of the impact of Thatcherism: 'To the casual observer, not much has changed since 1979. In reality, a great deal has changed' (1992: 202).

## I) ONE SMALL STEP FOR A POLICY ...

At the beginning of this chapter, I noted claims from some scholars that the welfare state remains remarkably intact after 20 years of alleged 'attacks', with continued high levels of spending and little 'radical' policy change. These claims suggest that while some reform has occurred in response to talk of the welfare state being in 'crisis', over-all there has been a 'persistence rather than ... "breakdown" of the major institutions of the welfare state' (van Kersbergen 2000: 20). I noted that the reasons advanced for the tenacity of the welfare state centred on the notions of path dependency, in which policy-makers are constrained by the welfare state's institutional structures, policy frameworks, and long-term policy commitments, and continued popular support for its policies. Such claims suggest that policy-makers in the welfare state are tripping merrily along a path of continued state provision and 'state responsibility for securing some basic modicum of welfare for its citizens' (Esping-Anderson 1990: 18-19). According to this view, incremental changes in policy signify nothing more than the continued resilience of the welfare state's formal and informal institutions.<sup>40</sup> In this section, I want to explore a counter-argument to these claims: that incremental changes, while small in themselves, can have major effects on the formal and informal institutions of the welfare state, altering the 'path' along which policy-makers tread when choosing policy options. With regard to formal institutions, the use of aggregate figures when describing the size and actions of the welfare state can conceal the significant impact of small policy steps. In addition, and perhaps more to the point, seemingly minor alterations in one area can compromise other policy areas such that they are no longer viable or no longer have the same aims. The effect on informal institutions may be equally dramatic in that small changes may reflect a considerable shift in the underlying way of thinking about state-society relations, which has a sizeable effect both on what the state provides and what society expects. The result of allegedly minor change is considerably less institutional stability than path-dependency theory suggests.

As outlined above, claims for institutional stability rest on the notion of slow, incremental change along a path set by ideas embedded in a range of formal and informal institutions. Policy-makers are said to be path dependent because, once

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<sup>40</sup> Pierson observes: 'there is no reason to think that the importance of institutional structures and the legacy of previous policy choices has declined' (1996: 155).

a set of options is selected, various mechanisms reinforce the direction that these policy choices have set. Policy-makers are forced to take small steps slowly along a path determined by ideas embedded in a range of institutions because they are hobbled by the link between these fairly intractable formal and informal institutions. Radical changes in formal institutions are not possible because they are underpinned by the 'deep-seated cultural inheritance' underlying informal institutions, which are tenacious and thus much harder to change (North 1990: 91). Policy-makers, therefore, are said to be constrained to making incremental changes based on existing institutions and policy-solving frameworks, adjusting only at the margins to accommodate new policy problems and solutions. Fundamental change may occur eventually as a result of 'thousands of specific small alterations', but discontinuous institutional change, or 'a radical change in the formal rules', is unlikely because the tension between the new formal rules and the existing informal institutions resolves itself in a 'new equilibrium that is far less revolutionary' (North 1990: 89, 91). The result is relative institutional stability because change is 'overwhelmingly incremental'.

However, not all scholars are convinced of the veracity of such arguments for institutional stability. Their central criticism is that ideas and institutions can, and do, change quickly and dramatically, and that theories of institutional inertia cannot adequately explain such change (Blyth 1997a: 245; King 1999: 43-45; March and Olsen 1996: 257). These critics argue that scholars emphasising path dependency are guilty of exaggerating the solidity and rigidity of institutions and underestimating the role of ideas in policy changes.<sup>41</sup> They suggest that, contrary to the claims that policy-makers are confined to using existing policy frameworks to interpret new policy problems and solutions, policy-makers also look to new ideas outside the existing approaches.

These criticisms are valid, but they do not go far enough. They focus on large shifts or 'important institutional changes ... associated with cataclysms and

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<sup>41</sup> King challenges the emphasis that some researchers place on the 'solidification of ideas', the role of institutions, and the alleged 'inflexibility of policy-making processes to new ideas once a course of action has been established' (1999: 43). He contends that institutions embody 'certain principles and assumptions which may constrain later options', but these arrangements are not unchangeable (1999: 45). In a similar vein, March and Olsen argue that change can be 'discontinuous, contested, and problematic', and linked to 'performance crises' that 'stimulate departures from established routines and practices' (1996: 257).

metamorphoses at breaking points in history' (March and Olsen 1996: 257), ignoring the significant impact that smaller changes can have on formal and informal institutions. Van Kersbergen contends that theories of institutional stability are 'biased so heavily towards conceptualising and theorising the institutional mechanisms of persistence and resistance ... that evidence of institutional change is difficult to recognise' (2000: 26). He is sceptical of the alleged 'powerful mechanisms against radical change', arguing that an examination of what he calls 'creeping disentanglement' reveals that the 'resistance argument is stretched too far' (2000: 26, 28). Specifically, he contends: 'Radical transformation does not necessarily result from radical measures' (2000: 28). Rather, what appear to be minor alterations can have significant effects on policy and policy outcomes both immediately and over the longer term, especially when the 'host of small-scale measures' is combined.<sup>42</sup> He offers as examples the weakening or relaxing of indexation in major social schemes as well as raising the retirement age, reducing pensions, introducing means tests, and increasing the number of earning years for assessment (2000: 28). Such actions, he claims, 'are by themselves perhaps not drastic measures, but their combined effect may be harmful, particularly for those who depend on a public pension only' (2000: 28).

Van Kersbergen continues his criticism with the observation that an accumulation of small measures may result in a social programme 'ceas[ing] to offer the level of protection for which it was originally designed' (2000: 29). That is, to the casual observer, the programme may appear to remain intact, but, in fact, it is no longer the same as when it was initiated. Ultimately, this means that efforts to leave the basic policy framework intact while restraining expenditure by 'nicks, chips and slices ... to different elements of the current and future programme' (Wilding 1992: 203) are not as innocuous as they first appear. Rather, the (perhaps) unanticipated consequences can include 'institutional transformation' as the original 'institutional logic' or purpose of the policy is either replaced with a new logic (van Kersbergen 2000: 27) or eroded to the point where it is effectively defunct.<sup>43</sup> In a similar vein, abolishing or redefining a

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<sup>42</sup> Of course, as van Kersbergen observes, much can depend on one's definition of 'change', especially 'radical change', 'fundamental transformation', and 'drastic reform' (2000: 26). See, for example, Pierson's understanding of 'radical' reform, noted below in footnote 46.

<sup>43</sup> For example, reforms to the domestic purposes benefit (DPB) in New Zealand in the 1990s dramatically altered the underlying *raison d'être* of the benefit. It was originally introduced in 1975 for (among others) sole parents and 'recognised the statutory right of sole parents to income

single core goal programme, while on its own an apparently minor change, can have major implications both in that policy area and in related areas.<sup>44</sup> Van Kersbergen argues that incremental reforms in one area of social policy may undermine the financial viability of other policy areas as they become flooded with the former clientele of the targeted area. He contends that the inevitable eventual result is a greater reliance on means-testing or other forms of restriction in order to control the level of social assistance (2000: 29).

Van Kersbergen's observations on the substantial consequences of tinkering at the margins of policy reveal that institutions may not be as stable as some institutional theorists suggest. Incremental changes to formal welfare institutions dramatically alter conditions for the individual recipient of welfare, with gradual retrenchment policies producing 'dramatic results in terms of a decreasing level of social protection and rising poverty among specific groups' (van Kersbergen 2000: 30; see also Kelsey 1997: 271-296). But, as importantly, they also undermine the *informal* institutions on which such social provision is based. The superficially minor changes to benefit eligibility and levels, or the replacement of universal provision of services with means-testing and user charges for some services, affect fundamental underlying assumptions, such as how much responsibility the state should bear for its citizens, who should be eligible for state help, how much should the state provide, and so on. Maurice Mullard offers an example, noting: "The move away from universal to selective benefits is based on the assumption that certain groups are not entitled to benefits and are

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support, *irrespective of fault*' (Rudd 1997: 258; emphasis in original). Subsequent reforms targeted not only eligibility and the level of the benefit, but the underlying reasoning behind its existence. Kelsey notes that benefit cuts were intended to send a message to existing and potential parents about choices and family responsibilities, and were based on a new image of DPB recipients as young women who deliberately became pregnant in order to cheat the state and their fellow citizens (1997: 282, 281). In addition, she observes:

Moves to tighten the accountability of (primarily) fathers for on-going maintenance of their children through the liable parent contribution scheme were prompted by a desire to cut costs and punish recalcitrant fathers, not to improve the quality of life for the custodial parent and her children (1997: 282).

<sup>44</sup> Chris Rudd notes that the New Zealand Treasury's prioritising of inflation as 'the overriding objective of government policy' in 1997 was accompanied by a statement that any adverse effects on employment that resulted were unfortunate, but unavoidable in the short term and would resolve themselves in the long term (1997: 261-262). Thus, changing the priority of inflation vis-à-vis employment as a government goal had negative implications for employment, especially when the 'unfortunate adverse effects' were occurring at a time when unemployment benefits were being cut and subject to other control mechanisms such as targeting and means-testing.

making fraudulent claims on the welfare state' (1997a: 260). This argument will be examined in more detail below.

Incremental change, then, can have larger effects than arguments for path dependency, and thus institutional stability, acknowledge. In fact, small steps may not lead policy-makers along the same path as previously, but may, instead, force them off the beaten track on to a path quite different to their earlier route. Wilding illustrates this with reference to Margaret Thatcher's 'enduring legacy' in Britain, arguing that, 'in reality', more has changed than casual observers perceive (1992: 203). He claims that the result of Thatcher's incremental reform of the welfare state is a 'new lower base-line of expenditure and a new lower level of service provision' (1992: 203). That is, he argues, while a 'couple of years of restraints or cuts can be restored, [a] dozen years of such policies cannot' because of the high economic and political cost of doing so (1992: 203). Thus, Wilding contends, the enduring legacy of '11 years of creeping Thatcherism' is major institutional change because succeeding governments do not feel able, or compelled, to undo so much minor change, especially if they accept the new policy direction (1992: 211). He concedes that the Labour Party did not adopt all of Thatcher's policies, but argues that it did move its positions 'significantly and substantially' (1992: 209). Chris Rudd makes a similar claim with regard to the situation in New Zealand in 1990 at the end of the fourth Labour Government's six years of neo-liberal reforms (1984-1990). He argues that Labour: 'altered the "rules of the game", or the political environment, in such a way that long-term retrenchment of the welfare state was facilitated' (1997: 263). He notes that, when the National Party won government in 1990, it both retained the previous Labour government's neo-liberal reforms and took them further (1997: 263-265).

Both of these statements on the impact of anti-welfare state policies suggest an element of path dependency that Wilding and Rudd apparently reject with regard to Keynesian ideas. That is, they are arguing that neither Thatcher's Conservative government nor New Zealand's Labour government were tied to Keynesian ideas, but that subsequent governments *have* been tied to the new directions. However, their claims may say less about path dependency than they do about the impact of a new dominant paradigm on the major parties from both sides of the political spectrum. The adoption of a new set of ideas may result in a degree of policy convergence between opposing parties, partly because the

situation in which policy-makers find themselves has changed. In this sense, incremental change results in policy-makers once again working in a new political environment, just as Pierson claimed they were as a result of the rise of the Keynesian welfare state. Retrenchment policies, even those that make only small changes, alter the political context within which policy-makers discuss policy problems and solutions, ruling out some previously acceptable options and endorsing new approaches. The result is that policy-makers are not constrained to the paths set by the existing ideas embedded in institutions. Rather, the new ideas underpinning retrenchment of the welfare state have shifted the grounds, and terms, of political debate and allowed policy-makers to pursue new policy paths.

### **I-I) Lies, damned lies, and aggregate statistics**

One reason that some scholars have produced little empirical confirmation of the profound effects of incremental policy change on the welfare state is their tendency to use aggregate spending figures when describing the size and actions of the welfare state. However, as other scholars note, aggregate figures conceal the substance of policies and the nuances of policy change. Gosta Esping-Andersen succinctly observes: 'By scoring welfare states on spending, we assume that all spending counts equally' (1990: 19). Importantly, spending aggregates fail to capture the impact of incremental reform; that is, those 'reforms that are designed to introduce retrenchment only indirectly or over the longer term' (Pierson 1996: 157). They also fail to reveal the changing composition of social expenditure; for example, 'rising unemployment may sustain high spending even as social rights and benefits are significantly curtailed' (Pierson 1996: 157; Hay 2001: 7). The result may be a false picture of welfare-state resilience, or, as Colin Hay notes, quantitative continuity may mask qualitative discontinuity. He contends that, while the welfare state may have grown in size, 'this in no way excludes the possibility of a quite fundamental transformation in its very form and function' (2001: 7). Hay challenges the notion that unchanged or slightly higher spending levels reveal little change in the welfare state in the past 20 years, and claims that, if analysis focuses on policy detail, rather than on aggregate statistics, then there has, in fact, been significant welfare retrenchment and reform (2001: 6).<sup>45</sup>

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<sup>45</sup> In this, he echoes Wilding's earlier claim that, while at one level, there were no cuts to British welfare expenditure under Thatcher, with total spending increasing in real terms between 1979 and



A focus on the *amount* of spending, rather than the *type* of spending, creates the impression of a static welfare state and an unchanged policy direction. An obvious solution, then, is for analysis of retrenchment to focus on both qualitative and quantitative measures. However, this is not as straightforward as it appears. Pierson, for example, claims to use a 'combination of quantitative data on expenditures and qualitative analysis of welfare state reforms' to probe structural shifts in the welfare state (1996: 157). He looks for '*significant* increases' in the use of means-testing for benefits, '*major* transfers' of state responsibility to the private sector, and '*dramatic* changes in benefit and eligibility rules that signal a qualitative reform of a particular program' (Pierson 1996: 157; emphasis added). But he overlooks the significance of *minor* changes in benefit and eligibility rules to the overall direction of the welfare state. This leads Pierson to conclude (incorrectly) that, while change has occurred, with many programmes experiencing a tightening of eligibility rules or reductions in benefits, it is hard to 'find *radical* changes in advanced welfare states' (1996: 174; emphasis in original).<sup>46</sup> Rather, he contends, '[r]etrenchment has been pursued cautiously' (1996: 174). Thus, Pierson ignores the over-all impact on the *type* of welfare spending arising from incremental adjustments in benefit rules and levels, and the potentially large flow-on effects to other social programmes. He also disregards the impact on underlying state-society relations and the expectations that people have of the state, and of themselves and others. Hay rightly observes that minor adjustments have had an important effect on welfare state spending. He argues that, given the rise in unemployment, spending would have increased dramatically were it not for:

a noticeable tightening of eligibility criteria, a greater emphasis upon benefit targeting and means-testing, and the ... development of a

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1988, at another level the growth in resources did not match the growth in need and demand (Wilding 1992: 203). Hence, Wilding's claim, noted above, that Thatcher's legacy 'is a new lower base-line of expenditure' (1992: 203).

<sup>46</sup> Pierson acknowledges in a footnote the difficulty in establishing what constitutes 'radical' reform and notes that 'it is impossible to say definitively when a series of quantitative cutbacks amounts to a qualitative shift in the nature of programs' (1996: 179, fn 39). However, he goes on to claim that such a qualitative shift occurs:

when because of policy reform a program can no longer play its traditional role (e.g., when pension benefits designed to provide a rough continuation of the retiree's earlier standard of living are clearly unable to do so) (1996: 179, fn 39).

Again, this overlooks both the way that cuts compromise existing programs and the effect on informal institutions. See, for example, Rudd's discussion of the impact of a series of seemingly minor reforms on both existing programmes and the 'welfare consensus' underpinning New Zealand's welfare state (1997: 256-267).

'conditional' welfare state stressing the obligations and duties of claimants (2001: 11).<sup>47</sup>

This last point demonstrates that, far from being constrained to particular policies because of path dependency and institutional lock-in, seemingly incremental changes allow policy-makers a fair degree of latitude in their policy options. As will be explored further below, these minor changes have a dramatic impact on the informal institutions underpinning policy options, such that larger changes in policy direction become possible as public understanding of state-society relations shifts.

### **I-II) Taming the voters**

As outlined above, those arguing for institutional stability and welfare-state resilience also claim that the fear of a backlash from interest groups and voters attached to the formal institutions of the welfare state constrains policy-makers in their choice of policy options. Mature social programmes are said to have produced new organised interests in the form of 'consumers and providers of social services', who are 'usually well placed to defend the welfare state' because they are more concentrated than those who gain from retrenchment (Pierson 1996: 175, 145). Retrenchment policies are seen as electorally risky because of their tangible losses on these interest groups and their uncertain gains for taxpayers. Thus, policy-makers have yet another reason to make only incremental changes and avoid straying too far from the policy paths accepted – and demanded – by these seemingly powerful interest groups.

However, such claims for the sway of interest groups may overstate both their level of organisation and their power vis-à-vis business and other groups, which may be equally 'well placed' to attack the welfare state. While some groups, such as aged pensioners, may be concentrated enough (and may have the capacity and resources) to exert influence on policy-makers, other groups, such as solo parents, sickness beneficiaries, or the long-term unemployed, may not be in the same position. It is these groups that policy-makers are likely to target because

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<sup>47</sup> Hay uses income replacement ratios as an example, saying they: 'display a common and marked downward trajectory from a range of start dates ... and a variety of initial levels' (2001: 11-12). Rudd offers evidence from New Zealand, arguing that, although social welfare expenditure increased in the 1980s, the demand for benefits increased more, such that 'real expenditure per benefit recipient actually fell for a number of welfare benefits' (1997: 261).

the 'poorly organised and electorally harmless' are the easiest groups to hit hardest in the campaign for welfare-state reform (van Kersbergen 2000: 29). Pierson claims that interest groups linked to particular social policies are now prominent political actors (1996: 151), but he confuses prominence as a group with the capacity and resources to function as a political actor. Prominence by itself does not necessarily make a group powerful enough to act in the political process.<sup>48</sup> In addition, the attachment of groups to the continuation of *particular* policies, rather than to policy continuity more generally, makes them vulnerable in that policy-makers can use these different interests to play groups off against one another (Pierson 1996: 147), and against those groups in favour of welfare-state reform.

These arguments for institutional stability also suggest that interests formed under Keynesian welfarism are static, with new ideas having no impact on existing interests. In fact, as noted above, Pierson argues that welfare-state institutions have shaped group identities and interests, enhancing the power of some while devaluing others. Pierson appears to be arguing that these interest groups do not change once institutions have formed them. Yet, recall Blyth's argument from the previous chapter that new ideas are more than 'hooks' for pre-existing interests in that they reconstruct 'expectations of, and preferences for, certain policy choices and political and economic goods' (1997b: 233). In specifying the nature of the world and how it works, and the role of the state and society in this world, the ideas set new 'conventional judgments' about the allocation of resources. As a result, new interests are formulated. Rudd offers an example of this in his discussion of the result of economic reforms in New Zealand in the 1980s and 1990s. He observes that tax breaks given to both middle and high-income earners created a 'sizeable majority of voters who have little incentive to support policies which result in their paying more taxes'

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<sup>48</sup> For example, in 1997, New Zealand's Social Welfare Department convened a major \$1700-a-head conference on welfare reform ('Beyond Dependency'), and included representatives from the government, state agencies, private-sector providers, business groups, and overseas welfare reformers, but no representatives from beneficiary groups; see Bradford (1997) and Masters (1997). Bradford, the co-ordinator for the Auckland Unemployed Workers' Rights Centre, wrote that: 'As far as we are aware, no representatives of unemployed and beneficiary organisations have been invited to speak despite our polite request to do so' (1997). Thus, although beneficiaries are a prominent group of concern to policy-makers, their prominence does not mean that their representatives are included automatically as policy actors in the policy-making process.

(1997: 263). Thus, the ideas underpinning the reforms reconstructed the interests of middle and high-income earners, or as Rudd notes:

The 'welfare consensus', whereby those fortunate enough to be able-bodied and have employment paid to fund a welfare system which both they and the less fortunate could enjoy, has been seriously compromised (1997: 263).

Similar results have been noted elsewhere, as will be discussed below. Policy-makers, therefore, may have more flexibility with their selection of policy options – and thus, may be less path dependent – than electoral hazard arguments allow.

## II) ... ONE GIANT LEAP FOR IDEAS

In the previous section, I presented some counter-arguments to claims that institutions are relatively stable because policy-makers are both path dependent and fear an electoral backlash from interest groups attached to existing conditions. I argued that incremental change has a more significant impact on institutional stability than those arguing for the resilience of the welfare state allow. Small steps can lead policy-makers on to new policy paths, with resulting profound effects for the individual welfare recipient and for the various policy programmes and frameworks. As part of this discussion, I suggested that arguments for policy inertia based on a fear of voter backlash overstate the power of interest groups. In addition, such arguments overlook the power differentials between the various interest groups receiving welfare and between those in favour of the welfare state and those against it. However, a second, and perhaps more important, reason that arguments for institutional stability are exaggerated is that they pay insufficient attention to the impact of a shift in ideas on informal institutions, and especially the way in which new ideas affect public opinion, expectations, and behaviour. The arguments outlined above suggest that informal institutions are relatively immune to change, and that their relationship with formal institutions makes radical change almost impossible. However, informal institutions can, and do, change, either unconsciously or deliberately, and it is the role of discourse in effecting and reflecting change in informal institutions that is a central concern of this thesis. In this section, I want to argue that new ideas, even when introduced allegedly incrementally, have a dramatic effect on the informal institutions underpinning the welfare state, undermining public support, changing state-society relationships, and leading,

ultimately, to a new *raison d'être* for formal institutions and a new type of welfare state.<sup>49</sup>

The arguments for institutional stability and path dependency canvassed so far present informal institutions as relatively immutable. We need to recall here the discussion above that informal institutions are said to have 'tenacious survival ability' because they are part of a 'deep-seated cultural inheritance' built on ideas, attitudes and beliefs that are entrenched within society (North 1990). According to this formulation, informal institutions are 'rationalised myths' that are 'socially constructed, publicly known, anticipated and accepted' (Meyer and Rowan 1977; March and Olsen 1996: 249). They are built into society and are reinforced over time through repetition and routinisation until they become 'deeply ingrained ... [and] widespread understandings of social reality' that have 'a rulelike status in social thought and action' (Meyer and Rowan 1977: 343, 341). While informal institutions are not static, their very nature means that they are slower to shift than formal institutions. The intertwining of formal and informal institutions complicates the process of change, constraining the influence of new ideas and making dramatic change difficult, if not impossible, in the short term because change can occur only slowly and incrementally.<sup>50</sup> Change cannot be dramatic because the entrenched nature of the existing institutional structures means that change can be realised only through the lengthy process of resocialisation into new values, routines, customs, traditions, conventions, codes of conduct and so on. Change, then, occurs mainly through 'accidents, learning and natural selection' as well as the 'mundane processes of interpretation, reasoning, education, imitation and adaptation' (North 1990: 87; March and Olsen 1996: 257).

An important aspect of these arguments is the extent to which they imply that society has a significant amount of control over policy change. New ideas are judged – and accepted, altered, or discarded – according to institutional structures that are deeply entrenched in society. Policy-makers seeking to

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<sup>49</sup> I say 'allegedly' incremental because I do not accept that policies based on a new vision of state-society relations, roles, and responsibilities can be incremental in terms of being minor changes.

<sup>50</sup> We should recall here North's argument, noted above, that the tension between 'discontinuous' change in formal institutions and tenacious informal institutions resolves itself through a 'restructuring ... in both directions' that results in change that is 'far less revolutionary' (1990: 91).

implement new policy ideas have to contend with an existing set of ideas embedded in both informal institutions and the formal institutions that they modify, supplement, and expand, and to which, importantly, the public is attached. Again, this is not to argue that change does not occur; society's values and beliefs are not static. Rose, for example, observes that values can change 'as one generation replaces another', with a new generation's substantially different views, on say, abortion or social policy, bringing dissatisfaction with existing policy and demands for a new policy course (1993: 152).<sup>51</sup> In this way, policies that once seemed controversial or unacceptable become accepted as commonplace – or vice versa (Rose 1993: 152). In a similar vein, 'various changes to economic, technological and social relations, values and ideas, and the general public mood' can affect informal institutions (Keating 2000a: 34). However, according to the 'embedded in institutions' arguments, while informal institutions change, the existing institutions, and the ideas embedded within them, affect how much of an impact new ideas can have and how much change policy-makers can pursue.<sup>52</sup> New policies are judged against the 'unconscious assumptions behind [existing] policy discourse and practice' (Blyth 1997b: 236).

According to this view, which, as noted above, Pierson uses to explain the growth and resilience of the welfare state, society changes to incorporate alterations in its ideas, values, beliefs, and so on, and institutions change in response in order to 'cope with this changing society' (Kerremans 1996: 224). The changes arise from within, and are controlled by, society. In this sense, Pollack contends that the arguments for institutional stability centre 'not on the

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<sup>51</sup> For example, Kelsey notes that, although some surveys in the 1990s have shown that New Zealanders have not 'shifted their values to accommodate the free market regime ... the values of the new generation of the "children of the market" remain largely unknown' (1999: 373).

<sup>52</sup> North notes the effect of institutions on ideas when he observes that, while ideas matter, institutions determine 'just how much they matter' in that the way institutions structure human interactions affects the price that individuals pay for their actions when they follow their ideas (1990: 111, 22). He explains that ideas, and the way they take hold, matter to institutions because they shape the subjective mental constructs that individuals use to interpret the world and make choices (1990: 111). In turn, institutions act to decrease uncertainty, structuring daily life so that individuals know what to expect in response to their actions. This means that institutional structures can lower the price that individuals pay for acting on their ideas because they allow individuals to predict likely responses. Thus, formal institutions can 'provide the freedom to individuals to incorporate their ideas ... into the choices they make', and to make their choices become effective (North 1990: 111). New ideas, then, can alter the interpretative mental constructs, changing the understandings of price, taste, and, ultimately, choices, which can then flow through to change institutions. Again, however, the point is that change via new ideas occurs slowly because the cost of introducing radically new ideas is too high.

institutional constraints *from above* ... but rather on the incremental build-up over time of constraints *from below*, as societal actors develop a vested interest in the maintenance of ... policies' (Pollack 1996: 442; emphasis in original). Society is seen to cling to its existing institutions, rejecting any notions that are inconsistent with its current interpretative framework for understanding the world, including the roles and responsibilities of the state and individuals. Hence, the argument that policy-makers are prisoners of both formal institutions and informal institutions, such as public opinions, interests, values, and patterns of interaction.<sup>53</sup> However, such arguments underestimate the extent to which change can be orchestrated from the top; that is, they fail to account for a paradigm containing compelling ideas and mechanisms (such as discourse) that policy-makers can use to attack and replace existing formal and informal institutions.

The arguments outlined suggest that the relationship between formal and informal institutions results in institutional stability because change can occur only slowly and incrementally. Policy-makers seeking to implement new ideas cannot do so via radical policy change because they are confined to small steps along paths determined by existing institutions and policy frameworks. Institutions, their structures, and the ideas embedded within them determine what policies are possible. Yet, such arguments are limited because policy-makers seeking to pursue the policy options suggested in the new paradigm are not passive actors completely at the mercy of existing institutions and institutional structures. Rather, they retain 'significant discretion ... in fashioning and responding to the ideas and values that are structuring the political debate' (Keating 2000a: 34). By targeting the factors that comprise and influence informal institutions, thus altering the structure of the institutions and the design of policies, policy-makers can – independently of society – alter institutions substantially. In the words of March and Olsen:

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<sup>53</sup> Jacobsen uses a formulation of this argument to reject the notion of reducing ideas to the tools used by elites to further their interests. He argues that ideas-based approaches to policy analysis cannot assume a 'passive public' that elites 'haplessly' manipulate with respect to economic ideas (1995: 309). Instead, Jacobsen claims that non-elites 'can help shape the preferences of other actors regarding the framing of a situation and, consequently, the "correct" policy solution' (1995: 309). Understood in this way, he contends: 'Economic ideas are programs for action that must appeal not only to crucial interest groups but also to deeply felt if incompletely articulated social needs' (1995: 310). Thus, ideas reflect more broadly held societal views, and cannot be said to occur solely at the elite level where they are used only to pursue elite interests.

Politics is not simply a matter of negotiating coalitions of interests within given constraints of rights, rules, preferences, and resources. Politics extends to shaping those constraints, to constructing accounts of politics, history and self that are not only bases for instrumental action but also central concerns of life (1996: 257).

Policy-makers are not restricted only to those actions consistent with society's informal institutions, but can act to shape public attitudes and expectations, thereby changing the way of thinking about state-society relations to that which conforms to, and supports, the new paradigm. Importantly, policy-makers themselves can be the source of demands for change. As Hill observes: 'far from arising autonomously in the community, political demands may be manufactured by leaders, who thereby create conditions for their own action' (Edelman 1971, cited in Hill 1997: 20). In this way, policy-makers can use new ideas and their new view of state-society relations to overcome opposition to policy innovation in that they can 'create opportunities ... to prevent or limit the mobilization of program supporters' (Pierson 1994: 166). Restructuring institutions – that is, changing the 'rules of the game' in favour of retrenchment – can lead to significant reform.

The implications of the orchestration of top-down change to informal institutions are considerable, and introduce important new considerations into the argument for the stability of welfare state institutions. Keating argues that what citizens expect from the state and how it should meet its responsibilities are 'highly dependent on citizens' political values', which are 'partly determined by history and the inherited institutions of governance' (2000a: 23). These values change over time in response to a range of pressures, including higher levels of education, increased cultural diversity, increases in material wealth, globalisation, technology, new ideas and changing political philosophies (Keating 2000a: 8-40). But they can also be changed by policy-makers themselves. Claims that policy changes simply reflect changes in society's values and what society wants are too simplistic in that they fail to recognise that values can be manipulated.<sup>54</sup> If popular support is viewed as a sizeable obstacle to

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<sup>54</sup> For example, the argument that governments have had to act on child care and aged care in response to more women entering the work force because women *want* to work overlooks an argument that more women may now *need* to work in order to support their families. That is, families may require the income from two earners to survive or they may find that two earners are better than one in times of uncertainty. Keating and Mitchell observe that a second earner is good insurance in the event of the primary income-earner becoming unemployed or in the event of



reform, with policy-makers forced to retreat from the new paradigm's preferred reforms in the face of hostility from a public attached to the welfare state, then an obvious solution for policy-makers is to target the obstructive attitudes. Rather than waiting for society's expectations to change of their own accord, policy-makers can actively orchestrate such changes, 'shift[ing] the balance of political power' in their favour by 'restructur[ing] the ways in which trade-offs between taxes, spending, and deficits are *presented, evaluated, and decided*' (Pierson 1996: 177; emphasis added). That is, returning to the discussion of discourse in the previous chapter, policy-makers can use the discourse and interpretative frameworks (frames and names) of the new paradigm to change society's underlying informal institutions such that the new policy options become acceptable. In so doing, policy-makers can avoid unpopular direct attacks on formal institutions, instead using incremental change and a discourse that supports the new policies to undermine underlying perceptions and expectations of the welfare state.<sup>55</sup> Small alterations can be used to chip away at the informal

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family breakdown or divorce. In addition, they note: 'empirical evidence ... shows that the addition of a second earner helped to redress the rising inequality observed among the distribution of wages throughout the 1980s' (2000: 128). For a (depressing) first-hand account of the *need* that many low-paid workers have to hold more than one job or have more than one earner in a household, see Ehrenreich (2001).

<sup>55</sup> An example here is the New Zealand government's 1997 bid to introduce a 'code of social responsibility' for beneficiaries, which imposed the following conditions on those receiving welfare:

- those able to work must actively look for it
- those getting taxpayer support must look after their children properly, by ensuring, for example, that they go to school, and
- those getting extra taxpayer support because of difficulties managing finances must seek and follow budgetary advice (Taylor 1997).

Introducing the code in a Budget speech, Treasurer Winston Peters said that nobody begrudged state support for those in need, but it was important to realise that support did not excuse people from their responsibilities to themselves and to their families (Taylor 1997). He noted that the code was a 'form of contract between a welfare recipient and the State' and that the government would introduce 'reasonable pressures' to ensure that obligations were met (*The Press* 1997). While the proposed code may appear to be a relatively small measure in terms of welfare reform, its implications in terms of the informal institutions underpinning New Zealand's welfare state are significant. As Rudd notes: 'a basic premise of the Keynesian welfare state was acceptance by citizens of a collective responsibility to help disadvantaged members of society' (2001: 418). Under the neo-liberal welfare state of which the 'code' is a part, individuals are considered to be self-responsible, but are also considered to be irresponsible such that they have to be coerced into correct behaviour. Hence, the code of social responsibility. The code offers an interpretative frame of a beneficiary that portrays welfare recipients as voluntarily unemployed and seeking to live off the work of others (*ergo* lazy), and as bad parents and profligate with taxpayer money (*ergo* irresponsible). Such a frame targets the informal institutions that support collective responsibility, replacing them with those that support a new vision of the limited state (as opposed to the interventionist state) and the self-responsible individual.

institutions of the welfare state, with the minor changes to institutions and their associated policy programmes raising large questions about their role, changing their *raison d'être*, and leading to a new set of institutions and policy programs.<sup>56</sup>

Hill argues that a common way to change public perceptions and expectations has been through discourse or 'the manipulation of language' (1997: 20). In the previous chapter, I discussed the role of discourse in portraying a paradigm's construction of reality or 'regime of truth'. I noted Jacobsen's argument that the way to gain some control over outcomes is to persuade players to accept a definition of the situation, 'because how the problem is defined determines the nature of the solution' (1995: 292). However, I then noted that the control over definition is not confined to institutions, interests or elites; rather, a paradigm's discourse allows it to define (or frame and name) policy issues in a way that is comprehensible to that set of ideas and that may add to their independent influence. A paradigm's discourse is a causal mechanism that renders the meanings of the constituent ideas compelling and comprehensible; it gives meaning to the way that people understand the world, themselves and their behaviour. Thus, discourse forms and reinforces 'knowledge disciplines and regimes of truth' (Yee 1996: 99). A dominant paradigm, then, sets the 'regime of truth' through which policy issues are viewed; the regime has a construction of state-society relations that sets what can intelligibly be understood as a policy problem and what solutions can be considered. Informal institutions are part of this 'regime of truth' in that they help to establish the frames and names (or interpretative structures) through which policy issues are discussed and understood. The argument I want to make in the final section of this chapter is that the discourse of a new dominant paradigm acts to break down existing informal institutions in order that these change to reflect and support the policy options of the new paradigm. In other words, the constituent discourse of a new paradigm both undermines the existing informal institutions and replaces them with a new set that reflects the new paradigm's understanding of state-society relations.

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<sup>56</sup> For example, returning to the example in the previous footnote, the code, while a seemingly small move in and of itself, serves to question the role of welfare; that is, it raises such questions as why hard workers should be expected to support bludgers and bad parents. Answers may lead to a significant reorientation of the informal institutions underpinning the welfare state.

As will be discussed in later chapters of this thesis, a major shift in the discourse in which policy issues were portrayed and discussed accompanied the replacement of the Keynesian paradigm with that of monetarism and, later, neo-liberalism. An examination of this discourse reveals a new set of informal institutions predicated on a new understanding of state-society relations. Contrary to the claims of those who argue that neo-liberal ideas have had little impact on the welfare state over the past 20 years, significant shifts in the informal institutions underpinning the welfare state have occurred and these have substantially altered public expectations of, and attitudes to, the welfare state. Some of these have been mentioned in passing above, notably the move from collective to individual responsibility and the associated shift in attitudes towards beneficiaries. Viewed in this way, the shift from Keynesianism to neo-liberalism has brought dramatic changes in practice, in that the incremental shifts in institutions and policy design are built on new ideas that aim to secure a fundamental change in the existing culture of support for the welfare state. The objective is to change society's perceptions and expectations of the roles of the state and individuals to those of the new paradigm. As noted above, many scholars claim that support for the welfare state remains so strong that attempts at retrenchment have not only failed, but have cost reform advocates dearly. One reason for this support is that the Keynesian framework remains the standard through which people interpret their roles and responsibilities and those of the state. As Butler observes: 'Keynesianism gave mass publics and their informants in the media and academia a simple framework for appraising government performance' such that citizens believed they understood 'what their government was doing, why, and even how well' (2000: 157).<sup>57</sup> This framework, he contends, gave citizens a 'model of causes and effects that related the government's intentions to the effects of its actions' (2000: 157). Those arguing for the resilience of the welfare state argue that this underlying framework through which society interprets the actions of the state, and its own roles and responsibilities, remains today. That is, in effect, Keynesianism remains society's dominant paradigm with regard to informal institutions, establishing the

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<sup>57</sup> According to this framework:

A good government used its policy instruments to minimise unemployment, inflation and external deficit. Its values were expressed in the trade-off it purportedly chose between unemployment and inflation. It might also be praised or blamed for the quality of public services and for the compassion and efficiency of the welfare state (Butler 2000, fn 4: 158).

conventional judgment or common sense understanding of the world through which it interprets policy issues and judges acceptable solutions.

However, such an understanding ignores the considerable shift in society's perceptions of the welfare state and what it can, and should, provide. A driving force behind this change is the content of the neo-liberal ideas themselves and the discourse in which the ideas are expressed. Neo-liberalism understands the individual to be a rational, self-interested maximiser, who is largely asocial. In addition, it views the welfare state as having a negative influence on individual behaviour, eroding an individual's sense of personal responsibility. That is:

Neo-liberals identify welfare states with a decline in personal and social morality resulting from the displacement of freely assumed personal responsibility by an ethos that substitutes coercion for liberty and undermines personal responsibility (Morrow 2001: 527).

In response, neo-liberal ideas focus on the promotion of independence and responsibility, and stress that policy-makers 'must avoid taking steps that will encourage dependence and sap individuals' determination to be self-reliant' (Morrow 2001: 528). Thus, the ideas and their constituent discourse highlight individual responsibility, and in so doing, give policy-makers a causal mechanism with which to change existing informal institutions.

An example of this can be seen in New Zealand, where, in 1984, the then Labour government began implementing a wide range of neo-liberal reforms. Penelope Brook Cowen argues that, since then, neo-liberal ideas 'have become a part of the fabric of political and policy debate in New Zealand' (1997: 341). She notes that, while the most obvious impact of the ideas has been in the economic reforms of the past two decades:

they have also had a more subtle effect on how political debate is conducted, altering the questions that are routinely asked about what policy should look like, and what the role of government should be (2001: 341).

Rudd highlights the result of this subtle shift on the attitudes of New Zealanders to the welfare state. He notes that, whereas once they accepted the Keynesian welfare-state notion of a collective responsibility to help disadvantaged members of society through active state intervention to redistribute resources, now they accept policies based on the notion of individual self-responsibility (2001: 418-

427). Whereas once they supported the notion of a 'desirable' welfare state, he argues, now they are 'becoming attuned to thinking in terms of an "affordable" [welfare state]' (2001: 425).<sup>58</sup> But it is Rudd's observation about the role of the government in this process that is important here. He notes that the National government, in its period in power (1990-96), ran a campaign specifically targeted at 'winning over the hearts and minds' of New Zealanders to its new vision of the welfare state (1997: 263). He observes that its policy statement on social assistance, *Welfare That Works*, aimed to 'encourage self-reliance (that is, reduce welfare dependency), and increase fairness and efficiency (that is, target and means-test benefits to ensure that only the deserving needy received state assistance)' (1997: 263-264). Thus, the ideas and discourse create an interpretative framework for welfare in which beneficiaries are dependent (in the negative sense of the word outlined in the previous chapter), and are claiming benefits that they do not really need. In response, the fairest and most efficient option for state and society is to make such individuals look to themselves, rather than the state.

A similar example comes from Keating and Mitchell, who note that a major development in Australian social policy has been a shift in focus to 'each individual's needs'. Policies now emphasise how individuals may best be assisted to help themselves (especially to maintain their 'participation in active society'), and how individual 'choice' in state help can be maximised (2000: 127). They then observe that the 'counterpart of this enhanced participation and choice is that people are expected to help themselves to the extent that they are able', which includes contributing for services through 'user pays' and saving towards their retirement (2000: 128). In addition, 'while people are being assisted to return to work through labour market programs, they also incur a reciprocal obligation to actively pursue whatever work opportunities become available' (2000: 128). After describing such policy issues as 'incentives and self-help', Keating and Mitchell then ask whether support for Australia's 'highly redistributive system' will weaken, and note 'public examples of "downward envy" and a tendency to blame the victim, which suggest some popular

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<sup>58</sup> Rudd contends that, in addition, those who have benefited from reforms – middle-income New Zealanders – attribute their ability to provide for themselves to 'individual responsibility and hard work' and feel no obligation to help those less well-off than themselves (2001: 425). The latter are 'made to feel it is their own fault or, at least, that it is up to them as individuals to redress the problems' (2001: 425).

antagonism to the present degree of redistribution' (2000: 146-147). They conclude that:

Society is likely to be more sympathetic to income redistribution if it is persuaded that assistance is being targeted to those who are in *genuine* need, that it is effective, and that the beneficiaries are being obliged to make *adequate* efforts to help themselves in so far as they can (2000: 147; emphasis added).

This argument provides a useful example of the rhetoric being used to reshape understandings and expectations of the welfare state. The qualifying terms 'genuine' and 'adequate' act to create an impression of social welfare recipients as preferring to live off welfare while making no efforts to support themselves.<sup>59</sup> My concern here is not with whether this is true, but with the impact of the discourse in creating and reinforcing a picture of beneficiaries as greedy dole-bludgers. That is, the assessment of what is 'genuine' and what is 'adequate' is made through a neo-liberal lens that offers a particular vision of state-society relations and the motivations of individuals. Such imagery targets the informal institutions of collective responsibility that have supplied strong support for the welfare state, and supplies new informal institutions reflecting a new vision of state-society relations, in which individuals are expected to do more for themselves.

The use of discourse to effect change in informal institutions and thus, in attitudes to the welfare state, can be seen also in the introduction of the language of contract and mutual obligation to the relationship between the state and society, and especially that between the state and welfare beneficiaries. The rhetoric of 'a hand up, not a hand out' and 'no rights without responsibilities' reinforces the interpretative framework, noted above, of a welfare recipient as someone who is voluntarily unemployed and who is choosing to live off the work of others (taxpayers). Policies arising from this vision include those based on 'contracts' between the state and the beneficiary about the obligation to seek

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<sup>59</sup> The rhetoric of 'generous benefits' juxtaposed with 'tax burdens' has a similar effect, as will be discussed in Chapters 5 and 6. This is not to argue that taxes have never been regarded as anything other than a burden; rather, that the context in which the burden is understood has changed. Notions of taxes being an instrument by which the collective can alleviate the problems of its less well-off members have been supplanted with notions that the state is over-paying the less well-off while taxpayers are struggling under the burden of providing for the lazier members of society. When combined with the language of 'dependency', the overall effect is to frame taxes and benefits as a situation in which workers are unfairly over-supporting those who choose to be dependent.

employment in return for receiving benefits and schemes such as 'work for the dole', under which beneficiaries are required to undertake 'community work' for a set period each week in return for their benefits (see Rudd 2001: 424; Deacon 2000: 11-13). It is important to note the absence of notions of state or collective responsibility in this rhetoric (see Dean 2004: 65-82). Thus, discourse may be used to set attitudes to policy. As will be outlined in Chapters 5 and 6, this tactic can be seen in the OECD's discussions of policy problems and solutions. The aim of this rhetoric is to manipulate and eliminate the informal institutions underpinning the Keynesian welfare state and to create new informal institutions that support the neo-liberal paradigm's interpretation of the world and how it works.<sup>60</sup>

## CONCLUSION

Returning to the arguments made earlier, when looking for the impact of new ideas in practice, the important point is not the *amount* of reform, but the *type* of reform, its ideological underpinning and its effects on informal institutions. Neglecting these factors leads to incorrect conclusions about the ability of the ideas underpinning the Keynesian welfare state to resist the influence of a new set of ideas. As noted earlier, Pierson makes this error when he argues that neither Reagan nor Thatcher succeeded in significantly reforming the welfare state.<sup>61</sup> However, Wilding, who also studies the impact of Thatcher on the British welfare state, comes to the following conclusion, in direct contrast to Pierson:

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<sup>60</sup> For example, the British Labour Party ('New Labour') is explicit about wanting to change public expectations and understandings of individual rights, responsibilities, duties, and obligations in order to change the 'welfare-state culture'. Alan Deacon notes that the British government's 1998 Green Paper on welfare reform, *A New Contract for Welfare*, categorically states that the government's aim is to 'rebuild the welfare state around work' (2000: 12). He notes the following quote from the paper: 'Our ambition is nothing less than a *change of culture* among benefit claimants, employers and public servants – with rights and responsibilities on all sides' (Deacon 2000: 12, citing Department of Social Security: 23; emphasis added). Of course, on the state's side, responsibilities were to be much more limited.

<sup>61</sup> Pierson claims that Thatcher and Reagan tried, but failed, to instigate reforms. He concludes that significant retrenchment occurred only 'where supporting groups were weak, or where the government found ways to prevent the mobilization of these groups' supporters' (1994: 6). That is, direct reform succeeded only where institutional features meant that a group's political resources were limited. Pierson advances an argument that Thatcher and Reagan were 'perhaps ... more successful in pursuing indirect strategies' with longer-term consequences, such as institutional reforms to 'strengthen the hands of budget cutters', weaken the revenue base and undermine interest groups in favour of the welfare state (Pierson 1994: 6, 7). However, he retreats from this claim, saying that, '[f]or the most part', neither leader was 'particularly effective in engineering such reforms' (1994: 7).

The essential legacy of Thatcherism does not lie in the wholesale restructuring of the welfare state. Rather, it lies in its contribution to *attitudes, ideas and approaches* – which does not make it less considerable (1992: 210; emphasis added).

In other words, the transformation occurred in the ‘political and ideological debate about the value of welfare – and thus about the nature of citizenship, the meaning of individual responsibility and the obligations of the state to the disadvantaged members of the community’ (Waddan 1997: 168, cited in van Kersbergen 2000: 29).<sup>62</sup>

Wilding argues that Thatcherism’s enduring legacy lies in the challenge to ‘conventional wisdom’ under which ‘[m]any sacred cows have lost their odour of sanctity’ (1992: 211). He contends that Thatcherism’s challenge to collectivism resulted in a ‘sea change’ in opinion that has had ‘enduring implications’ in that those in favour of the welfare state ‘will never look to collectivist answers with quite the simple enthusiasm of before’ (1992: 202).<sup>63</sup> A consequence of this ‘sea change’ is the wide acceptance ‘across the political spectrum’ of greater social division (1992: 204). That is, Wilding argues:

More people have been persuaded that social ills – such as poverty – are inevitable, that ills such as unemployment are no longer as painful as in the past, and that, in any case, there is little that government can do about them (1992: 206).

The current and long-term implications of this ‘sea change’ for the welfare state are considerable. As van Kersbergen observes:

A new generation has been brought up in a context of declining expectations and with the political language of retrenchment. It is this generation which is now becoming economically, socially and politically active. ... This cohort, although raised in the welfare state, has been taught not to expect too much from it. ... [t]his generation

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<sup>62</sup> Another way of analysing these changes is through their impact on citizenship; that is, the changes are understood to redefine the rights of citizenship, discrediting the concept of universal citizenship rights in favour of a version that emphasises citizenship obligations. See, for example, Wilding (1992: 208-209) and Rudd (2001: 423).

<sup>63</sup> Wilding concludes:

What we have seen is a firm challenge to the principle, scope and instruments of collective provision. That challenge has an important impact on those committed to welfare state-type policies. We are all less statist than in the past. We are all much more dubious about bureaucracy as an effective instrument. We are all more sceptical about the skills and disinterestedness of the professions (1992: 202).



will be much less attached politically to the welfare state than the preceding generations that built it and profited from it (2000: 29).<sup>64</sup>

Thus, the effect of the myriad of small changes has been a fundamental change to attitudes and approaches, which has in turn had a dramatic effect on policy paths and problem-solving frameworks. Contrary to the Friedmans' claims that, judged by practice, they have been on the losing side, new ideas have brought a 'major change not only in government policies, but in the economic and political culture in which those policies were implemented' (Marginson 1992: 3). Overall, the result is a change in ideas *and* practice because the informal institutions underpinning the welfare state have shifted significantly, reflecting a new vision of state-society relations.

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<sup>64</sup> On this point, see Ruth Lister et al., who found that young Britons now talked of citizenship in terms of 'responsibilities', rather than 'rights', and knew more of civil rights than political or social rights; 'Few saw social security rights as unconditional' (2003: 251). Hartley Dean reports similar results in his survey:

The majority of participants interpreted responsibility in an explicitly individualistic manner. ... notions of shared responsibility or of responsibilities that are constituted through the individual's social context were rare' (2004: 77; emphasis in original).

# CHAPTER 4

## IDEAS, INSTITUTIONS, AND THE OECD

### INTRODUCTION

**B**efore moving into an examination of the framework of ideas underpinning the OECD's more specific economic and social policy analyses, I want to draw together some of the strands from the first three chapters to set out the structure of the argument in the second section of my thesis. Thus far, I have:

- outlined the form and function of the OECD, and discussed the organisation's role as an epistemic community promulgating ideas to its members
- examined the role of ideas in policy-making, and put forward Hall's Kuhnian-inspired model to explain how sets of ideas may shift over time, and
- challenged the notion that policy-makers are path dependent and that ideas are embedded firmly in institutions, arguing that such claims focus too much on formal institutions and not enough on the impact of new ideas on informal institutions.

In the next two chapters, I want to use these notions to examine the shift in the OECD's framework of ideas over the past 40 years, and the implications of this shift for the organisation's understanding and treatment of social justice and related issues. This second section of my thesis, then, uses the OECD's economic and social policy discussions to examine the change that has occurred over time in the OECD's underlying framework of ideas, and how this paradigm shift has

affected the informal institutions incorporated in the OECD's social policy recommendations.

For my purposes, I am concerned only with what happens to policy ideas across time within the OECD. As noted in the Introduction, I am not interested here in:

- where the OECD's ideas come from (whether they originate in the OECD or whether the OECD absorbs them from member countries to refine and disperse to other members)<sup>1</sup>
- whether the OECD competes with other sources of ideas, or
- who promotes the ideas within the OECD or how they move through the OECD's internal policy development mechanisms.

These topics are both interesting and worthy of further study, as they all may have an impact on how ideas develop over time and how particular ideas come to be implemented. However, my interest in this section is an empirical examination of the change to the OECD's ideas over time, and whether the OECD's subsequent policy discussions reflect that its earlier ideas remain embedded in institutions or whether the new ideas have had an impact. As noted in Chapter 3, much of the literature discussing ideas and institutions privileges institutions over ideas, claiming that existing ideas become embedded in institutions, making them difficult to change. This would suggest that, even if there were a change in the OECD's underlying framework of ideas, there would be little change to its policy analysis and recommendations in practice because the earlier ideas have solidified, thereby confining policy-makers to existing paths. However, if my argument in Chapter 3 is valid, then such a suggestion is limited because it looks only at the way that ideas affect formal institutions and

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<sup>1</sup> It is worth noting here that the organisation has a view on the order of transfer that may or may not accord with actual events. As will be noted in the next chapter, Bakker argues that the OECD clung to its Keynesian views longer than did its members, 'nearly los[ing] the confidence of policy-makers' in its member countries in the process (1996: 3). However, in the organisation's official history, Sullivan makes the following observation about events after the OECD had shifted to the 'supply-side approaches association with the University of Chicago': 'President Ronald Reagan and Prime Minister Margaret Thatcher launched programmes of structural adjustment that *precisely reflected the new school of OECD thinking*' (1997: 41; emphasis added). Later, he notes that the OECD's supply-side approach 'was reflected in scores of countries studies, and *adopted as the new orthodoxy by member countries*' (1997: 55; emphasis added). More recently, Bayne suggests that member governments look to the OECD as a source of 'good ideas they can then pretend they thought of themselves' (2003: 239). Such comments, which allege that ideas flow from the OECD to members, suggest that the direction of the movement of ideas may be a rich field for future study.

not at the impact they have on informal institutions.<sup>2</sup> The effect of focusing too narrowly on the mechanics of policy ignores what is happening to the underlying reasoning for policy (and the attitudes towards policy) and how this affects policy goals. An examination of the change to the OECD's framework of ideas, and the effects of this change on its attitude towards social issues, should add usefully to the debate about ideas and institutions, enhancing the understanding of the relationship between the two.

In Chapter 5, I will explore the OECD's underlying paradigm, using its main economic policy series, the *Economic Outlook*. The discussions in these documents reveal a fundamental shift in the OECD's thinking from what it has called Keynesianism to what it calls the 'supply-side', but what I understand to be neo-liberalism. This significant change can be understood in terms of Hall's Kuhnian-influenced model of paradigm shifts, as outlined in Chapter 2. To recap briefly, according to Hall, ideas provide a framework or 'policy paradigm' through which policy-makers understand the world and how it works. Policy-makers use this 'interpretative framework' to discern policy problems and solutions, and the paradigm 'specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing' (Hall 1993: 279). The policy options formulated within this framework are intellectually plausible, persuasive, and credible because they are based on the accepted world-view of what can be achieved through policy and how. However, an existing, accepted paradigm can lose its dominant position to an alternative when the problems (or 'puzzles') that it cannot explain 'accumulate to the point of throwing the reigning model into crisis' (Jacobsen 1995: 293). The successor theory is seen to be 'better at explaining the empirical observations that remained anomalous in terms of the earlier theory' (Hall 1989: 9).<sup>3</sup>

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<sup>2</sup> It may be useful to recall here my definition of formal and informal institutions: formal institutions are rules, laws, structures, organisations, and so on, while informal institutions are norms, values, attitudes, implicit codes of conduct, and so on.

<sup>3</sup> The new paradigm offers policy-makers a more plausible explanation of current problems and their possible solutions. Kuhn describes such change as a 'revolution' because the transition is not an incremental, cumulative process, but a 'reconstruction of the field from new fundamentals' (1970: 85).

This is not to argue that the OECD's shift from Keynesianism to neo-liberalism, or its paradigm 'revolution' (to use Kuhn's term), is simply a matter of the replacement of one set of *technical* ideas with another. As noted in Chapter 2, paradigms in the social sciences are inherently political, and Hall notes Kuhn's point that paradigms are 'by definition never fully commensurable in scientific or technical terms'. Each paradigm contains its own, different account of how the world works, which means 'it is often impossible for the advocates of different paradigms to agree on a common body of data against which a technical judgment in favor of one paradigm over another might be made' (Hall 1993: 280). Thus, paradigms are political, not only in the sense in which they form and align interest groups which then use them to attack and change conventional wisdom, but also in the more intangible sense in which the paradigm itself 'frames' policy problems and solutions. In the latter, both the content of the ideas themselves and the discourse used to express and implement them act to constrain (or enhance) the options available to policy-makers. As noted in Chapter 2, if a judgment between policy paradigms cannot be based on 'hard scientific evidence', then the selection of one set of ideas over another (or others) is a political contest over which paradigm (set of ideas) can gain the most adherents and become accepted as the most convincing in explaining particular policy problems. I have noted already that the political contest between policy agents is outside the scope of this thesis. My argument here is that the contest is not always about formal institutions or path-dependency or interests, but can reflect the content of the idea and its associated discourse. Consequently, my principle concern is with the changing *content* of the OECD's underlying framework of ideas, and the implications of such change. I contend that, allowing for the shortcomings in Hall's model, it remains a useful general schema with which to explain the events and consequences of a shift in the OECD's ideas over time. I argue in Chapters 5 and 6 that the result of the shift in the OECD's underlying paradigm is a transformation in the political arrangement of state-society relations, roles, and responsibilities.

The neo-liberal paradigm, or interpretative framework of ideas, brings with it new specifications of both policy goals and the kinds of instruments that can be used to attain them, based on a new understanding of the nature of the policy problems that are to be addressed. That is, the neo-liberal paradigm, or the 'prism through which policy-makers [see] the economy as well as their role

within it' (Hall 1993: 279), brings with it a new way of thinking about state-society relations that fundamentally alters the OECD's understanding and treatment of social justice and related issues. As will be outlined in Chapter 5, the OECD acknowledges the shift in its paradigm over the years since its inception, but it presents the change as an inevitable, unproblematic – and non-political – response to the failure of Keynesian policies to resolve serious economic problems. In a special chapter in *Economic Outlook 50* (1991b: 1-11), it explicitly acknowledges a change in paradigm, but without recognising the implications. It notes that the 'widespread confidence' in active demand management policies of the 1960s had, by the end of the 1970s, given way to the need for 'new solutions' and reforms of economic structures in the face of problems with high inflation and slow growth (1991b: 1, 6). It observes that the new policy orientation gives priority to inflation control, decreasing both the budget deficit and the weight of the public sector, and reversing the trend towards structural rigidities (1991b: 7, 8). In its 50<sup>th</sup> anniversary publication, *From War to Wealth*, the organisation notes that, in the wake of problems with the Keynesian economic model, it converted 'the house that Keynes built' into a 'dormitory for supply-siders' (Sullivan 1997: 50, 55).<sup>4</sup> In the words of the history's author, Scott Sullivan: 'So moved the world' (1997: 41).

Sullivan's publication presents the move as a straightforward response to economic developments of the time, observing that 'Keynes's elegant model worked almost magically in the economic environment of the 1960s', but there were 'several worms in the apple' (1997: 35, 36). He argues that the 'comfortable consumer society' that OECD members had built in the post-war period had 'failed to satisfy the psychological demands of many who benefited from it' (1997: 36). In addition, he claims, it was also unable to cope with the economic crisis brought about by the collapse of the Bretton Woods agreement and Organisation of Petroleum Exporting Countries (OPEC) price rises (the 'oil shocks') of the 1970s (1997: 36-39). As inflation veered towards 'stagflation' and unemployment continued to rise, '[s]uddenly, the Keynesian economic model seemed no longer to fit the facts' (1997: 37). The state intervention of the 1960s and early 1970s was now seen as the disease rather than the cure, and Sullivan

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<sup>4</sup> The 1997 publication celebrates 50 years of the OECD, which formally came into being 36 years earlier (1961), because it traces the organisation's inception to the Marshall Plan of 1947, out of which came the Organisation for European Economic Co-operation (OEEC), which later became the Organisation for Economic Co-operation and Development (OECD). For full details, see Chapter 1.

notes that '[m]ore and more the Organisation's economists concentrated on monetary issues rather than the fiscal "fine-tuning" of the 1960s' (1997: 41). As a result, he contends policies associated with intervention came under scrutiny:

The experts began to look critically at the huge increases in public-sector employment and welfare programmes – and to question their sustainability. The second oil shock in 1979 shifted the OECD's Economics Department further to the supply-side approaches associated with the University of Chicago (1997: 41).

In both *Economic Outlook 50* (1991b) and *From War to Wealth*, the discussions suggest that the OECD considers its new framework of analysis to be nothing more than a change in the means to achieve its existing set of policy goals. That is, the move from Keynesian demand management, which was predicated on an actively interventionist state, to a supply-side approach, which favoured a much less interventionist state, simply offers new mechanisms to deal with old problems. Accordingly, the new thinking involves only a change in means, with the ends or goals of policy remaining the same. Such a view neglects the implications of a paradigm shift as outlined in Chapter 2: that a new paradigm incorporates new assumptions that change what policy *goals* can be, and that make the old paradigm's methods for attaining policy goals impossible. We need to recall here Kuhn's comments on a 'revolution' or 'reconstruction of the field from new fundamentals', such that 'the profession will have changed its view of the field, its method *and its goals*' (Kuhn 1970: 85; emphasis added). The important point is that the new paradigm is not simply a different view of how the world works, *it is* how the world works; that is, it is not that the paradigm's practitioners 'see something *as* something else; instead, they simply see it' (Kuhn 1970: 85; emphasis in original). In this sense, a new paradigm offers not a new understanding of how an existing world works, but a new interpretation of what the world is, how it works, and what can and cannot be considered as policy problems and solutions.

Although the OECD may present the shift as simply an unproblematic change in means to achieve the same ends, it is, in fact, more complicated, with a change in means changing the ends. The new paradigm affects 'not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing' (Hall 1993: 279). Thus,

the new framework brings with it a new interpretation of policy problems and solutions such that many old problems are now incomprehensible. Although it may appear that some policies are altered only at the margins (alongside other, new policies being introduced), the underlying reasoning for all the policies – new and existing – is different, which may significantly alter policy aims and outcomes. As will be outlined in the next two chapters, the shift in the framework that the OECD uses for its policy analyses transforms the role of the state and its relationship with its constituent society. The result is that some previously accepted state roles and responsibilities are no longer acceptable or plausible.

A complicating factor here is that, although some of the discourse with which the OECD discusses policy solutions and problems remains the same, the meanings of the terms (and the plausibility of the various solutions that the terminology evokes) are understood through a new interpretative framework. Thus, the new lens may result in meanings that are significantly different to earlier interpretations.<sup>5</sup> It is useful to recall here Robert Lieberman's observation, noted in Chapter 2, that changes over time in the interpretation and framing of 'deeply rooted' concepts may mean that terms such as 'liberty' or 'equality' are invoked to support significantly different practices. Those who use them, while differing in their understanding of the terms, may 'all the while believe themselves to be upholding a timeless and unchanging political tradition' (2002: 702). The implication for the OECD's policy analyses is that many of the earlier terms it used to discuss policy problems and solutions are now either obsolete or interpreted in new ways. As a result, the former definitions of these old terms and descriptions do not necessarily apply when they are used under the new paradigm.

Another complicating factor is that the OECD appears to use the words 'equality' and 'equity' interchangeably, although the tendency is towards the latter from the about the time it turned to the 'supply-side approach'. According to the dictionary, 'equality' is the 'condition of being equal in quantity, magnitude, value, intensity, etc.', while 'equity' is 'fairness, impartiality' (Brown 1993: 841,

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<sup>5</sup> For example, poverty and dependency are among the myriad terms now understood in different ways: the root causes of these problems are seen differently, as are state and individual roles and responsibilities in resolving them. Chapter 6 will discuss these changes in depth.



843). These are different, though in the context under review here, related concepts. That said, the subtleties of the distinction often are not clear in the OECD's discussions, perhaps because it has come to understand equality in terms of an *acceptable* distribution, rather than an *equal* distribution. Thus, it notes in a special chapter, 'Growth, Equity and Distribution', in *Economic Outlook* 60 (1996b) that:

*Excessive inequality* of both income and wealth, which may arise from unfettered play of market forces, is *widely considered unjust* (1996b: 36; emphasis added).

In this chapter, the OECD uses the work of S. Kuznets (1955) to argue for a link between income distribution and growth, according to which the distribution of earnings is said to narrow as countries develop economically (1996b: 37). The tenor of this chapter is that 'policies that attempt to equalise income distributions' result in more harm than good because of their negative effects on the market and incentives to work. As a result of this view of redistribution programmes, the OECD looks towards employment as a solution to inequality of income distribution, arguing that: 'it is important to note that greater employment will tend to reduce inequality' (1996b: 39). For this reason, it urges members to implement the reforms recommended in its Jobs Strategy (1996b: 41). Thus, the chapter title is 'equity', but much of the discussion is about 'inequality'. To avoid confusion, I initially endeavoured to use the term 'equality' unless in a direct quote, because this appears to be the concern of the OECD's members; that is, the OECD cites its members' concerns about increasing 'inequality' as a reason that members give for not pursuing the OECD's recommended policy directions (for example, the OECD Jobs Strategy). However, the OECD's consistent use of the word 'equity' in its later policy discussions made this choice difficult to maintain, so I have used the term 'equality' where possible, and 'equity' where this clearly is the focus of the OECD's discussion.

The reconstruction of the world, its constituent problems and solutions, and the discourse used to discuss these problems has implications for the OECD's understanding and treatment of social justice and related issues that will be canvassed in Chapter 6. Here, however, it is worth noting that the shift in the OECD's underlying ideas and discourse is the key to understanding the dispute between the OECD and its critics over the organisation's attitude to social issues. The OECD claims to have gone beyond supply-side theory to blend it 'with a

sense of social obligation' (Sullivan 1997: 59). Nevertheless, Sullivan notes, in France it was dubbed 'the house of the single policy' amid criticism that was 'insensitive' to the negative consequences of its recommended policies on the jobless, the ageing, and 'those incapable of adapting to a harsh new world' (1997: 55). In addition, Secretary-General Donald Johnston has noted on several occasions that there is an 'impression' that OECD reforms placed 'too little emphasis on social objectives' (Johnston, quoted in Sullivan 1997: 9; Johnston 1997: 9-11; 1999: 3-4). The OECD has rejected such criticisms as 'nonsense' on the grounds that '[n]ever before in its history had the Organisation been so deeply involved in analysing social issues and producing proposals to limit social damage' (Sullivan 1997: 55). The explanation for the dispute may lie in the different understandings of such terms as 'social justice' and the different underlying assumptions about the means and goals of policy. It is in this sense that the effects of a shift in the ideas underpinning the OECD's policy analysis and recommendations are more dramatic than the organisation comprehends or acknowledges. These issues are the focus of the next two chapters.

## LOOKING FOR IDEAS:

### THE *ECONOMIC OUTLOOK* AND SOCIAL POLICY DOCUMENTS

The clearest and most obvious exposition of the OECD's economic ideas is its biannual publication, *Economic Outlook*. The *Outlook*, which is published in June/July and December each year, first appeared in July 1967, and as at May 2004, the organisation had published 74 volumes. The regularity of the series, and its appearance in the early years of the OECD, make it an ideal publication through which to trace changes in the OECD's ideas. The *Outlook* captures the changes in OECD thinking on economic and social problems and solutions, mostly within the OECD's membership area, but expanding over the years to a more 'global' context in keeping with the OECD's founding principles of making an active contribution to economic expansion and world trade.<sup>6</sup> The following

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<sup>6</sup> The back cover of *Economic Outlook* 72 (2002b) notes that:

Developments in selected major non-OECD countries are also evaluated in detail. Together with a wide range of cross-country statistics, the *Outlook* provides a unique tool to keep abreast of world economic developments.

The previous few editions had been slightly more specific, noting on their back covers:

Recent measures and forthcoming developments in major non-OECD economies in East Asia, Central and Eastern Europe (particularly Russia), and South America are

two chapters use material from all parts of the *Economic Outlook* except the country-specific sections in which the OECD analyses what is happening in each of its member countries. These sections have been excluded because the focus of the examination is the OECD's overview and assessment of general trends, and its subsequent across-the-board recommendations, rather than its specific advice to individual members. Although the publication is called the '*Economic Outlook*' and ostensibly discusses economic issues, the discussion in the documents is not solely about economic policy *per se*, which means it is possible to use the *Outlook* as a source for OECD attitudes to social justice and related issues. The broader coverage reflects the fact that economic, social, and employment policies often overlap in a way that makes it difficult to separate each policy area into discrete policy units.<sup>7</sup>

The OECD's evaluation of social issues has not been the subject of such a neat sequence of documents as economic issues. In the early period, documents specifically on this policy area are sparse and I have had to rely on reports of meetings and decisions of the Manpower and Social Affairs Committee and Directorate published in the *OECD Observer*. From the early 1980s, however, when the OECD published the papers and proceedings of its 'Social Policies in the 1980s' conference as the now legendary (in this field) *The Welfare State in Crisis* (1981c), more detailed social policy discussion documents are available. As will be noted in Chapter 6, these documents, like the *Economic Outlook*, are not always confined strictly to social policy, and from the 1980s onwards place considerable stress on the interconnectivity of economic and social policy, and especially the impact that social policies have on the economy. For example, in 1988, it argued that a lesson from the decade after the first oil shock in 1973 was the 'need to link social and economic policies more closely', with both sets of policies needing to 'take account' of the consequences on the other (1988c: 7). Or, as then OECD Secretary-General Jean-Claude Paye noted in 1985:

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also evaluated in detail. Each edition of this *Outlook* provides a unique tool to keep abreast of world economic developments.

See, for example, the back cover of *Economic Outlook* 68 (2000b). I find this an intriguing interpretation of 'world'.

<sup>7</sup> Secretary-General Donald Johnston notes that:

the concerns of social, employment and education policies are now very closely interwoven. No set of policies in one of these areas of responsibility will achieve its goals without a corresponding and supporting contribution from other policy sectors (1997: 10).

Because economic policies have social consequences and social policies have economic consequences, it is essential that OECD countries seek to achieve their economic and social objectives through the coordination of both sets of policies (1985c: 7).

It is for this reason that my examination of the implications of the change in paradigm for the OECD's understanding and treatment of social justice and related issues uses both the *Economic Outlook* and the social policy documents. This examination reveals that, by the mid-1990s, although the OECD talked of the need to achieve both economic and social goals, it understood the latter to be subordinate to the former.

Looking in more detail at the economic policy sequence, the *Economic Outlook* is the joint work of members of the Economics Department, although department head Ignazio Visco acknowledged in 1998 that the analysis 'also benefited from discussions with colleagues throughout the Organisation' (OECD: 1998a: iv). To what extent the views of these colleagues in other departments are included is not known, and is outside the scope of this thesis.<sup>8</sup> The important point to observe here is that the *Outlook*, like the social policy documents I have examined, is published on the responsibility of the Secretary-General. This means that its contents represent an official view of the OECD rather than simply the opinions of an individual author (or authors), whichever department he, she, or they are from. Such independence of view is reinforced in the phrasing of the OECD in the *Economic Outlook*, when it refers to itself in the third person as 'the OECD Secretariat', with the assessments, suggestions, and recommendations being made by 'the Secretariat'. In a similar vein, an OECD Powerpoint presentation available through the organisation's web site reveals the independence of the Secretariat. In a slide, 'Who drives OECD work?', a diagram of a triangle puts 'the Council' at the top, 'the Secretariat' at one corner and 'Committees' at the other (OECD 2004). The latter are described as representatives of member countries working with the OECD Secretariat on specific issues, while the Secretariat is described as driving 'analysis and proposals'. As discussed in Chapter 1, the control over analysis and proposals gives the Secretariat considerable influence.

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<sup>8</sup> As observed in the Introduction to this thesis, there are many future avenues of research into the OECD, including the process through which the organisation's policy recommendations are produced.

Until 1989, the stated purpose of the *Economic Outlook* was to ‘provide a periodic assessment of economic trends and prospects in OECD countries’ (1967a–1989b: ii). Initially, the OECD also noted the economic importance of its members to the larger world, qualifying its opening statement with the observation that these developments within OECD countries ‘largely determine the course of the world economy’. This additional clause was dropped in *Economic Outlook* 47 (1990a) and the word ‘policy’ was added to the list of what was being assessed, so that, from this edition, the *Outlook* examined members’ economic trends, prospects *and* policies (1990a–1997b: ii).<sup>9</sup> Every edition of the *Outlook* has noted that the assessments of member countries’ prospects ‘do not necessarily correspond to those of the national authorities concerned’, a statement that reinforces the status of the *Economic Outlook* as containing the OECD’s own, distinct view, and not simply a collation of individual members’ views.<sup>10</sup> That the OECD puts forward assessments in the *Economic Outlook* that may contradict those of its members is consistent with the OECD’s claim to be an independent body that ‘criticises less-than-best practice in members and non-members alike’ (Sullivan 1997: 49).<sup>11</sup>

The important point here is that the word ‘assessment’ implies that the OECD is examining and weighing members’ policies according to its own set of ideas and criteria for good policy. That is, the OECD’s assessment contained in its *Economic Outlook* is more than description; it is also a judgment approving or disapproving members’ actions based on the OECD’s evaluation of members’ policies. As touched on briefly in a footnote in Chapter 1, the OECD has acknowledged this element in its analysis, noting in *Economic Outlook* 53 (1993a) in a special chapter,

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<sup>9</sup> We should note here that the assessment is not only of policies, but also of prospects. That is, the OECD is examining what is happening within member countries and giving its opinion on situations and outcomes assessed through its own interpretative framework. In addition, it must be noted that, although the papers may appear simply to be cross-country comparisons, discussing how members deal with policy problems such as unemployment and poverty, buried within these discussions are comments about what member governments *should be doing* and what policies they *should implement*. These recommendations for ‘best practice’ give a clear indication of the type of policy the OECD favours.

<sup>10</sup> As noted above, such independence is reflected in the OECD’s terminology when it refers to assessments, suggestions, and recommendations as coming from ‘the Secretariat’ and when it observes, as it did in *Economic Outlook* 19 (1976a), that the views of the ‘national authorities of Member countries’ on activities in the OECD area were ‘very similar to that *forecast by the Secretariat*’ (1976a: 9; emphasis added). That is, the OECD Secretariat’s forecast is distinct from those of its members.

<sup>11</sup> This was discussed in more detail in Chapter 1.

'How Accurate are Economic Outlook Projections?', that any assessment of accuracy has to bear in mind that the projections are 'not purely model-based numbers'. Rather, it observes, projections are both *conditional*, being based on assumptions concerning exogenous variables and the stance of member policies, and *judgmental*, 'drawing on the expertise and knowledge of the OECD Secretariat in respect of factors that are not reflected in pure model-based projections' (1993a: 49). It is these assumptions and judgments that are of interest when tracing changes in the OECD's ideas because they reveal both the formal and informal institutions of the OECD's world-view.

In *Economic Outlook* 63 (1998a), the OECD changed the format of the documents to make them more 'user friendly' (1998a: iii). It added a 'Foreword' by Visco (renamed 'Editorial' from 2000a) that outlined what each *Economic Outlook* contained.<sup>12</sup> In addition, in a new statement regarding the purpose of the series, it noted that it 'analyses prospective economic developments in OECD countries over the coming two years and *provides recommendations* on the economic policies needed to ensure sustainable economic growth' (1998a onwards; emphasis added).<sup>13</sup> This statement, repeated since June 1998, formally acknowledges that the OECD uses the *Outlook* to make recommendations to its members about what they should do. That is, the *Outlook* has moved beyond its initial descriptive commentary and assessment of economic developments within member countries, and likely prospects, to take a more prescriptive position, outlining what it believes members should be doing in response to the OECD's assessment of the current situation.

Such acknowledgment reveals much about the shifting role of the OECD. The early editions were descriptive, cross-country comparisons of members' internal policies, and the general economic prospects for the coming 12-18 months. Forecasts then, as now, were 'built strictly on the basis of policies as at present known', based on existing or announced policies, and no changes in exchange rates or oil prices (1974b: 6; 1975a: 6). But comment on these 'present policies'

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<sup>12</sup> Since *Economic Outlook* 72 (2002b), Chief Economist Jean-Philippe Cotis has written the 'Editorial'.

<sup>13</sup> Only in the first of these revamped documents (*Economic Outlook* 63) did this statement make specific reference to the economic growth being 'within OECD countries', revealing the OECD's desire to concentrate on the broader state of international economic affairs (1998a: iii).

was confined to the 'Introduction', and when the OECD did suggest alterations to policy, it couched its advice in conditional language that made heavy use of qualifiers. Rather than make outright recommendations, as in the later papers, the OECD Secretariat 'suggested' that particular policies 'may be desirable' or 'would seem to be necessary' (1972b: 12, 13). It was also conservative in its assessment of its ability to make suggestions that were applicable to all members, noting that: 'Social and institutional conditions vary so widely between individual countries that general prescriptions for counter-cyclical fiscal policy risk being of limited validity' (1973a: 6). This is an explicit acknowledgment that its member countries were different, such that one policy would not fit all. In addition, the organisation observed that some areas were outside its range of comment.

Gradually, however, the descriptive, qualified commentary gave way to more overt prescription such that, in the more recent editions, member countries have been scolded for not implementing what the OECD has recommended.<sup>14</sup> It appears in these later papers that the descriptive and prescriptive sections have been reversed, with the descriptive economic overview confined to a shorter 'Introduction' (of two to three pages) and the prescriptive advice filling subsequent sections. After several years of having sub-sections in the 'Introduction' on 'implications for policy' or 'policies for a better outcome', in *Economic Outlook* 44 (1988b) the OECD called this sub-section, 'policy requirements', and gave prescriptive policy advice to its members (1988b: xii; emphasis added). It eventually shifted this sub-section into its first chapter, 'OECD Economic Outlook and Policies' (1993a to 1997b) – later renamed 'General Assessment of the Macroeconomic Situation' (1998a onwards) – making it into a major sub-section, 'Policy Requirements in OECD Countries' in the editions from *Economic Outlook* 63 (1998a) to *Economic Outlook* 70 (2001b). Since then, the section has been called, 'Economic Policy Challenges' (2002b), 'Macroeconomic Policy Challenges' and 'Stepping Up Structural Reform to Boost Growth and Resilience to Shocks' (2003a), and simply 'Policy Issues' (2003b).

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<sup>14</sup> Members have been told that 'more could be done' by way of reform (1988a: xi); that their 'failure to move more boldly' in agricultural reform constituted a 'major shortcoming' in their structural adjustment programmes (1988a: 73); that they had not 'fully implemented' or 'fully exploited' commitments or possibilities to improve public finances (1992a: x); and that only a few countries had 'acted forcefully enough' in labour market and social policy reforms (1997a: 19).

Whereas the earlier editions were short collations of commentary and statistical data, the later documents are lengthier and more sophisticated, containing detailed arguments for particular policy positions. This is not to claim that the early editions did not provide detail on favoured policy ideas. The *Economic Outlook* has always had the option of including 'special studies by members of the Department or other parts of the Organisation designed to assist the interpretation of economic trends' (1967a onwards: inside cover). In the earliest papers, these 'special sections', which were on topics of particular interest in the economic climate of the time (such as inflation and exchange rates), were only two to three pages long. By the late 1990s, they had become full chapters in their own right, commenting on everything from technical economic issues, such as 'increased capital mobility' and 'liberalisation', to social issues, such as 'growth, equity and distribution' and 'income distribution and poverty'.

An obvious reason for the change is that the organisation itself has become more sophisticated; it has, in essence, 'grown up', becoming a more confident independent actor in the international arena. However, another possible reason for the change is that the later documents reflect the organisation's need to provide justification for the view of policy problems with which it is confronting its members and solutions that may not readily be acceptable. The comments in the earlier editions arose from an accepted policy consensus; this meant that lengthy explanations and justifications for particular policy recommendations, such as demand management, were not required. However, the later papers can be seen as endeavouring to build a new policy consensus, with the OECD attempting to formulate, and have accepted by its members, a new, mutually beneficial policy framework. This is a likely scenario given that the OECD acknowledged concerns that the negative effects of recommended reforms 'could exacerbate social problems and hardship in the short term' (1995b: 7). As a result, the documents have to supply members' politicians and bureaucrats with the information they will need to sway opinion and convince their home country audience of the need for the new policy direction, and the validity of suggested options. Johnston is particularly cognisant of the need to reassure the public, noting on several occasions his fear of a backlash against:

an economic strategy of prudent macroeconomic policy, including fiscal consolidation, structural reform and market liberalisation ...



because of the impression that it places too little emphasis on social objectives (1996: 9).<sup>15</sup>

The OECD's awareness of the need to sway public opinion so that it supports the new policy directions is discussed in Chapter 6. Here, it is worth noting Johnston's comment that, although the 'language of sacrifice is not designed to win hearts and minds', the 'message' that the OECD wanted to 'promote' was that controlling public-sector deficits and debt was a 'necessary condition' for maintaining social protection and social well-being in future years (1997: 10).

The examination of the policy stance contained in the *Economic Outlook* does not aim to be an analysis of OECD policy, assessing the coherence or validity of the specific economic measures suggested by the OECD. Nor does it aim to give a detailed descriptive account of the OECD's policy analysis and recommendations as contained in the documents, although some description is inevitable in order to provide an outline of the OECD's policy framework and an overview of its policy. Rather, the aim is to use the contents of the *Economic Outlook* to demonstrate the OECD's understanding of particular policy issues, especially social issues and the attitude to social justice contained therein. For this reason, the examination focuses on the assumptions that underpin the policy framework on which the OECD bases its recommendations, and the justifications offered for pursuing particular policy options. When used to elaborate the OECD's assumptions and justifications, the documents provide a useful indicator of the OECD's thinking because they reveal how the OECD understands the various issues to fit together. The OECD's assumptions and justifications can be traced in the *Economic Outlook* through the issues that the OECD is prepared to discuss as policy problems, the subsequent policy options that it recommends, and its comments on the expected consequences of particular policy options. Accordingly, I am not especially concerned with the actual *economics* of the documents and a tedious noting of particular economic policies, but with the justifications offered for particular policy recommendations, the assumptions underpinning these justifications, and the implications they have for the OECD's understanding and treatment of social justice. The OECD itself has observed the importance of its underlying assumptions, noting in *Economic Outlook* 50, in a

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<sup>15</sup> See also Johnston (1999: 3-4), and Sullivan's comment that Johnston has 'warned of a possibly violent popular "backlash" against too much austerity, too-rapid budget cutting, too little thought for the needs of ordinary citizens' (1997: 108).

review of economic policy-making since the 1960s, that the faith in demand management to achieve economic growth was ‘implicitly reflected’ in *Economic Outlook 1* (1967a) in the way that it phrased its policy assessment (see OECD 1991b: 1)

The focus of my discussion, then, is on the problematisations that the OECD uses to present its view of policy problems and solutions. As outlined in Chapter 2, Carol Bacchi argues that policy problems do not exist independently of the way they are represented, and any description of a policy issue is an interpretation, which, by definition, involves judgment and choices. The next two chapters apply this approach to examine the OECD’s underlying framework of ideas. The argument is that the way that the OECD problematises a policy issue and the range of viable solutions reveals the ideas and assumptions on which its judgment and choices are based. Thus, my exploration of the OECD’s policy discussions examines (in Bacchi’s terms):

- what is the ‘problem’ represented to be?
- what presuppositions are implied or taken for granted in the problem representation which is offered?
- what effects are connected to this representation of the ‘problem’?

I will argue in Chapters 5 and 6 that the OECD’s new framework, neo-liberalism, understands policy problems to be the result of impediments that prevent the free market from achieving growth and prosperity for all who are prepared to act as responsible economic agents. According to this problematisation, many of the impediments are related to too much state intervention (of a particular kind) and too little individual self-responsibility. Social transfers, such as unemployment benefits, for example, create the wrong behaviour on the part of individuals, who are understood to be rational self-interested maximisers who prefer to gain the most for the least effort expended. Incorporated in this problematisation is a presupposition that all unemployment is voluntary and that individuals would rather accept hand-outs from the state than work.

The effects of this representation of the problem are to eliminate many of the previously accepted methods for achieving social goals and to change what can be considered to be acceptable or ‘legitimate’ social objectives. Both economic and social issues are subject to assumptions that the state’s role should be limited

to actions that do not interfere with the functioning of the market and that encourage individuals to become self-responsible economic agents. The assumptions of a decreased and limited role for the state, and an increased role for individual self-responsibility, leave no option but to reinterpret social policy objectives. State intervention to achieve equality or redistribution is no longer desirable, nor is it comprehensible, in a framework that understands inequality as providing incentives for individuals to better themselves and social transfers as having negative consequences for the economy and for individuals (creating disincentives to work or improve skills).

However, as noted in Chapter 3, achieving change in the formal institutions of policy that arise from these ideas requires an associated change in their supporting informal institutions. Attempts to alter the former without associated alterations in the latter give rise to unsustainable tension as the new formal institutions clash with society's norms and expectations. Such tension can manifest itself in protests against the changes, flagrant breaches of the new formal institutions, or voter backlash. As will be canvassed in Chapter 6, the OECD is aware of the impact of informal institutions on society's attitudes to its new range of policies, noting the difficulties of achieving expenditure reform because of the 'entrenched expectations of acquired rights and implicit social contracts' (1994b: xiii). Thus, additional effects of the OECD's representations of policy problems under its new paradigm include a reconfigured set of informal institutions designed to support neo-liberal policy solutions. Among these new informal institutions are frames and names that suggest:

- that former conceptions of social justice and related issues are no longer affordable
- that the unemployed are bludgers who choose to be without work and who need to be coerced back into work through cutting their 'generous' benefits, and
- that social transfers encourage some people to be lazy at the expense of those who are prepared to work.

Chapter 6 concludes that this shift in informal institutions suggests that there are problems with the arguments for path dependency and institutional lock-in with regard to the welfare state. That is, ideas are not embedded as firmly in institutions as some theorists would claim.

## CHAPTER 5

# SHIFTING PARADIGMS: RECONSTRUCTING 'THE HOUSE THAT KEYNES BUILT'

### INTRODUCTION

Two key questions occupy the final two chapters of my thesis: how have the OECD's ideas changed over time, and what have the implications been for the organisation's understanding (and treatment) of social justice and related issues. As will be examined in the next chapter, a striking feature of the OECD's discussions in its premier economic policy document – the *Economic Outlook* – from the mid-1990s is the linking of economic and social issues in ways that suggest the organisation is equally concerned with both policy areas. That is, the OECD is not prioritising the economic over the social, but instead refers to the need to achieve both economic *and* social goals as well as economic *and* social well-being, with neither area being subordinate to the other. The OECD's discussions of the issues of equality of income and poverty alleviation are augmented with discussions of the need for member governments to ensure that they maintain 'social cohesion' by targeting not only poverty, but also 'social exclusion' and 'marginalisation'. The terms of such discussions may suggest that the organisation's concerns remain the same as they were in the early years of its existence when it talked of the need to tackle, for example, inflation because of the 'social inequities', 'social strains', and 'unfair' 'distortions of income and wealth patterns' it created (OECD 1970a: viii; 1973a: 8).

However, such an observation overlooks the effects of changes in the ideas underpinning the OECD's policy analysis and recommendations over the past 40 years. An examination of the OECD's policy documents since 1961 reveals a major change in the OECD's understanding of policy problems and viable solutions that dramatically affects what it means when talking of such things as social stability and its underlying causes. This change in thinking can be understood in terms of the Kuhnian-influenced model of policy paradigms outlined in Chapter 2, and can be described as a paradigm shift in which the dominant paradigm (or set of ideas) of the OECD's early years – Keynesianism<sup>1</sup> – was replaced with what the OECD called a 'supply-side approach' when the OECD came to consider Keynesianism to be less effective at explaining existing and arising policy problems than its replacement.

The organisation itself acknowledges such a shift in the ideas underpinning its policy. It freely admits to being Keynesian in its early years, observing in its 50<sup>th</sup> anniversary publication, *From War to Wealth*, that in the 'heyday' of Keynesianism, one of the OECD's 'nicknames' was 'the house that Keynes built' (Sullivan 1997: 50). The organisation notes in this publication that, under pressure from a series of economic shocks, Keynesianism gave way to a new framework, as the 'expansionist Keynesian economic model which had guided OECD through its first 20 years was amended, attacked and ultimately discarded for the supply-side approach' (Sullivan 1997: 7). However, in acknowledging this shift in its policy paradigm, the OECD overlooks the consequences for policy goals. It presents the change as an inevitable, unproblematic – and non-political – response to what it perceives is the failure of Keynesian policies to resolve serious economic problems. The OECD's discussions suggest that it views its new paradigm as simply a change in the means to achieve its existing set of policy goals. That is, the move from Keynesian demand management, which was predicated on an actively interventionist state, to a supply-side approach, which favours a much less interventionist state, simply offers new measures to deal with old problems. Such a view neglects the implications of a paradigm

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<sup>1</sup> Keynesianism is, of course, a loose and contested term. As Peter Hall notes: 'Keynesianism has acquired a rather broad set of connotations ...' (1989: 5). I do not intend to enter the debate over how Keynesianism should be defined. I use it here because it is the term the OECD itself uses to describe its economic policies in this period, which were based on the accepted central tenets of Keynesianism: active state intervention in the economy to ensure full employment and prosperity. For a more extensive discussion of the interpretations of Keynesianism, see Hall (1989).

shift as outlined in Chapter 2: that a new paradigm reconstructs the understanding of the world and how it works, which affects 'not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing' (Hall 1993: 279). In this instance, the consequences of the OECD's paradigm shift include a transformation in its views concerning state-society relations and the roles and responsibilities of the state vis-à-vis individuals. Thus, the effects of a shift in the ideas underpinning the OECD's policy analysis and recommendations are more dramatic than the organisation appears to comprehend or acknowledge.

The purpose of this chapter is to lay the foundations for a subsequent examination of the OECD's treatment of social justice and related issues by first examining shifts in the framework of ideas within which the OECD locates its more specific policy analyses. As outlined in Chapter 4, I will use the OECD's *Economic Outlook* to trace these changes, looking at both the explicit and the implicit ideas of the OECD's paradigm. It is important to stress that I do not aim to offer an economic analysis, assessing the coherence or validity of the specific economic measures that the OECD recommends.<sup>2</sup> Rather, I want to examine the OECD's main ideas as revealed in the justifications it offers for its policy evaluations and the policy actions it recommends to its members. These justifications reflect the taken-for-granted assumptions that are intrinsic to a set of policy ideas, but that are rarely made explicit. Exploring the assumptions should reveal more about the ideas themselves, especially their inherent discourse and their associated informal institutions.

In the first section of the chapter, I will trace some of the major changes in the OECD's ideas before arguing that the OECD's new paradigm is not simply a 'supply-side approach', as the organisation claims, but can more correctly be understood as neo-liberalism.<sup>3</sup> I examine this by looking at four key ideas of the OECD's new paradigm: that state intervention is bad for the economy, that public debt is bad for the economy, that public spending is bad for the economy, and that the public sector itself is bad for the economy. Underpinning these

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<sup>2</sup> Nor do I aim to assess the accuracy of the OECD's economic predictions, as this has been done elsewhere. See, for example, Ash et al. (1998).

<sup>3</sup> I am not alone in making this claim. See, for example, Gélinas (2003: esp. 118-120); Scholte (2000: 2410; Crouch (1997: 357); Kelsey (1997: 17); Martin and Schumann (1997: 160).

ideas is a neo-liberal way of thinking about government as described in Chapter 3. Neo-liberalism incorporates an understanding of state-society relations in which the state's role is limited to maintaining law and order and the infrastructure of the market, and individuals – understood to be rational, self-interested maximisers – are considered to be responsible for their own well-being through their own efforts and enterprise. While, on the surface, this appears to be merely a change in means to achieve existing policy goals – for example, the responsibility for a particular outcome simply shifts from the state to the individual – in practice, such a change in means has a profound effect on goals, especially social goals. For example, the shift in emphasis from equality of outcome to equality of opportunity means that any subsequent inequality in outcome is acceptable in a way that it would not have been under the previous paradigm. I will deal with these issues more fully in the next chapter. In this chapter, I will argue that the new way of thinking about government is revealed in the way the OECD interprets and discusses (or frames and names) policy problems and what it considers to be viable solutions.

## **SHIFTING PARADIGMS:**

### **FROM 'THE HOUSE THAT KEYNES BUILT' ...**

For almost two decades after it was established, the OECD, like most of its members, 'marched to the music of Lord Maynard Keynes', such that its official history claims that in the heyday of Keynesianism, the organisation was nicknamed, 'the house that Keynes built' (Sullivan 1997: 34, 50). The Keynesian paradigm underpinned both the OECD's analysis of policy within its member states and in the world economy, and its suggestions for the policy actions it considered its members needed to take.<sup>4</sup> As Peter Hall observes more generally of Keynesianism:

Keynesian ideas ... specified what the economic world was like, how it was to be observed, which goals were attainable through policy, and what instruments should be used to attain them. They became the prism through which policy-makers saw the economy as well as their own role within it (1993: 279).

This is consistent with Hall's view of a policy paradigm, as discussed in Chapter 2. That is, Hall claims that:

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<sup>4</sup> As noted in Chapter 4, it appears that, in this early period, the OECD couched its policy views as suggestions rather than recommendations.

policy-makers customarily work within a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing (1993: 279).

The Keynesian paradigm, then, provided the OECD with a way of understanding the world and how it worked; it set out acceptable policy goals and the means to achieve them, and delineated what policy-makers could consider to be policy problems and the options available to resolve them.

An important aspect of the Keynesian world-view was the way that it structured state-society relations. The Keynesian paradigm incorporated what Hall describes as a 'rationale for more active government management of the economy' (1989: 19, 363). Hall contends that Keynesian ideas 'broke with classical views of the polity and economy as separate spheres and with the related view that the market economy was fundamentally stable or likely to function best when free from state intervention' (1989: 363). Rather, he notes, private markets were considered to be inherently unstable, but 'susceptible to correction through discretionary government action' (1989: 363). Hall argues that, through these ideas, 'Keynes provided a powerful justification for increased state intervention in the economy and contributed to a redefinition of the accepted boundaries between the public and private spheres in society' (1989: 363-364).<sup>5</sup> Thus, Hall observes, the impact of Keynesian ideas was a 'major transformation' in the role of the state that was 'one of the hallmarks of the 20th century' (1989: 4).<sup>6</sup>

As noted in the Introduction, I do not intend to offer a discussion of the OECD's interpretation of Keynes's ideas, nor will I list in detail what those policies

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<sup>5</sup> Hall contends that Keynes's arguments became 'an important ideological pillar of the social consensus endorsing a managerial state and the mixed economy in the postwar world', in that they reinforced the belief that a 'middle way' could be found between socialism and capitalism (1989: 365).

<sup>6</sup> Hall warns here that Keynes was 'by no means responsible' for the expansion of the welfare state often linked to his name, but claims that Keynes's theories placed more responsibility for economic performance on the state and loosened the fiscal constraint that prevented more generous social programmes (1989: 4). Margaret Weir notes that Keynesian economics provided the:

underpinnings for redefining the relationship between state and society in mature capitalist economies, and in so doing ... recast the terms on which major social actors, most notably capital and labor, confronted one another in the postwar world (1989: 53).



entailed. Rather, I want to observe only that a central tenet of the OECD's Keynesian paradigm was that the state was responsible for achieving particular outcomes, such as full employment, and was expected to intervene directly in the economy, via such mechanisms as demand management, to achieve these outcomes, solving whatever economic problems stood in the way. A key assumption of this world-view, then, was that markets failed in some areas, and it was a state responsibility to intervene directly to correct such failures. Accordingly, the state was to intervene to manage the level of demand in the economy; that is, the idea was that 'prosperity and full employment could be maintained almost indefinitely if overall demand were deftly controlled within a given system' (Sullivan 1997: 34). The state was also responsible for resolving the problems that caused unemployment and, until such time as it had done so and the unemployed could find work, it was responsible for providing income support to those without jobs. In an explicit example of this thinking, the OECD noted in *Economic Outlook 19* (1976a) that 'full reabsorption of the unemployed' would have to wait for lower inflation and higher growth, which meant there was 'clearly a strong case for continuing (and in some countries improving) income maintenance programmes, or state provision of benefits to those without work (1976a: 129). Importantly, then, the paradigm did not blame individuals for being out of work or consider unemployment to be a result of individual choice (that is, individuals choosing to be jobless). Rather, governments were responsible for creating and ensuring the conditions that would lead to full employment. Thus, unemployment was not an individual fault or choice, but was caused by factors that were outside individual control and within government control.

The OECD recommended a similar approach to deal with inflation; the state was expected to intervene actively to resolve the problem. Demand management measures were obvious interventions, but when these did not have desired effects, the OECD argued for broader state action. However, such measures still were based on an underlying assumption of the state taking an active role in resolving economic problems. For example, in *Economic Outlook 12* (1972b) the OECD began to suggest that members consider policies outside of demand management, saying that making an 'effective indentation' on inflation by demand management alone 'would require draconian measures of restraint' that no country would wish to impose (1972b: 6). It argued that, as '[r]esponsibility

for dealing with inflation rests with national governments', they should consider a 'multi-policy attack on inflation – of supplementing control of aggregate demand by other steps' (1972b: 5, 6). In keeping with its world-view that direct state action offered the best solution to central problems of social and economic policy, the steps the OECD sanctioned for inclusion in such a 'multi-policy attack' involved direct state intervention, and approved policies included price and income controls and '[m]ore active manpower and regional policies' (1972b: 6). In a similar vein, the OECD noted that, with unemployment, there was 'disturbing evidence' of structural causes of unemployment that might not be removed by rising aggregate demand (1972b: 6). Consequently, it argued that, if demand management proved to be an 'insufficient tool' for decreasing unemployment, '[p]olicies of more direct intervention would seem to be necessary' (1972b: 15). Thus, although the OECD was suggesting that its members look beyond demand management, the new policies still were based on an underlying assumption of the state taking an active and direct role in resolving economic problems.

### ... TO 'A DORMITORY FOR SUPPLY-SIDERS'

In its first decade, then, the OECD's Keynesian paradigm, with its central tenet of direct state intervention, provided the world-view through which the OECD interpreted and resolved policy problems. However, a series of events in the 1970s, including the oil shocks of 1973 and 1979, and subsequent problems, such as stagflation and increasing unemployment, did not appear to the OECD to respond to Keynesian solutions. Such 'puzzles' (in the Kuhnian sense) prompted the organisation to begin to question the veracity of its paradigm. Scott Sullivan observes that, while 'Keynes's elegant model worked almost magically in the economic environment of the 1960s', the crises of the 1970s led to doubts, such that, in the OECD's view, 'the Keynesian economic model seemed no longer to fit the facts' (1997: 35, 37). He goes on:

Little by little, with frequent reversals and back-sliding, they [the OECD] came to the conclusion that their Keynesian presuppositions were, if not wrong, inappropriate to a new economic environment. Increasingly, their speeches and papers called for 'positive adjustment policies,' restructuring and fiscal tightening (1997: 55).

The OECD had discussed this shift in an edition of its *Economic Outlook*. It noted in a special chapter in *Economic Outlook* 50 (1991b) that the 'widespread

confidence' in active demand management policies of the 1960s had, by the end of the 1970s, given way to the need for 'new solutions' and reforms of economic structures (1991b: 1-11). It observed that changes in both the American and British governments after the second oil shock had 'accelerated the process of trying out new solutions', with the new policy orientation giving priority to inflation control, decreasing both the budget deficit and the weight of the public sector, and reversing the trend towards structural rigidities (1991b: 7, 8).

The OECD searched for a new way to interpret and resolve the problems with which it was faced, and gradually it abandoned Keynesian ideas for what is claimed was a focus on a 'supply-side approach', or, as Sullivan pithily observed: 'The "house that Keynes built" had been converted to a dormitory for supply-siders' (1997: 55). This is not to argue that the shift from Keynesianism to a supply-side approach occurred overnight in a clean, obvious break. An examination of the *Economic Outlook* shows that the OECD continued to talk about Keynesian practices of active state intervention in the economy for several years after the main emphasis of its policy discussions shifted to the supply side. During this time, there was an overlap in policy advice. For example, in *Economic Outlook* 25 (1979a), the OECD argued for governments to improve competition and reduce income support in some areas. At the same time, it revealed doubts about the market, urging governments to take action to avoid potential excess demand for oil because taking little or no action, 'leaving the problem to be sorted out in the market', would result in an 'unacceptable' increase in inflation (1979a: 9). Similar overlap is seen in the later documents when the OECD turns its attention to social issues. Age Bakker argues that, in clinging to its Keynesian views, the OECD 'nearly lost the confidence of policy-makers' in member countries who now believed that Keynesianism 'risked seriously undermining budgetary discipline and engendering inflationary pressures' (1996: 3).<sup>7</sup> Broadly

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<sup>7</sup> Bakker claims that the OECD did not abandon Keynesianism until 1980, when the secretariat 'had to change its ideas' in the wake of a failed 'locomotive strategy' in which Japan and Germany were to have acted as a 'locomotive for the stagnating world economy by providing a budgetary stimulus' (1996: 115). He contends that the second oil crisis in 1979 'destroyed' the foundation for this plan so that, in 1980, the OECD Council of Ministers decided to pursue a comprehensive policy reorientation (1996: 115-116). While the OECD did not eliminate demand management from its recommendations, it relegates its importance beneath that of the new ideas. For example, in *Economic Outlook* 33 (1983a), the OECD explicitly stated that demand management alone was no longer sufficient to govern the economy. However, rather than urging more state intervention, as it had earlier (see above), it took a different approach. It noted that recent policy discussions on sustainable economic performance emphasised investment 'as well as the supply side of economic

speaking, however, for the purposes of discussion in this chapter, supply-side approaches came to the fore from 1975 onwards.

The overlap in advice between the Keynesian and supply-side paradigms is consistent with Hall's model of paradigm shifts, in which a dominant paradigm loses its prevailing position as the anomalies or policy 'puzzles' it cannot explain accumulate to the point of throwing the paradigm into crisis. The overlap can be seen as the period in which the Keynesian paradigm was breaking down, with the OECD still attempting to use it to interpret policy problems and provide policy solutions, before deciding to abandon it for a new set of ideas that the organisation believed was better able to explain policy issues. This is not to suggest, of course, that the shift in ideas, from Keynesianism to the supply-side, was occurring only within the OECD or that the organisation was isolated from similar changes occurring in its member countries. Given the limitations of the Kuhnian model with regard to the political aspects of a shift in ideas, it is possible that the overlap in the OECD's ideas at this time reflects the contestation over which new paradigm was to be selected. However, my principle concern is with the changing *content* of the OECD's underlying framework of ideas, which means that the politics behind the shift is outside the scope of my thesis and must be put aside for a future research project.

The OECD's version of the new paradigm is a particular interpretation of supply-side ideas. Like Keynesianism, 'supply-side' approaches encompass a number of connotations. In their economics text-book, David Begg et al. define supply-side economics as: 'the pursuit of policies aimed not at increasing aggregate demand but at increasing aggregate supply' (1987: 554). They note that supply-side policies include 'cutting the rate of income tax', which they claim is 'designed to increase households' willingness to work' (1987: 554).<sup>8</sup> However, Carles Boix

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performance more generally', with 'little of the earlier faith that demand side policies alone can ensure a satisfactory economic performance' (1983a: 8).

<sup>8</sup> This is a common reading of supply-side economics. Bruce Herd describes it as the 'the classical "trickle-down" thesis', according to which lowering the taxes that wealthy people pay encourages them to work harder and thus create wealth and employment for others (1998: 283, fn 2). He notes that, according to this view, 'low taxes for the low-paid who then have too much money, discourages hard work'. He concludes:

The contemporary ideological argument for the paradigm change that occurred from the 1970s is that the welfare state with its high taxes and wages discouraged

argues that this is only one version of the supply-side. He examines policy-making in Britain and Spain in the 1980s and uses his findings to argue that there are two main alternative supply-side strategies (1998: 3). Under the first strategy, Boix contends, the government cuts taxes to encourage private savings, boost private investment, and accelerate the rate of growth, which means that it accepts that, as a result, 'at least in the short run', lower taxes may mean less social spending and more inequality (1998: 3). He then argues for a second supply-side strategy, the policies of which are almost opposite that of the first; that is, the government increases public spending in human and fixed capital to raise the productivity rate of both (1998: 3). Boix argues that the higher productivity encourages private agents to keep investing in the face of the higher tax rates needed to pay for social transfers and public investment programmes.

Boix notes that the choice between the two strategies depends on the blend of interests and ideas. On the former, he observes that, while all governments (or parties, which are the focus of his examination) seek to develop policies that maximise growth, they adopt different approaches depending on the redistributive consequences (1998: 5). Boix argues that the different strategies have distinct consequences on the level of economic equality and contends that the 'partisan preference' between them depends on the level of inequality that the government (or political party) is prepared to tolerate. Thus, he explains:

left-wing or social democratic parties, while still concerned about maximizing growth, especially care about the welfare of workers and the less advantaged social sectors and about equality in general. On the other hand, right-wing or conservative parties care about economic growth per se regardless of its distributive effects (1998: 5).

Boix emphasises that he is not implying that conservatives oppose the equalisation of incomes; rather, he says, they reject intervention to achieve such an outcome because they are concerned about the costs involved. That is, he contends, they suspect that intervention may damage growth, upset principles of merit or desert, or deteriorate the position of their electoral constituencies (1998: 5; fn 4: 232). Boix goes on to note that, should incomes become more equal as a result of a 'natural' process of market interactions with no state intervention, conservatives would welcome this result 'as a sign of the "good" behavior of

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employers from investing in new capital thus leading to economic downturn (Wachtel 1990: 181-182, cited in Herd 1998: 283, fn 2).

markets (in rewarding, say, efforts and skills over time)' (1998: 5). On ideas, Boix argues that the choice of policy strategy adopted depends on the model or theories (or, as argued in Chapter 2, shared beliefs) the government (or, in Boix's discussion, party) has about how the economy works and what policies can be used to improve economic performance (1998: 5). Such models, he contends, posit 'certain causal relationships between the goals to be achieved and the instruments to be employed' to achieve them, and are 'indispensable to convince policy-makers about the feasibility of the goals they would ideally like to pursue' (1998: 5).

Boix argues that scholars investigating the move to supply-side policies 'have paid scant systematic attention to the political determinants of supply-side economic strategies', a deficiency that he claims to rectify in his book, in which he argues that 'partisan preferences have a key impact on the selection of the set of policies directed to shape the supply side of the economy' (1998: 11). He contends that right-wing parties (and governments) use the first of the supply-side strategies outlined above: they reject state intervention, especially in the form of public spending on capital formation policies, and keep taxation low to avoid reducing private resources that can be invested in physical and human capital. Left-wing parties (and governments) take the opposite approach, looking to state intervention through spending on infrastructure, education and so on, to increase productivity, boost the economy, and, ultimately, achieve a more equal income distribution. Boix claims that a 'pointed employment-equality trade-off' faces governments in their search for growth, and summarises this problem in the following way:

Lowering taxes and decreasing social protection to boost profits, investment, and competitiveness may cause more inequality at home. Yet an excessive commitment to public transfers, for the sake of maintaining social cohesion, may lead to a faltering economic performance (1998: 12).

What a government (or party) chooses to do reflects its partisan preference with regard to this trade-off.

An interesting, and important, question thus arises when applying Boix's argument to the OECD's claim that it has shifted to a supply-side approach: which of the two supply-side strategies outlined does the OECD

pursue? The answer, which has considerable implications for its understanding and treatment of social justice and related issues (as will be discussed in the next chapter), is clear in an examination of the OECD's policy discussions in its *Economic Outlook*. The OECD's version of the supply-side paradigm, which Sullivan claims was 'adopted as the new orthodoxy by member countries', is based on a few simple notions: 'cut budgets, eliminate labour-market rigidities, free international trade of all remaining barriers, rationalise production and exploit new technologies' (1997: 55). These policy measures are not non-partisan, but fall within Boix's outline of the right-wing or conservative interpretation of the supply-side, which can also be understood as neo-liberalism (see Chapter 3).

Ostensibly, the OECD's new framework aimed for the same outcomes as its previous model; namely, the OECD's stated objectives in its 1960 founding Convention: 'to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability ...'<sup>9</sup> As noted above, the OECD's new paradigm grew out of its concern that the old methods of managing the economy, via direct state intervention, were not working and were, in fact, exacerbating economic problems. As its faith in state intervention faltered, the OECD's commentary and policy prescriptions began to urge members to reduce direct interventions in their economies in order to remove impediments to the effective and efficient functioning of the market. According to the OECD's new paradigm, its objectives (growth, employment and higher living standards) could best be achieved through the free market; that is: 'Open and efficient markets for goods and services, fully exposed to domestic and international competition, provide the crucial underpinning for high-employment, high-income economies' (1993a: xv). This idea led the OECD to recommend that governments, which had found it 'easy to over-burden an economy' with a 'plethora of regulations, controls and other impediments to the unfettered working of market economies', remove such controls (1979b: 11; 1980a: 5). Only then, the OECD argued, could the 'animal spirits upon which the dynamism of market economies ultimately depends' be freed (1985a: ix-x).

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<sup>9</sup> A statement of the OECD's founding principles is given on the inside front cover of each edition of the *Economic Outlook*.

## KEY IDEAS OF THE NEW PARADIGM

The OECD's new paradigm includes four key, related ideas that have had a significant impact on its understanding and treatment of social justice and related issues. These are:

- direct state intervention is bad for the economy
- public debt is bad for the economy
- public spending is bad for the economy, and
- the public sector itself is bad for the economy.

In this section, I will outline these ideas, before arguing that they are based on a new way of thinking about state-society relations, roles and responsibilities and a new view of individual behaviour. The implications of these ideas for the OECD's treatment of social justice will be examined in detail in the next chapter.

### I) DIRECT STATE INTERVENTION IS BAD FOR THE ECONOMY

As outlined above, according to the OECD's Keynesian ideas, the state was expected to intervene directly in the economy to resolve problems, and solutions were not confined only to the management of demand. Rather, the OECD suggested that a range of interventionist measures be pursued, including price and income controls and active 'manpower' policies. These interventionist measures were of a particular kind; that is, the state was to take *direct* action, actively managing the economy through an extensive network of rules and regulations. Under the OECD's new neo-liberal paradigm, however, intervention of this kind is considered to be part of the problem, interfering with the natural dynamism of the market and resulting in outcomes that are inferior to those that could be produced by markets unfettered by excessive rules and regulations.

This is not to argue that the OECD is no longer in favour of any state action; rather, it wants member governments to move from *direct* intervention to – for want of a better term – *indirect* intervention, in which they leave more to the market, acting only to create the right conditions and, importantly, behaviours for the market to operate freely and efficiently. Accordingly, when arguing in 1979 for the 'imaginative identification of *appropriate* policy instruments and their determined use' (1979b: 11; emphasis added) in order to solve the broad range of



problems facing member economies, the OECD's understanding of 'appropriate' no longer centres on measures of direct intervention.<sup>10</sup> In fact, the OECD explicitly attacks such measures in *Economic Outlook 26* (1979b) when it argues:

It is easy to over-burden an economy with a proliferation of government regulations, prohibitions, incentives, requirements and standards which, to meet specific ends, simultaneously work against well-functioning markets, efficient allocation of resources, appropriate investment in capacity creation and the mobility of labour (1979b: 11).

According to the new paradigm's world-view, direct intervention causes more problems than it solves. Thus, the OECD argues:

Impediments to the operation of the market mechanism and to international trade ... create undesirable distortions and rigidities, imposing a cost in terms of lost productivity and reduced adaptiveness to change (1980a: 5).

In a similar vein, it argues that stimulatory policy used to boost flagging growth may, 'of itself, have contributed to the inflation of the 1960s' and had certainly done so in 1972-73 (1981a: 8). The OECD notes that, in hindsight, it appeared that many policies had been adopted with 'too little regard for their consistency with a desirable and sustainable pattern of medium-term development', including the need for 'responsive labour and productive markets' and 'a public sector of appropriate size and structure' (1981a: 8). This latter point, and the meaning of the word 'appropriate' in this context, will be discussed below.

Thus, the OECD's new paradigm gives it a new understanding of policy problems, their causes and the viable range of solutions. From the late 1970s-early 1980s, the OECD's analyses and recommendations are based on a new set of ideas according to which members can best achieve their goals by reducing direct intervention and working with the market, using supply-side measures such as the removal of 'structural disincentives' and 'distortions and rigidities' to expand capacity and 'improve the operation of the market mechanism' (1980a: 9). The new paradigm, then, rejects the old paradigm's key assumption that markets fail in some areas, and the associated assumption that it is a state responsibility to intervene directly to correct such failures, because it no longer understands the world to work in this way. Rather, according to the new set of ideas, it is the

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<sup>10</sup>Among those 'serious problems' with which the OECD claimed its members were 'afflicted' were those related to inflation, energy, labour markets, and productivity and investment (1979b: 11).

unencumbered market that will achieve the OECD's main goals of high growth, employment and a rising standard of living, but only if governments constrain themselves to setting up the conditions by which the market can operate most effectively. Accordingly, the organisation repeatedly urges its members to remove the 'plethora of regulations, controls and other impediments to the unfettered working of market economies' (1980b: 11; 1980a: 5), advising them that 'it should be possible to devise instruments that achieve their desired aim in concert with market forces ...' (1979b: 11). That is, the new instruments are different kinds of interventions to those encouraged under the Keynesian paradigm. The new interventions are based on a different understanding of how the world works, and the roles and responsibilities of the state.

From the early 1980s, pro-market attacks on direct state intervention in the economy become commonplace in the *Economic Outlook*. The OECD argues that members should improve underlying economic structures through reforms in areas including taxation and public spending; the operation of product, labour and capital markets; industrial, regional and competition policies; and international trading relations (1984a: 11). It emphasises that, in pursuing such structural reforms, 'there is a clear need to ensure that the actions of governments are based, more consistently and effectively than is now the case, on the use of markets' (1984a: 11). The organisation argues that structural reforms, especially in its European member countries, would make economies more flexible, strengthen incentives, and improve the functioning of markets, which would help to restore business confidence and revitalise the 'animal spirits upon which the dynamism of market economies ultimately depends' (1985a: ix-x).<sup>11</sup> By the 1990s, the OECD has built these recommendations into a fully elaborated argument for governments to make greater use of the market and market mechanisms because it understands open, efficient, and competitive markets to be the key to high-employment, high-income economies. In fact, a dominant theme in the *Economic Outlooks* of this decade is structural reform and structural adjustments to enhance the flexibility of markets.<sup>12</sup>

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<sup>11</sup> Later, in *Economic Outlook* 44 (1988b), the OECD notes that economic conditions in the OECD area are 'more buoyant than at any time since the early 1970s', with strong investment indicating that 'animal spirits' have been raised in most OECD countries (1988b: vii, viii). However, it goes on to argue that this does not mean that sufficient reform has taken place.

<sup>12</sup> See, for example the chapter in *Economic Outlook* 59 (1996a), 'Interactions Between Structural Reform, Macroeconomic Policy and Economic Performance'. This concludes that: 'well designed

It is important to reiterate here that, in pushing for more use of the market, the OECD is not arguing that governments should take no action in their economies. In fact, in an important statement acknowledging the shift from direct to indirect state intervention, the OECD stresses that 'greater reliance on markets does not at all imply a passive or inert role for governments' (1984a: 11). It offers the example of capital markets, where, it argues, 'the role of governments is far from passive' because of the need for 'judicious market-conforming regulation' of both financial institutions and markets for debt and equity (1984a: 12). However, 'judicious' regulation does not mean controlling competition or interest rates because, the OECD observes, 'broad, diversified and competitive' capital markets, which make for better economic performance, require a system of financial intermediaries that is 'free to provide a range of instruments' tailored to different needs (1984a: 11). Thus, governments are to provide the rules of the game, setting the conditions by which the market is to operate and creating the right types of behaviour among 'economic agents' – a point that will be discussed further below – but they are not to take part in the game itself.

On the surface, this appears to be no more than a change in the means to achieve an existing set of goals. That is, under the new paradigm, policy goals remain the same; the new view is simply that such goals can be attained most successfully through the market and not through the direct action of the state. However, when attacking the methods used to achieve particular outcomes, the OECD also begins to attack some of the goals themselves, especially social goals. The argument is that 'ambitious' or 'worthy' social goals have negative effects on the economy and, therefore, need to be rethought. In *Economic Outlook 28* (1980b), for example, the organisation argues that, while the 'plethora of regulations, controls and other impediments to the unfettered working of market economies' may have been introduced 'to achieve worthy ends', they instead may have both weakened the ability of economies to undergo structural change and reduced their responsiveness (1980b: 11). It advances a similar position in the next edition, *Economic Outlook 29* (1981a), when it observes:

There is now a widespread belief that the succession of policy actions taken over the past two decades with a view to the ... achievement of *ambitious social goals* has led to some congealing of the productive structure and decreased responsiveness in labour and product

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and implemented reform across a wide range of areas could have significant positive effects on growth and jobs' (1996a: 55).

markets, making OECD economies more inflation-prone (1981a: 8; emphasis added).

The OECD expands these views later in the same volume during a discussion on wages and inflation, when it makes a direct attack on the priority once accorded to social justice issues and outlines the negative effects that such policies have had on member economies. It notes that many OECD countries had, especially in the 1960s, introduced social legislation to 'improve social equity and working conditions (job security, safety standards, improved health and retirement benefits)' (1981a: 42). However, the organisation argues, these measures, along with longer holidays and increased fringe benefits, had resulted in 'disproportionate growth in the share of non-wage labour costs' (1981a: 43). It observes that, in addition, in some countries, minimum wage and equal-pay legislation had squeezed traditional skill differentials and restricted the job opportunities of unskilled or inexperienced workers, and 'relatively high' unemployment benefits may have raised 'voluntary' unemployment. The OECD claims that all of this means that, 'despite the desirability of improving equity', some aspects of social legislation have had undesirable consequences, weakening the allocative efficiency of wage differentials and labour markets (1981a: 43). The organisation's thinking, then, is that, in order to avoid the negative effects of such policies, these goals can be sacrificed to the greater good of an unencumbered market. As will be elaborated in the next chapter, such beliefs lead the OECD to push its members both to avoid direct state intervention to achieve their social goals, instead leaving such goals to be resolved in the market, and to reconsider some of the goals themselves.

## **II) PUBLIC DEBT IS BAD FOR THE ECONOMY**

According to the OECD's new paradigm, direct state intervention is not the only problem; public debt also now is considered to have a detrimental effect on the economy. Until the late 1970s, the organisation had not been especially concerned with rising public sector deficits, or the borrowing needed to cover them, because it considered such deficits and debt to show that governments were undertaking measures to fulfil their responsibilities (actively managing their economies). For this reason, the OECD had urged governments to do more to convince their populations of the need for such deficits, arguing in *Economic Outlook* 22 (1977b) that, 'large budget deficits are justifiable in present conditions'

(1977b: 10). In this edition of the *Outlook*, the OECD offered an extensive justification for public sector deficits, arguing that it was an important task for governments to persuade financial and exchange markets and 'important sections of public opinion', which found large deficits difficult to accept, that such deficits in the short term were 'desirable and feasible' (1977b: 10). It said that experience revealed that such temporarily high deficits were 'certainly not irreversible' and that 'frequently expressed concern about the financing of large government deficits is not borne out by recent experience' (1977b: 10). It noted in a special section, 'Public Sector Indebtedness and Government Financing', that the emergence of large public sector deficits in the aftermath of the 1974-75 recession had drawn public attention, but argued that such deficits simply reflected state action, such as large public spending and tax relief programmes, to counter the recession (1977b: 41-42). The organisation contended that the recession itself had created the need for governments to borrow because it had reduced tax receipts while bringing an increased demand for unemployment benefits (1977b: 42).<sup>13</sup> It feared that reducing public deficits before a recovery in private investment could itself have adverse economic consequences, creating a vicious cycle, in that lower demand could prevent investment and exacerbate unemployment, which would result in an increased demand for unemployment benefits and a need for more government borrowing (1978a: xi).

However, under its new paradigm, the OECD considers public debt to be a major problem for its members, with the organisation fearing the effects on the economy of both the level of debt and the interest payments required to service the debt (see 1984b: 32-33; 1985a: 6). In *Economic Outlook* 52 (1992b), it notes that the extent of government indebtedness had increased on average in OECD economies from 22 per cent of GDP in 1979 to 40 per cent of GDP in 1989 (1992b: 20). A year later, in *Economic Outlook* 54 (1993b), it observes that, between 1979 and 1992, average OECD gross public debt had increased from 41 per cent of GDP to about 63 per cent of GDP (1993b: vii). Initially, it fears that high debt negatively affects a government's ability to influence demand. This leads it to warn in 1979 that high budget deficits constrain state actions, leaving 'little room

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<sup>13</sup> In an explicit recognition of 'government responsibility', the OECD noted that rising public debt in Germany and Japan, where government borrowing requirements had been small, reflected government action in the face of weak investment and higher household saving. It observed that the increased debt could 'thus be regarded as an inevitable consequence of generally recognised *government responsibilities* rather than an abnormal trend' (1977b: 43; emphasis added).

for tax or expenditure changes to support aggregate demand' (1979a: 10). Later, however, the OECD considers public debt to harm the economy in other ways. For example, government borrowing could result in increased interest rates, and persistent deficits added to debt and interest payments, which increased pressure for tax increases or spending cuts and raised inflationary expectations (1984a: 29). Consequently, from the late 1970s, the OECD urges its members to reduce their levels of debt, and fiscal consolidation – or the control of state spending – becomes a central tenet of the OECD's advice.

The way in which the OECD frames its discussions of public debt reveals much about the assumptions incorporated in the ideas of its new paradigm that generally are not made explicit. While the organisation's general comments about debt levels superficially remain neutral, its justifications for its specific recommendations with regard to public debt reveal an underlying view of state-society relations in which the state is to do much less than it has in the past. This is clear in the discussion in *Economic Outlook 37* (1985a), when the OECD claims that its analysis suggests 'no obvious policy rule' about the 'ideal' level of debt that is applicable to all countries; rather, it says, the 'appropriate' level of debt depends on many factors (1985a: 8). These include the implications of various taxation-borrowing policy mixes for income distribution and efficiency, considerations of inter-generational equity, behavioural characteristics of the economy (such as social choices about the size of public-private sectors), and specific institutional factors (1985a: 8). This statement suggests that the OECD is prepared to allow for a degree of latitude in the 'appropriate' level of public debt among its members. That is, the organisation appears to be prepared to respect the diversity of the 'worlds of welfare capitalism' within its membership.<sup>14</sup> But the OECD's policy recommendations, which continue to urge members to reduce their debts and balance their budgets, do not appear to allow for such variation. It wants all of its members to work harder towards reducing budget deficits, saying progress has been 'less than it might have been, given the rate of growth' because some countries had chosen to increase spending rather than pay off debt (1989b: ix). Thus, the OECD may not have had an 'obvious policy rule' about the 'ideal' and 'appropriate' level of debt, but it has a less-than-obvious one: the most appropriate level of debt is no debt.

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<sup>14</sup> For a discussion of the 'worlds of welfare capitalism', see Esping-Andersen (1990) and Castles and Mitchell (1993).

The OECD uses the fear of future demands on government expenditure, especially those related to pensions and the health-care needs of ageing populations, to argue for the need for further strengthening of public finances (1997a: 1).<sup>15</sup> It contends that its members can best prepare for the social-security demands of their ageing populations by aiming for surpluses rather than small deficits or balances in government accounts (1989b: ix). For similar reasons, it argues that low debt ratios in normal times would ensure that unexpected shocks did not drive debt to 'critical levels' (1985a: 8). In the early 1990s, the organisation pushes governments to pursue 'further strengthening of public finances' – that is, decrease indebtedness – on a larger scale than in the 1980s so that they can cope with future expenditure claims without raising taxes or debt levels (1992b: 20). It urges governments to ensure that retrenchment is achieved and to examine the 'quality' of their spending, 'which may have deteriorated in the 1980s' (1992b: 20).

The OECD eventually begins to scold those members who have not pursued debt reduction with sufficient vigour. In the early 1990s, it warns that the slowdown in economic growth is likely to have a negative effect on government budget positions and the debt burden in most member countries as tax bases constrict and the cost of transfer programmes increases (1991a: 19). The organisation observes that those governments that had failed to take advantage of the expansion of the late 1980s to make deficit and debt reductions would now have to constrain debt increases during a period of slower growth (1991a: 20).<sup>16</sup> It urges governments to use any gains from lower interest rates and reduced debt-service payments to improve budget positions, thereby:

avoiding the kind of mistake made in the late 1980s when some of the expected buoyancy of public revenues ... was used to reduce tax rates

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<sup>15</sup> The fear of the burden of ageing populations is a constant theme throughout the 1980s and the 1990s, and is reiterated each time the OECD wants to argue for reduced public debt and reduced public spending. See OECD (1985a: 8; 1987b: 24; 1988a: 74; 1992b: 24; 1995a: 15; 1995b: xiii; 1996a: 25; 1996b: xi; 1997a: 1). The OECD's paradigm is categorical in its belief that ageing populations will be a problem. For example, in *Economic Outlook* 61 (1997a), the organisation states: '... in most countries, further progress [in fiscal consolidation] is necessary if the long-standing upward trends in public indebtedness are to be reversed before the pressures that ageing populations will create are felt' (1997a: 1). However, as I noted in Chapter 2, footnote 36, others are less convinced of the pending crisis.

<sup>16</sup> The OECD makes the same point in 2002 about the lack of action to 'bring budgets into surplus or at least close to balance' in the late 1990s, lamenting that in 'a number of countries the opportunity was lost' (2002b: 19).

rather than to ensure greater fiscal consolidation and to reduce debt (1993a: xi).<sup>17</sup>

### III) PUBLIC SPENDING IS BAD FOR THE ECONOMY

The two new ideas outlined so far are inextricably linked to the third key idea of the new paradigm, that public spending is bad for the economy, in that reducing public spending is considered to be a crucial element in reducing both state intervention and public debt. The OECD interprets the desire to reduce public deficits, and, therefore, public borrowing, as entailing a need for governments to reduce public spending, particularly social spending (1981b: 22). Only rarely does the OECD target defence spending when discussing the need to reduce public spending. In *Economic Outlook 46* (1989b), it comments that, with the reduction in East-West tensions, a 'scaling down' of defence spending could be possible, with either lower levels of spending or a shift of funds towards expenditures that 'may be increasing in importance', such as education, infrastructure and the environment (1989b: x). It reiterates this statement in *Economic Outlook 47* (1990a: ix), but such thinking does not reappear after this time. In fact, in *Economic Outlook 51* (1992a), it notes that 'relatively little offset can apparently be expected from the "peace dividend"' (1992a: x), although it comments in passing in *Economic Outlook 60* (1996b) that 'reductions in defence spending were important in several countries' (1996b: 14). The point here is that the OECD itself does not recommend defence spending as an area to be targeted for funding reform. On public spending more generally, the organisation notes without being specific that, 'in some quarters', it was felt that increased public spending and tax-system changes had been 'to a degree, uncontrolled and haphazard, with possible costs in terms of allocative inefficiencies and disincentives' (1982b: 25). It claims that many countries have problems with public spending that exacerbate the problems of public debt. In particular, it argues, the rapid growth of 'various categories', including 'many items of social expenditure', has caused public sector deficits to become 'an overriding problem, despite increases in the tax burden and reductions in public sector investment'

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<sup>17</sup> Again, it makes a similar complaint in 2002:

Overconfidence about the permanence of tax receipts coupled with overoptimistic growth projections (reminiscent of the mid-1970s and late 1980s) served to justify tax-cutting and new spending initiatives. ... the room for new tax cuts is now limited or non-existent, especially where spending is being allowed to rise rapidly (2002b: 19).



(1984a: 8). Rising interest obligations on public debt compound these problems (1984a: 8).

The OECD does not consider raising tax rates to be an option to balance public spending because it has long considered taxes to be a 'burden' on individuals and to cause distortions in the economy through, among other things, their effects on the incentives to invest and work. As early as *Economic Outlook 13* (1973a), the OECD noted that increasing tax 'burdens' raised problems with inflation, and that there were 'serious' economic and political constraints on 'substantially raising the burden of taxation' (1973a: 18, 45; 1975b: 10). However, the Keynesian paradigm had allowed public borrowing and public debt to cover the shortfall between what could be taken in tax and what was spent. At this time, the OECD recognised the need for public spending, noting: 'On the expenditure side, the need for improving social infrastructure makes any compression of expenditure plans difficult' (1973a: 45).<sup>18</sup> Later, the new paradigm's opposition to borrowing and debt, and the continued negative view of tax as a 'burden', inevitably results in an attack on public spending. Now, taxes are understood to have 'disincentive effects' on investment and labour supply (1981b: 25; 1984b: 23). Taxation is considered to distort private decision-making unless taxes are broadly based and tax rates are low and uniform (1985b: 6). The OECD begins to urge members to reform their tax systems, querying the 'appropriateness' of governments' use of taxation to meet goals other than revenue raising, such as income redistribution or investment in regions with high unemployment (1985b: 6). It argues that political resistance to tax-rate increases, and the economic distortions that taxes create, limit the scope for taxation increases, which means the burden of fiscal consolidation has to fall on expenditure (1995a: xiv). As will be discussed later, these arguments for spending cuts rest on a significantly different understanding of state-society responsibilities.<sup>19</sup>

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<sup>18</sup> This is not to argue that the Keynesian paradigm allowed governments to be all care and no responsibility, because the OECD *was* concerned with tax rates. However, its economic concerns were intertwined with social and political concerns in a particular way. That is, while the OECD did not want to increase tax rates, nor did it want to abandon social concerns in order to lower tax rates. Hence, the acceptance of public debt and/or borrowing until the economy improved and fewer people needed state assistance.

<sup>19</sup> I want to stress here that the point is not that the new paradigm introduces the concept of tax as a 'burden'. Rather, the paradigm's interpretation of how much of a burden taxpayers should bear is new and demonstrates a shift from a recognition of collective responsibility to an emphasis on

The OECD argues that there are two broad thrusts to containing public spending:

First, governments can sharpen their focus on spending areas which involve the provision of classic 'public goods' (e.g. defence, law enforcement) or where other market failures or social policy goals require intervention (e.g. (education, health and social assistance). Withdrawal from less essential activities would allow the process of improving public finances to proceed without compromising fundamental economic or social goals.

Second, governments can aim to improve public management systems in order to 'do more with less'. This could be achieved by better identification of, and targeting of funding on, human or physical infrastructure projects with high benefit-cost ratios and by re-designing transfer programmes so as to enhance their social or economic benefits (1997a: 31).

Thus, the OECD combines its drive for decreased public spending with an emphasis on getting value for money when spending cannot be avoided.<sup>20</sup> It advises that measures to reduce spending will be most effective when they combine 'credible and binding limits on expenditure with efforts to improve the efficiency of public activities' (1995a: xiv; 1989: x). That is, the OECD's aim is not only to cut spending, but also to assess how efficiently and effectively state money is being spent. In the 1990s, it notes that the quality of public spending had not improved over the 1980s, and it urges governments to pay more attention to reviewing spending and taxation. Again, the argument is not that 'efficiency' or 'effectiveness' are new concepts, but that the understanding of what these terms mean has shifted according to the new paradigm's world-view.

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individual self-responsibility. As noted in Chapter 3, ideas play a critical role in convincing the public what is (and is not) an acceptable tax 'burden' (see Rudd 1997: 263).

Today, the strength of the idea of tax as a 'burden' can drive governments to make seemingly paradoxical decisions – decreasing tax rates at the same time as needing the money. For example, Australian Treasurer Peter Costello warned in February 2004 that Australians faced substantially higher taxes, large public spending cuts or massive budget deficits unless older workers stayed in the workforce longer (Wade 2004a). Yet the Coalition Government has cut taxes twice in the past five years, despite numerous discussions of the potential negative effects of Australia's ageing population, and there is talk of further reductions in the 2004 Budget as part of a bid to win back electoral momentum before the 2004 election (Wade 2004b).

<sup>20</sup> For example, commenting on concerns about increasing inequality in income and wealth in its members countries, the OECD notes that one response could entail 'a further expansion of redistributive programmes' (1996b: 36). However, it adds a footnote to this statement: 'Alternatively, such programmes could be made more efficient, especially in the sense of reducing the disincentive effects they entail' (1996b: 41, fn 1). The OECD's negative view of income transfers as encouraging 'a "culture of dependency"', weakening incentives to work, save and invest' (1996b: 36) will be discussed further below and in the next chapter.

While the OECD is not specific about its understanding of 'efficiency' or 'effectiveness' under the new paradigm, its arguments suggest that it now understands both in terms of *cost-effectiveness* and doing more for less money. The organisation argues that improving the quality of public spending is a 'promising way for budgetary policy to support present and future economic activity without compromising fiscal consolidation' (1992b: xii), and is, therefore, likely to be more politically palatable than spending cuts. It notes that: 'Improving the efficiency and effectiveness of public expenditure implies ensuring more competition in the provision of public services and greater managerial autonomy' (1992b: 20). Thus, the organisation places its faith in market mechanisms, rather than direct state control, as a means to ensure efficient and effective public spending.

The OECD elaborates this thinking in *Economic Outlook* 54 (1993b) in a special chapter entitled, 'Some Measures to Improve the Quality of Government Spending' (1993b: 32-42). In this chapter, the OECD notes that public spending is increasing again, and argues that, if expenditure is to be stabilised or reduced, governments have to cut back on programmes, 'which is often difficult politically', or make resources go further (1993b: 32). The latter, it observes, has been referred to as improving the 'quality of spending', and comprises both 'reducing the *cost* of programmes as well as increasing their *effectiveness* at reaching their goals' (1993b: 32; emphasis added). In this chapter, the OECD focuses attention on the 'use of various market-type mechanisms', which it says are 'particularly relevant as means of improving performance in the provision of public and merit goods' (1993b: 32).<sup>21</sup> It later describes 'market mechanisms' as including charging for the provision of services ('user-pays') and contracting out the provision of services to the private sector (1995a: 13). This raises immediate problems for the OECD's argument, because, by their nature, both public and merit goods are difficult to subject to such 'market-type mechanisms'. The OECD had acknowledged this earlier, in *Economic Outlook* 11 (1972a), when it noted 'the absence (and to a large extent inapplicability) of a market price mechanism to limit demand and serve as an incentive to efficiency' in areas such as health and education (1972a: 91-92).

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<sup>21</sup> Public goods are goods such as clean air or defence that, even if consumed by one person, can still be consumed by another. Merit goods are those such as education and health that society thinks everyone ought to have, regardless of whether they are wanted by each individual. See Begg et al. (1987: 340-344).

Throughout the 1990s, the OECD continues to argue that 'governance and management' reforms would help to ensure both that government programmes were 'responsive to social needs' and that the public received the 'best possible services at the least cost' (1996a: xiii). It describes New Zealand as a 'leading example' of reforms to 'improve the efficiency and effectiveness of all forms of public spending', noting that it has introduced initiatives to:

reverse trends towards public expenditures with low or negative social returns, and to get better 'value for public money' in areas of high social priority such as health and education (1992b: xiii).

The OECD then argues that its members have 'significant possibilities to reduce costs and to improve responsiveness to people's needs' (1992b: xiii).<sup>22</sup> The emphasis of its new paradigm is on the increased use of market mechanisms and competition to reduce public spending (see OECD 1992b: 20; 1993b: 35; 1995a: 13). Thus, the organisation recommends that countries take advantage of the 'considerable scope' for increasing public-sector efficiency, including charging for the provision of services, and contracting out the provision of services to the private sector (1995a: 13).

An example of this thinking can be seen in *Economic Outlook 56* (1994b) when the OECD notes that the Secretariat's recent work provides some 'pointers' to the specific forms that corrective action to improve public finances could take. These forms include increasing the 'micro efficiency' of government programmes and services, the introduction of 'market-type instruments' such as user charging, 'market testing', contracting out and the creation of internal markets, and policy actions to reduce the burden of future pension liabilities on public finances (1994b: xiv). It should be noted here, and will be explored further in the next chapter, that the OECD expects such reforms to face obstacles because spending reform such as that outlined 'confronts entrenched expectations and perceptions of acquired rights and implicit social contracts' (1994b: xiii). Additional measures that the OECD suggests will 'improve overall market efficiency' and decrease public spending include cutting industrial and agricultural subsidies, pursuing

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<sup>22</sup> What the OECD fails to recognise here, of course, is that the interpretation of 'needs' varies according to a number of factors, including the framework through which policy problems and solutions are interpreted. I suggest that the OECD's understanding of 'needs' has shifted in line with its new paradigm and is significantly different to the way it understood 'needs' when using a Keynesian framework. These issues will be explored in Chapter 6.

further privatisation, and reassessing social transfers (1995a: 15).<sup>23</sup> That is, governments should withdraw from 'less essential activities' and should improve public management systems in order to 'do more with less' (1997a: 31).

#### IV) THE PUBLIC SECTOR IS BAD FOR THE ECONOMY

The fourth key idea of the OECD's new paradigm reinforces the three outlined so far. The concern about the effect on the economy of direct state intervention and high levels of both public debt and public spending is attached to an associated underlying concern that has significant implications for the OECD's treatment of social issues: that the public sector itself has become too big. Looking at measures to improve economic performance in *Economic Outlook 29* (1981a), the OECD notes the 'size of the public sector and its deficit' as a key area of concern, and argues for a 'public sector of appropriate size and structure' (1981a: 10, 8). That is, the Keynesian paradigm's recommended direct state intervention to manipulate economic outcomes, 'instead of being stabilising, has frequently had the opposite effect', and 'in the process, the public sector has got too big' (1981b: 6). Consequently, the OECD argues, many governments were trying to reduce public sector deficits, 'as well as ... the *size and obtrusiveness of government*' (1981b: 6; emphasis added). The OECD urges members to pay more attention, not only to spending and taxation, but also to public-sector management in order to 'improve the efficiency and effectiveness of the public sector' (1993a: xvi; 1992b: xiii). It recommends to members that:

Each of the main activities of the public sector should be reviewed systematically with a view to identifying efficiency gains both within in and across them (1993a: xvi).

The aim of the OECD's recommended reform is not only 'reducing distortions to incentives to work, save and invest by broadening tax bases while reducing

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<sup>23</sup> The latter, a particular concern of the OECD, will be discussed further in the next chapter. Here, however, it is worth noting the OECD's comments that a growth of transfer programmes, both to the working-age and the old-age population, accounts for much of the increase in public spending in most OECD countries (1995b: xii). For this reason, it targets welfare systems for reform, arguing that such systems:

could be better targeted to individuals in need if eligibility requirements were tighter; work-testing of the unemployed and the disabled was more effective; means-testing was more effective; programme co-ordination was improved; and integration of benefit and tax systems was better (1995a: 15).

A continuing theme of the OECD is that the reform of transfer schemes should focus on ways to 'improve market incentives' (1995b: xiii).

marginal rates', but also 'improving the efficiency of government itself' (1993b: xii).

In this sense, the new paradigm treats problems with the size of the public sector in the same way that it treats the size of public debt, borrowing, and spending: solutions are to be found in the market. The OECD recommends that members look more to the market and to the application of market mechanisms to public sector tasks where these cannot be shifted to the private sector. The increased use of the market includes the privatisation of state-owned assets (where possible), 'contracting out' the provision of public-sector tasks to the private sector, and charging for the provision of services ('user pays'). Privatisation is seen to be 'part of the general move towards greater reliance on market forces and a reduced role for the state' (1986b: 14). However, it can also mean a change in practices, with the withdrawal of subsidies and the elimination of non-commercial objectives 'improv[ing] efficiency substantially' (1986b: 14).<sup>24</sup> The organisation understands that a smaller role for the state has the effect of both reducing the size of the public sector and reducing the state's interference with the working of the market. Thus, it is clear that the OECD's understanding of the 'appropriate' size of the public sector is a public sector that is much smaller. In addition, the OECD understands the opening of the public sector to competition to have the effect of forcing state providers to become more efficient. That is, the OECD argues that: 'the efficiency of public sector agencies is likely to improve through an effective "threat" of competition from outside', although the agencies need to be run on a 'commercial footing in order to get the full benefit' (1993b: 35). Later, in *Economic Outlook 66* (1999b), the OECD complains that, in most member countries, the public sector 'remains largely sheltered from the disciplining forces of competition ... though some countries have made progress in improving public-sector efficiency' (1999b: 31). The OECD's argument, then, is that privatisation and the use of market mechanisms are 'intended to let

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<sup>24</sup> Of course, the aspect that the OECD overlooks with this recommendation is that the state may engage in activities to meet 'non-commercial objectives' in order to supply goods and services that the market cannot supply or only at a prohibitive cost. That is, this argument places efficiency above all other considerations as to why the state may be engaged in meeting 'non-commercial objectives'.

competitive pressures promote improvements in resource allocation and, consequently, in overall economic performance' (1986b: 14).<sup>25</sup>

The stress on reviewing the efficiency of public spending is inextricably linked to the need to review the public sector itself. In its special chapter on improving the quality of public spending, the OECD notes that its review is 'deliberately selective', given that improving the quality of spending is 'only one element' in the broader issue of 'improving the *quality of government*' (1993b: 32; emphasis added). It observes that other elements include strengthening the processes used to determine when governments should intervene, the form of such interventions, and whether current programmes meet government objectives in the most 'cost-effective' manner. The OECD explains that such topics, 'while crucially important', are also 'highly complex'. For this reason, it says, its chapter focuses more selectively on topics that, 'while not simple, may point more readily to specific policy actions' such as the application of 'market-type mechanisms' (1993b: 32). Later, it urges that reforms to the structure of spending be included as part of a 'wider effort' to improve the 'performance of the government sector more generally' (1996a: xiii). However, as will be discussed below, the point being overlooked here is the effect of the new paradigm on the assessments of what states can and should do. A crucial aspect of determining 'when government interventions are required' (1993b:32) is the framework through which state roles and actions are interpreted. In a similar vein, the assessments of whether programmes meet government objectives depend critically on the framework determining how the objectives are to be understood and what the assessment criteria will be.

## A NEW TRANSFORMATION

As discussed in Chapter 2, a new paradigm brings with it a new understanding of how the world works that carries with it a new interpretation of policy problems and the range of viable solutions. In Kuhn's terms, there is a new 'view of the field ... methods and ... goals' (1970: 85). The policy justifications of the old paradigm are no longer acceptable (or comprehensible) because they are interpreted through the new paradigm's replacement 'regime of truth', which

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<sup>25</sup> Again, there are aspects to state provision that the OECD is overlooking. It may be that the agency is supplying a good or service to which competitive practices are not applicable, which is why it has to be supplied in the public sector in the first place.

sets out how the world works, what can be considered a policy problem (or solution), and what the state can and/or should do. That is, the discussion of policy issues within the new paradigm is comprehensible, and the policy options are plausible and credible, in a way that discussions according to the precepts of the former (and alternative) paradigms are not, at least to the holders of the new dominant paradigm. Thus, the OECD's new neo-liberal paradigm incorporates a framework for interpreting policy problems and solutions that renders Keynesian interpretations obsolete; they are not only 'inadequate and inappropriate' (Beeson and Firth 1998: 220), they are incomprehensible.

Under the new paradigm, as Barry Hindess observes, 'the distinction between the economy and other aspects of the life of the national community is less clear-cut' (1998: 223). That is, Hindess argues, whereas the economy was once seen to provide resources for the national state and society, an 'extravagant state and society' are now seen to 'undermin[e] efficient national economic performance' (1998: 223). In response, the neo-liberal paradigm demands that 'society and the state must be transformed to make them contribute to the drive for economic efficiency' (Beeson and Firth 1998: 221), or, as Hindess notes:

The pursuit of national economic security now seems to require that an overwhelming priority be placed on competitive economic efficiency. As a result, anything (welfare, health services, schooling and higher education) which might seem to have a bearing on economic life is assessed not only in terms of the availability of resources, but also in terms of their consequences for promoting or inhibiting the pursuit of national economic efficiency.

Thus, in what is often seen as an 'economic rationalist' or 'neo-liberal' attack on the welfare state, the concern is not simply to save money but also to promote more efficient patterns of individual and organisational behaviour by bringing market relationships into what had once been regarded as non-market spheres of allocation (1998: 223).

The result, as Beeson and Firth observe, is that neo-liberal ideas bring 'increased pressure to make relationships based on bureaucratic norms or ideas of the common good meet the standards of efficiency that are believed to characterise the impersonal forces of supply and demand' (1998: 221). Thus, the 'image of the market becomes the ideal' in all relationships, with 'governments and businesses ... [increasingly] attempting to promote and inculcate specific "enterprising" values in the population at large' (Rose 1992, cited in Beeson and Firth 1998: 221).



That is, Beeson and Firth argue, neo-liberalism attempts to 'enhance economic competitiveness by reconstituting not only national institutions but also the population itself' (1998: 221). The result, then, is a transformation in state-society relations and the understanding of state-society roles and responsibilities that matches the earlier transformation of relations, roles, and responsibilities that occurred under the Keynesian paradigm. As will be discussed in detail in the next chapter, this transformation challenges the notion of path dependency that some scholars advance, and suggests that institutions are not as resistant to change as some academics believe.

Beeson and Firth conclude that the 'remarkable rise and consolidation of a neoliberal political rationality [way of thinking about government] has rapidly come to shape our "common sense" understanding of the world, and is ... all the more powerful for that reason' (1998: 229). An important point here, as noted in Chapter 2, is that a dominant paradigm is embedded in the terminology that policy-makers use to communicate, and 'it is influential precisely because so much of it is taken for granted and unamenable to scrutiny as a whole' (Hall 1993: 279). A key element of the neo-liberal paradigm that is taken for granted is its new view of state-society relations and individuals. The paradigm incorporates a particular understanding of state-society relations and state-individual roles and responsibilities, as well as a particular understanding of individuals and their behaviour, that is seldom made explicit but which underpins and structures the interpretation of policy problems and solutions. These understandings are revealed in the OECD's discourse in the way in which it discusses state and individual activities. Broadly speaking, they are that:

- the state is doing too much (stultifying the economy) and individuals too little (crippling the state and undermining the economy); thus, the state should do less and individuals should do more, and
- individuals are rational self-interested maximisers, who make choices in response to incentives and disincentives.

According to these views of state-society relations and behaviour, the cause of many policy problems can be traced to the impediments that state and individual behaviour impose on the operation of the market.

We should recall here from the four key ideas outlined above that the OECD considers that high levels of spending and public deficits have negative effects on

the economy that the increased use of the market would avoid. The organisation contends that, where governments consider that they have no choice but to stay involved in the provision of goods and services, they should examine the efficiency and effectiveness of their spending to ensure that they are receiving value for money. These arguments to decrease public spending, increase efficiency in spending, and increase the use of the market inexorably lead to arguments that governments cannot, and should not, do as much as they have in the past. According to the OECD, governments cannot afford to intervene directly in their economies; since such intervention is also bad for their economies, governments should, therefore, reconsider their involvement. In addition, governments need to be aware of the way that individuals respond to state actions and should base their policy options on a recognition of the way that individuals choose those options whereby they gain the most for the least effort expended. For example, the OECD argues in *Economic Outlook 55* (1994a) that unemployment and related benefit systems had lowered work incentives, which meant that:

To limit disincentive effects ... countries should legislate for only moderate levels of benefit, maintain effective checks on eligibility, and guarantee places on active programmes as a substitute for paying passive income support indefinitely. Possibilities should be explored for making the transition from income support to work more financially attractive ... (1994a: 4).

The understanding of individual behaviour on which these recommendations are predicated is that individuals choose to remain on benefits rather than work, even when they are not entitled to benefits, but they can be encouraged back into the work force if benefits are kept low and eligibility checks raise the possibility of their being caught cheating. The state's manipulation of incentives and disincentives to encourage particular types of behaviour will be discussed further below.

The shift in approach to a focus on the market, and the problems of inappropriate state intervention and individual behaviour, shifts the notion of responsibility for policy problems and solutions. That is, the emphasis on the need to decrease the size and role of the public sector in order to reduce spending reflects a shift in the OECD's understanding of state responsibilities. If the state is to do less and the market is to do more, then the responsibility for outcomes can no longer rest with the state. Rather, the OECD urges governments to entrust outcomes to

individuals acting for themselves in the market. This move has significant implications for its treatment of social justice, namely a shift in focus from equality in outcome to equality in opportunity, which will be explored in the next chapter. Here, the point is that the net effect of a paradigm shift is a new way of thinking about policy problems and solutions as well as a new way of thinking about government, the nature and scope of legitimate authority, and who is to be governed and how.

As noted in Section I: 'Direct state intervention is bad for the economy' above, none of this is to argue that the limitations that the new paradigm imposes on the state demand a non-interventionist state (as opposed to the Keynesian interventionist state). Such a view is too simplistic. The reality is more sophisticated: the OECD's neo-liberal paradigm is about intervention of a particular kind – that which creates the right conditions for the free market and the right behaviours to ensure the smooth operations of the market. The right conditions for the operation of the free market include, as noted above, the state removing impediments infringing on the natural functioning ('animal spirits') of the market, such as minimum wages that hinder employment and create the wrong incentives for individual behaviour. For example, the organisation notes that, in the labour market, 'in this as in other areas of policy, greater reliance on markets does not at all imply a passive or inert role for government' (1984a: 11). Rather, governments are expected to set and enforce the rules by which the market operates. That said, for the purposes of my argument, I am not interested in the particulars of how the OECD envisages the market operating or the specific recommendations it urges members to pursue to achieve this vision. My interest is in the justifications the OECD offers when it recommends that states undertake interventions that are understood to encourage specific types of individual behaviour. These justifications reveal the OECD's new understanding of individuals as rational self-interested maximisers who can be encouraged via the manipulation of incentives and disincentives to become self-sufficient 'economic agents' and to 'accept changes in work and, perhaps, life styles' (1980b: 11).

The OECD's discussions of 'active' versus 'passive' state intervention reveal many of these justifications. Throughout the 1990s, the OECD continually exhorts member governments to provide 'active' rather than 'passive' support,

where 'active' is understood as the state requiring an individual to undertake training or work in return for a benefit and 'passive' is the payment of benefits without such requirements. As the OECD notes in *Economic Outlook* 52 (1992b), given 'high and rising unemployment', governments need to consider:

the reorientation of public expenditures away from 'passive' policies of paying out unemployment benefits and associated income transfers towards 'active' labour-market policies geared to improving job prospects for the unemployed (1992b: xiii).<sup>26</sup>

The organisation argues that, 'active labour-market policies could raise employment, thereby reducing poverty and the need for passive income support' (1997b: 58). It notes that the benefits of such 'active' policies are that they give individuals the right attitudes and skills to move off benefits and into work. Thus, in *Economic Outlook* 59 (1996a), it states that 'active' labour market policies 'could help to reduce unemployment by preparing the unemployed for jobs through training, by helping them find work, and by testing availability for work' (1996a: 45). The manipulation of behaviour involved in these policies will be canvassed below. Here, the point is that the OECD's promulgation of such 'active' policies reflects the new understanding of state-society relations. That is, the new paradigm does not necessarily make the state *less* responsible for its citizens; rather, the understanding of responsibility has changed such that the duty of the state now is to ensure that its citizens are self-responsible, self-reliant, active market participants. In this sense, the state has moved from a direct responsibility to an indirect responsibility for its citizens. The result of this new view of state-society relations is new types of policies in which state intervention is confined to manipulating incentives to get individuals to do more for themselves (mainly through work).

These underlying assumptions of the new paradigm manifest themselves in the discourse (the 'frames and names') used to discuss policy problems and viable solutions. Two exemplars are the language of obligation and responsibility and the language of incentives and disincentives, which are predicated on a particular understanding of the world and individual behaviour (noted above) that is assumed, but seldom made explicit. These assumptions underpin a

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<sup>26</sup> Note here that, despite arguing for a form of 'active' state intervention, the OECD is careful to observe that: 'expanding these forms of public spending would require matching expenditure cuts in other areas' (1992b: xiii).

particular range of policy options that are built on the new understanding of roles and responsibilities and that act to create behaviour of an accepted kind. For example, looking at the language of obligation and responsibility, it is clear that the policy point at issue when this discourse is used is that of *individual*, rather than *state*, obligations, and the actions that states must take to get individuals to recognise their responsibilities and behave accordingly. Thus, the OECD frames many of its discussions about unemployment and state-supplied benefits in terms of self-interested individuals who want to accept hand-outs from the state, rather than work, and who need to be reminded of their obligations and responsibilities to look after themselves.<sup>27</sup> Hence, in *Economic Outlook 50* (1991b), the OECD notes in a discussion of 'active' labour market policies that:

For these programmes to work, the now widely recognised disincentive effects of 'passive' income support, and especially of high and long-lasting unemployment benefits *without an obligation to accept employment*, need to be tackled (1991b: xi; emphasis added).

In a similar vein, in *Economic Outlook 64* (1998b), it discusses policy lessons regarding those on low incomes and argues for: 'better monitoring to ensure that individuals receiving assistance *shoulder their part of the responsibility* for a return to work and increased self-sufficiency' (1998b: 18; emphasis added). An important point to note here is that the 'frame' (or 'problematization') is that of the obligation to be self-responsible and the 'mutual' obligation to take nothing without recognising that something is owed in return.<sup>28</sup> It is not about the obligation to help one's fellow citizens. That is, it is about *self-responsibility*, not *collective* responsibility or direct *state* responsibility.

Turning briefly to the other exemplar, the language of incentives and disincentives, here, too, the frames are based on an understanding of self-interested individuals whose behaviour and actions can be modified and manipulated through the options with which they are presented. A central concern of the OECD when it uses this language is that 'generous' state benefits,

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<sup>27</sup> Of course, the OECD is not the only user of this frame. The British Labour Party's 2001 manifesto has Prime Minister Tony Blair promising to 'refashion the welfare state on the basis of rights and responsibilities, with people helped to help themselves, not just given handouts' (2001: 3).

<sup>28</sup> In the words of British Prime Minister Tony Blair, 'For every right we enjoy, we owe responsibilities. ... You can take but you give too' (cited in Deacon 2000: 11).

and the tax 'burdens' needed to pay for them, tempt people to stay on state-provided welfare. That is, they provide an incentive for people to claim benefits and a disincentive for people to find work. Thus, in *Economic Outlook 59* (1996a), the OECD warns that:

in many cases, the design and generosity of transfer systems, as well as the taxes needed to pay for them, have undermined economic incentives, including the incentives to work, to hire workers and to acquire skills (1996a: xii).

Later in this edition, it argues that:

there is a wide consensus that the generosity of unemployment and other social benefits, in terms of both duration and level, raises structural unemployment by reducing the incentive to find and keep a job (1996a: 44).<sup>29</sup>

This theme is reiterated time and again throughout the 1990s.<sup>30</sup> For example, in *Economic Outlook 60* (1996b), the OECD cautions that, '[w]here efforts are made to reduce inequality', it is important that governments 'focus on measures that do not negatively affect employment opportunities or work incentives' (1996b: 21). In *Economic Outlook 62* (1997b), it argues that, 'generous unemployment benefits distort labour-market behaviour', and goes on to observe that, 'in practice, it can be difficult to identify those who are "genuinely" unemployed (in the sense of not working but being available for work)' (1997b: 58).

The OECD's understanding, then, is that, rather than providing a temporary solution to unemployment, benefits have eroded work incentives for individuals

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<sup>29</sup> It offers this conclusion when suggesting reforms, despite noting in the previous sentence in this edition that 'evidence is mixed and there is still room for disagreement about the empirical importance of specific policy measures' (1996a: 44). It adds in a footnote to this chapter that there 'seems to be accumulating evidence' from countries that had been 'particularly active in pursuing labour market reform', such as New Zealand and the United Kingdom, that structural unemployment had fallen (1996a: 56, fn 3).

Meanwhile, in explaining its argument, it notes that its publication, *Making Work Pay* (1997d), addresses the benefit-unemployment issue in details, recommending that:

benefits should not be excessively generous; low wage work should not be highly taxed; job search should be effectively policed for those receiving unemployment benefit; benefits not related to employment should be restricted to those entitled to them ... support programmes and their financing should be made more transparent, so workers and tax payers can better assess them; and incentives for part-time work and for work by spouses of the unemployed should be maintained (1996a: 44).

<sup>30</sup> See OECD (1991b: 39; 1992a: xi; 1995b: xiii, 25; 1996a: xiii, 25, 51; 1996b: xiii, 36, 41; 1997a: 19; 1997b: 51; 1998a: 36, 37, 159; 1999a: 159; 1999b: 158).

and have become disincentives for people to work to support themselves. It considers the economic result to be soaring public debts and increased tax 'burdens' on workers in order to pay for escalating public spending as more and more people choose not to work, but instead, to claim unemployment and related benefits. The OECD places the blame for this squarely on self-interested individual behaviour, noting that 'large parts of budgets are determined by behavioural response to the incentives created by the tax and transfer system' (1997a: 19).<sup>31</sup> According to the OECD, 'generous' state transfers exacerbate economic problems. The solution, therefore, is to limit the state's role, shifting more responsibility on to the individual, who will respond to the 'disincentive' of a lower, or non-existent, benefit by changing the bad behaviour (living off the state) for good behaviour (finding work and becoming self-sufficient).<sup>32</sup> A crucial point that must be made here – one that is relevant also to the examples in the previous paragraph – is that the OECD's arguments appear to be based on an understanding that most, if not all, unemployment is voluntary. That is, unemployment is a result of choice (individuals choose not to work), rather than a dearth of jobs. The 'problematization' of unemployment as a policy issue, then, is as a problem of individual behaviour (choosing not to work) that can be resolved through providing the incentives for appropriate behaviour (choosing work and, thus, self-sufficiency).

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<sup>31</sup> This view is summarised in a comment in *Economic Outlook* 50 (1991b):

Cross-country analysis suggests that more generous unemployment benefit systems – as measured by high 'replacement rates' (the ratio of benefits to previous earnings in employment), few pressures on the unemployed to accept available job offers and relatively open-ended duration of benefits – prolonged the duration of unemployment, even though the relationship [between benefit level and unemployment] is not a simple one (1991b: 39).

<sup>32</sup> Hartley Dean reports interesting work from Shane Doheny on the British New Labour government's construction of citizens who fit within this type of frame (Doheny 2004, cited in Dean 2004: 73-74). Doheny has studied the government's press releases and advertising materials and argues that it constructs four kinds of citizens:

- recalcitrant citizens, who are artful and disobedient, and who wilfully cheat the welfare system without regard for the consequences
- passive citizens, who are overly dependent on state provision, apathetic, and unnecessarily risk averse, and who need to be guided in the right direction
- good citizens, who may be responsible, but who need to be persuaded to detach themselves from inefficient state systems, and
- heroic citizens, who are autonomous and responsible risk-takers, and who are willing to provide for their own welfare.

I would argue that the OECD's depiction of individuals falls into extremely similar categories, but a more specific investigation is outside the scope of my thesis. Doheny's work suggests an interesting topic for further research.

## CONCLUSION

In this chapter, I have argued that a paradigm shift from Keynesianism to what can be described as neo-liberalism has occurred in the framework of ideas within which the OECD locates its more specific policy analyses. This shift occurred when the OECD lost faith in the ability of its Keynesian paradigm to explain an increasing number of policy problems and to offer viable solutions. It turned to a new set of ideas, based on a particular version of the supply-side – that which favours less direct state intervention, less tax, and so on. The new paradigm brings a new understanding of the world and its constituent policy problems and solutions, and is based on a new ‘regime of truth’ according to which the market, and not the state, offers the best solutions to policy problems. Under the new paradigm, previously accepted policy actions are now considered to be part of the problem; thus, direct state intervention, public debt, public borrowing, and the public sector itself are all bad for the economy. As a result, the new paradigm gives primacy to the economic over the social because it understands that the former will eventually satisfactorily resolve policy problems in the latter. The new paradigm also brings with it a new understanding of state-society relations, roles, and responsibilities, according to which the state should do less for its citizens and individuals should do more for themselves. Both views (the primacy of market and the new vision of state-society relations, roles, and responsibilities) have implications for the OECD’s understanding and treatment of social justice and related issues.

The OECD’s new attitudes and understandings are clear in the discourse it uses to discuss policy problems and solutions. The examples given in this chapter reveal the importance of the OECD’s discourse (in terms of ‘frames and names’) to conveying the taken-for-granted assumptions of the paradigm (that is, that the state is doing too much and individuals too little). The discourse and its ‘problematizations’ outline the paradigm’s understanding of policy problems and incorporate (often implicit) justifications for the pursuit of particular types of policies. The dominant paradigm’s discourse becomes the accepted language for policy discussions and for communicating acceptable policy problems and solutions to the public; it is the ‘regime of truth’ under which alternative conceptions of problems and solutions are incomprehensible. Returning briefly to the discussion of ideas in Chapter 2, a paradigm’s discourse is an internal element that adds to the influence of the ideas. That is, responding to Blyth’s



query as to 'how or why certain ideas come to be accepted over others' (1997a: 237), the argument here is that the discourse carries with it a set of implicit assumptions and rationalisations for actions. As policy-makers increasingly use the discourse to discuss the paradigm's interpretation of policy issues and to promulgate its solutions to the public, the ideas pass 'from academic debate to popular consciousness' (1997a: 237). In this way, 'madmen in authority' distil the ideas of 'some academic scribbler' and pass them on to the public. The new ideas carry with them new informal institutions based on the new understanding of state-society relations, roles, and responsibilities that are transferred to the public through the discourse. The result of the talk of the state doing too much, public spending being too high, the public sector being too big, individuals becoming 'dependent' on 'generous' benefits and so on, is a new picture of how much the state is prepared to do (and for whom) and how much individuals should do for themselves. An inevitable consequence of this revised picture is a new understanding of social justice and related issues. As the next chapter will explore in detail, Keynesian ideas related to social justice are not embedded as firmly in institutions, especially informal institutions, as some scholars claim.

## CHAPTER 6

# SOCIAL JUSTICE IN THE OECD'S IDEAS AND INSTITUTIONS

### INTRODUCTION

A striking feature of the OECD's discussions in its biannual *Economic Outlook* from the mid-1990s is the linking of social and economic goals in ways not considered for two decades or so. Whereas, from the mid-1970s, the OECD had talked solely of economic outcomes, from the mid-1990s, it begins to refer to the need for policy to achieve 'fundamental economic *and social* goals' and to realise aspirations for 'economic *and social* well-being' (1994a: ix; 1994b: xi; emphasis added).<sup>1</sup> Equally noticeable in the later papers is an expansion in the range of social issues considered within the organisation's economic commentary. While the OECD once discussed social issues mainly in terms of poverty alleviation, equality, and distribution, from the mid-1990s, it augments these with talk of social cohesion, exclusion and marginalisation. It discusses its fears that, in the new 'global economy', growing numbers of people in its member countries are missing out on the new prosperity because of poverty, unemployment, a lack of education, ill health or a combination of such factors. Whatever the disadvantage, these individuals are increasingly 'excluded' or 'marginalised' from taking a full and active part in society. Ultimately, the OECD comments, this could result in the 'unravelling of the social fabric,

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<sup>1</sup> It notes its members' fears for the effect of structural reforms and fiscal retrenchment on economic *and social* gains and policy, their fears that increasing income inequality will adversely affect *social and economic* outcomes, and its own concern that unemployment is a 'major economic *and social* problem'. See OECD (1996a: 50; 1997a: 31; 1996b: 21; 1999a: 141; and 1998a: 8; emphasis added).

including a loss of authority of the democratic system' as 'social cohesion' is eroded (1994a: 3; 1996b: 36).

Both moves – the linking of social and economic goals and the expanded range of social concerns – could suggest that the OECD is now more concerned with social outcomes than it has been for many years, and that it understands social issues more holistically than it once did. For example, if the OECD considers that poverty and inequality 'marginalise' some to the point of threatening 'social cohesion', then the organisation may focus more attention on policies to resolve the myriad factors that can lead to poverty and inequality. However, a closer examination reveals that the picture is not as simple as it appears. Undoubtedly, the OECD is focusing more attention on the connections between social and economic goals than it has at any time since the mid-1970s, and, equally, the OECD has expanded the range of matters it is prepared to consider under the rubric of 'social' issues. That said, this increased emphasis on social issues must be understood in the context of the shift in the paradigm (or the framework of ideas) within which the organisation locates its analyses of policy problems and solutions.

As outlined in the previous chapter, an examination of the *Economic Outlook* reveals a clear shift in the framework of ideas within which the OECD locates its policy analyses, with Keynesian demand management abandoned in the mid- to late-1970s for what the OECD calls a 'supply-side' approach, which emphasises a limited role for the state and expanded roles for the market and individual initiative. This new paradigm changes the OECD's understanding of the world, the way it works, its constituent policy problems, and the plausible solutions to these problems. It rejects the Keynesian paradigm's key assumption that markets fail in some areas, and the associated assumption that it is a state responsibility to intervene directly to correct such failures, because it no longer understands the world to work in this way. Rather, it understands that it is the unencumbered market that will achieve high growth, employment, and increased living standards, but only if governments constrain themselves to setting the conditions by which the market can operate most effectively. This includes the state ensuring that individuals behave in an appropriate manner. According to the new world-view, the cause of many policy problems can be traced to the impediments that state and individual behaviour impose on the operation of the

market. Thus, under the new paradigm, previously accepted policy actions are now considered to be part of the problem: direct state intervention, public debt, public borrowing, and the public sector itself are all bad for the economy. The new task for the state, then, is to reduce its direct interventions in the economy and, instead, focus on setting the rules governing market interactions and on encouraging individuals to change their behaviour and become active market participants.

The previous chapter also noted that the OECD presents its new 'supply-side' paradigm as an inevitable, unproblematic – and non-political – response to what it perceives is the failure of Keynesian policies to resolve serious economic problems. However, Boix's work examining supply-side strategies suggests that this claim can be contested. Accordingly, I argued in the previous chapter that the OECD has pursued the conservative (or right-wing) strand of supply-side theory, rejecting state intervention and looking to achieve economic growth through less state spending and lower taxes, regardless of the distributive consequences. This is not to argue that the OECD opposes equality; rather, the organisation rejects state intervention to achieve this end because it understands intervention to damage the market mechanisms underpinning growth. The OECD accepts any equality that arises out of market interaction as, in Boix's words, 'a sign of the "good" behavior of markets (in rewarding, say, efforts and skills over time)' (1998: 5). I use Boix's language here because the OECD uses this discourse of 'efforts and skills' when framing and naming the social aspects and implications of its economic and social policies. It is both the policies that the OECD suggests and, importantly, the discourse with which it makes its recommendations that reveal that the OECD's dominant paradigm is the conservative supply-side strategy.

Not only is the move to this paradigm more political than it appears (in terms of the *content* of the framework), it is also more problematic than it appears in terms of its *effects* on previously accepted goals. (I reiterate here that I am not examining the politics of the selection of this paradigm over others, which is outside the scope of this thesis.) The OECD's shift to its version of the supply-side approach has significant implications for the organisation's treatment of social justice and related issues, and inevitably changes its approach to both old (poverty and [re]distribution) and new (exclusion and marginalisation) concerns.

The new framework for interpreting policy problems and solutions incorporates several ideas and assumptions that both undermine many of the accepted methods for achieving social goals and change what can be considered to be acceptable or 'legitimate' social objectives. As outlined in the previous chapter, explicit assumptions include the need to limit the role of the state by decreasing state intervention and reducing public debt and public spending, all of which are considered to impede the efficient functioning of the economy. However, these ideas incorporate two important implicit assumptions:

- that there is a need to shift the balance between public and private responsibilities in order to decrease state responsibility and increase individual responsibility, and
- that individuals are rational, self-interested maximisers, who look to obtain whatever advantages they can for themselves.

These assumptions reflect a considerably different interpretation of state-society relations, roles, and responsibilities that in turn affects the range of policy options that may be pursued. The policy justifications of the old paradigm are no longer acceptable (or comprehensible) because they are interpreted through the new paradigm's replacement 'regime of truth', which sets out how the world works, what can be considered a policy problem (or solution), and what the state can and/or should do. For example, under the new paradigm, if the state's responsibility is to be limited because individuals are expected to be more self-responsible, then policies that reduce direct state intervention, and therefore spending (and the taxes and increased public debt needed to pay for that spending), are justified. In a similar vein, if state transfers are considered to create disincentives for individuals to support themselves, because self-interested individuals prefer to live off benefits rather than earn their own income, then policies to reduce transfers (and, therefore, public spending and debt) are justified. Both types of policy undermine previous goals of state intervention, such as redistribution of income and equality, and make them illegitimate as state-sponsored goals on the grounds that they have undesirable consequences. (By this I mean that the paradigm is against state intervention to achieve such goals, rather than against the goals *per se*. Redistribution and, perhaps, equality

are acceptable if they are the natural products of market interactions.)<sup>2</sup> Thus, the change in means to achieve some goals may change some of the state's other goals (or ends) in ways that may not immediately be obvious, given that the OECD still talks of a decreased disparity of income as a social policy goal.

The OECD's new ideas and their inherent assumptions constrain the organisation's options for understanding a range of issues, including social justice issues, leaving no place for its earlier treatment of social justice, with its emphasis on equality and (re)distribution. Examined in this way, it is clear that the OECD's recent treatment of social issues is not as sympathetic to social justice as it first appears. Although the OECD talks of economic *and* social goals, its underlying assumptions leave it no option but to weigh its economic concerns more heavily than its social concerns. The organisation's primary objective is a productive, high-growth economy, which means that all other means and goals are assessed 'in terms of their consequences for promoting or inhibiting the pursuit of national economic efficiency' (see Hindess 1998: 223). As a result, any social policies that aim to improve social outcomes through state intervention that are judged to have a negative impact on the functioning of the market are no longer 'legitimate', even if it means the sacrifice of equality gains. In addition, although the OECD appears to have expanded its range of social concerns, its options for resolving these issues has narrowed such that increasing (non-state sector) employment has become the preferred, and only 'legitimate', solution to this broader range of issues. Thus, the OECD's understanding and treatment of social justice and related issues has changed under its new paradigm. The arguments that the organisation develops and refines from about the mid-1970s construct a framework that precludes consideration of previously acceptable methods of achieving social goals, and constrains what those goals can be.

This new understanding of social issues can be described schematically as a shift from a concern with end-points or equality of outcome (reducing income inequality through redistribution to achieve a degree of egalitarianism) to a concern with starting points or equality of opportunity (the ability to enter the labour market, which in turn enables participation in all aspects of life). These

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<sup>2</sup> I say 'perhaps' because it appears that an unspecified degree of inequality is acceptable on the grounds that it acts as an 'engine of growth', encouraging people to strive to better themselves. This point will be discussed further below.

are significantly different approaches, and reflect an associated transformation in state-society relations and the understanding of state-society roles, and responsibilities that matches the earlier transformation of relations, roles, and responsibilities that occurred when the Keynesian paradigm became dominant. It is this transformation that challenges the notions of path-dependency and ideas 'embedded in institutions'. The earlier concern with equality of outcome was based on an assumption that the market failed some members of society, and that it was a state responsibility to intervene in the market to repair the damage. The later concern is the opposite, and state intervention now is seen to interfere with the market, resulting in outcomes that are not optimal. Therefore, state responsibility is limited to ensuring that everyone has an opportunity to participate, after which individuals are considered to be self-responsible. Whatever outcome ultimately results is acceptable because it comes from individual interaction and free exchange in the market. Although equality of opportunity could imply *more* state intervention to ensure adequate education, health, housing and so on, an associated shift to an emphasis on self-responsibility has put the onus on individual initiative and thus taking action for oneself, decreasing the state's role. These implications suggest that the ideas underpinning the welfare state are not embedded as firmly in institutions as many theorists claim. Rather, new ideas bring a new range of institutions, both formal and informal, that significantly alter the understanding and treatment of social justice and related issues.

This chapter examines some of the OECD's central assumptions and concerns with regard to social justice and related issues. It is not intended to be a narrative history of the details of the OECD's policy or the specific programmes it recommends, nor does it aim to offer an analysis of the coherence or viability of the specific economic and social policy measures recommended. Rather, it is an explication of some of the underlying ideas and assumptions on which the OECD bases its interpretation of policy problems and solutions. As such, this chapter is not about whether or not the OECD's recommended social policy options are viable, but about the ideas underpinning the policies and the assumptions that the organisation makes about how its policies will work and why. I turn first to the OECD's treatment of social justice in the period when Keynesian ideas were dominant. I then explore the period from about the mid-1970s to roughly the mid-1990s when the OECD's economic analysis focused on the harm that social

policies could cause to the economy. In turn, its social policy analysis stressed the need to consider the ramifications of social policies for the economy. In the third major section, I explore the OECD's renewed focus on economic and social goals from the mid-1990s, arguing that the major impact of the shift in ideas is a move from a focus on outcomes to a focus on opportunity. In the final two sections, I draw out some of the implications of the transformation in the OECD's world-view, arguing that they provide evidence that institutions can be changed. That is, the OECD's discourse exposes a new set of informal institutions reflecting a shift in the view of state-society relations and the understanding of state-individual roles and responsibilities.<sup>3</sup> The net effect of the new informal institutions is to justify policies that shift the emphasis of social justice from equality of outcome to equality of opportunity, and from state and collective responsibility for outcome to individual responsibility for making the most of opportunities. As noted in Chapter 4, I have drawn the evidence for my argument from both the *Economic Outlook* and the major social policy papers.

## **SOCIAL POLICIES IN 'CIVILISED COUNTRIES'**

The OECD's Keynesian paradigm governed the organisation's interpretation of social policy problems and solutions in the 1960s and most of the 1970s. According to the precepts of the Keynesian paradigm, the market was considered to fail in some areas and, to compensate, the state was responsible for intervening to resolve the subsequent problems of unemployment and inflation. These problems were understood to exacerbate inequality, and inequality was regarded as leading to social unrest. At this time, economic problems and their solutions were placed within a broader social and political context, and the implications of economic policies for social issues and the political environment were important considerations for the OECD. The organisation understood economic, political, and social issues to be inextricably linked, such that the economy could not be seen separately to the society in which it was based. Rather, economic decisions had to take into account the likely effects on society, and whether policies contributed to desired social outcomes, thereby maintaining social harmony. A healthy, vibrant (low inflation, high employment and growth) economy was not

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<sup>3</sup> We should recall here the definitions of formal and informal institutions that I offered in Chapter 3: formal institutions are rules, laws, structures, organisations, and so on, while informal institutions are the norms, values, attitudes, implicit codes of conduct, and so on that underpin human interaction.



an end in itself, but a means to achieving a broader goal of a healthy, vibrant society (increasing living standards). If the economy had problems, then so did society and vice versa.<sup>4</sup>

An example of this thinking comes from the OECD's discussions of inflation, which reveal that its fears were not solely about the effect of rising prices on the economy. Of equal concern was inflation's impact on social and political issues. The OECD argued that inflation caused 'social inequities', and that 'certain categories of the population ... notably the unemployed and the retired' tended to suffer more than others (1970a: viii; 1974b: 9). It wanted inflation controlled because its negative effects on the economy – including increased unemployment and prices – flowed through to society at large, causing unrest as people rebelled against lower standards of living brought about by higher prices and unemployment.<sup>5</sup> The organisation argued that policies to contain inflation had to both mitigate the 'self-defeating' tendencies of the wage-price spiral, and preserve 'basic economic and political freedoms' (1970a: viii). The OECD was particularly concerned with the impact of the wage-price spiral on the state's ability to redistribute income; that is, inflation created a wage-price spiral as wages rose to counter higher prices, and this, in turn, played havoc with the ability of the state to control income distributions. The organisation wanted to avoid increased income disparity because it feared that greater disparity would

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<sup>4</sup> To expand this point: The OECD feared that social unrest could lead to political instability, which would jeopardise economic stability. Therefore, economic decisions could not be made without considering 'political restraints' and social consequences (1970a: vii). For example, the OECD noted in 1976 that the need to restrain rising private and public consumption would require 'a degree of social consensus ... if such a temporary restriction on the rise in living standards is to be freely accepted *without social conflict*' (1976a: 129; emphasis added). But the OECD also was aware of the political difficulties in achieving such a consensus, noting that it might not be possible 'without determined action to help the less fortunate, to reduce inequalities of income and wealth', and the establishment or strengthening of increased consultative mechanisms (1976a: 129). That is, the state was expected to intervene to mitigate the effects of market. Another example comes from 1968 when the OECD noted that governments faced difficulties managing balance-of-payments adjustments, not only because of the complex nature of adjustment, 'but because of the social and political problems it entails' (1968b: 5).

<sup>5</sup> The OECD noted that inflation arose in part from the very successes of modern society in other directions:

The unparalleled success of modern economies in achieving high and rapidly rising living standards gives rise to high expectations for the future. The resulting pressures are difficult to control in a society which has succeeded in maintaining its open and decentralized nature, and where the distribution of incomes is determined by the interplay of complex economic and social forces (1970a: viii).

lead to increased social tensions. Its concerns with unemployment and inflation, then, were about both the economic effects on wages and prices, and the consequences for income inequality. It noted in *Economic Outlook* 13 (1973a), for example, that high inflation rates 'entail distortions of income and wealth patterns which are not only unfair, but produce continuous social strains of a type that OECD countries are ill-equipped to handle' (1973a: 8). In the next edition, it noted that, with inflation rates in double figures, 'the possibility of social and political tensions emerging from real or imagined changes in the distribution of real income cannot be ignored' (1973b: 6).

Thus, the OECD's paradigm at this time led it to argue for direct state intervention both to resolve economic problems, such as unemployment and inflation, and to redistribute income in order to alleviate poverty and decrease income inequality. That is, there was a policy commitment to equality of outcome. The OECD's policy aim was not only to ensure full employment, which was considered to reduce the chance of poverty, but also to redistribute income. This goal reflected that a more equitable distribution of income was one of five basic national economic objectives that its members pursued (1967c: 21).<sup>6</sup> Intervention that the OECD suggested would be 'directly instrumental' in 'achieving a more equitable distribution of income' included compensatory employment programmes, such as public works and public service projects that the state organised and funded when insufficient demand created unemployment (1967c: 22).

In addition, the OECD perceived that state provision of income maintenance for the unemployed smoothed fluctuations in consumer demand *and* achieved social justice. Hence, a 1967 report from a Manpower and Social Affairs Committee study of the long-term unemployed stated:

In all civilised countries people are supported out of public funds, when they are unable to provide for themselves, whatever the cause of their lack of income (1967d: 28).

This theme was reiterated at a 1969 conference, 'Employment Fluctuations and Manpower Policies', which noted the importance of social justice, 'since it is recognised that the changes in the economy which are necessary for economic

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<sup>6</sup> The other national economic objectives were: full employment, a high rate of economic growth, price stability, and a balance-of-payments equilibrium (OECD 1967c: 21).

progress should not involve great sacrifices for a minority' (1969c: 21). That is, the state had a responsibility to intervene 'to counteract the tendency to let the least adaptable groups bear the greatest responsibility for adjustment in the labour market and to suffer the greatest insecurity in employment' (1969c: 22).<sup>7</sup>

The OECD made some of the clearest statements about state responsibility for poverty alleviation and social justice in a 1976 report on resource allocation, *Public Expenditure on Income Maintenance Programmes* (OECD 1976c). In this report, the OECD commented that 'the wider' objective of income maintenance was to ensure that: 'no individuals or recognisable groups in society are unacceptably poor. In other words, the aim is to reduce or eliminate relative poverty' (1976c: 88). It defined 'relative' poverty as:

some relative level of income (equal, for instance, to a given percentage of average family income), which would rise (though not necessarily in a proportionate way) as national income grows (1976c: 63).

The OECD then stated that poverty relief was a goal that, 'almost by definition, can only be tackled through a state mechanism' (1976c: 86). Accordingly, it argued against looking more to the market for the provision of income maintenance, saying that the state would not want to 'relinquish control over one of its main instruments for influencing overall income distribution' (1976c: 86). The OECD noted that reducing the poverty of those outside the labour force could only be achieved in the short run by increasing benefits (1976c: 83). For the working poor, policy options available to the state included making the distribution of primary incomes more equal and/or using incomes policies that included greater egalitarianism as a goal (1976c: 83). The policies that the OECD suggested that members implement in order to achieve the former were strongly

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<sup>7</sup> The 1969 conference demonstrated an early concern with the exclusion of particular groups, noting:

In individual terms, those who drop out of the labour force not only fail to make their productive contribution to the economy but also may experience poverty, deterioration of skills, and general discouragement. As the group that is squeezed out consists to a large extent of those so-called marginal workers – the unskilled and poorly educated, older or handicapped workers, those in declining regions – a period of unemployment may make them really unemployable (OECD 1969c: 20).

The concern here is not only with the economic costs of unemployment in terms of lost production, but the personal costs of unemployment in terms of loss of self-esteem and future employment prospects. We should note that the term 'drop out' here does not mean individuals choosing to quit work; rather, employment circumstances change so they are 'squeezed out' of the work force.

interventionist, and included minimum wage legislation, regional development plans, tariffs, education (both general and vocational), and affirmative action. It argued that egalitarian policies played a part in changing social attitudes to income differentials, 'and hence in helping other redistributive policies to have a more durable impact' (1976c: 83). That is, these policies would align society's informal institutions with those that supported egalitarianism and redistribution to alleviate poverty.

The 1976 report demonstrated the OECD's lack of faith in the market, with the organisation arguing that governments could not rely on the market to achieve desired outcomes. It noted, for example, that there were several reasons for doubting whether market mechanisms would satisfy society's objectives on the provision of old-age pensions (1976c: 85). A major difficulty was that many people might be 'unable to save much' during their working lives to supplement minimum state benefits. In addition, it observed, those with private insurance faced the problem that 'private companies themselves are subject to market risks and cannot be relied upon always to supply the benefits they have been contracted to provide' (1976c: 85).<sup>8</sup> However, the OECD contended that a more important reason for public provision was that 'society may have a paternalistic view concerning the extent to which individuals behave in their own interests' (1976c: 85). That is, it argued, people might suffer from 'defective telescopic faculty', described as: 'an inability to allow sufficiently for future satisfaction or contingencies, so that they will not transfer to their old age as much as society deems desirable' (1976c: 85). The OECD considered the prevention of such an outcome, in which many elderly would be left in poverty, to be a state responsibility.<sup>9</sup>

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<sup>8</sup> A recent example of company failure in this area is the collapse in 2001 of Australian insurance giant HIH, which was \$5.3 billion in debt. As at April 12, 2004, a taxpayer-funded compensation scheme had paid \$323 million to 10,500 people. Some of the remaining 4500 claims were still being processed, while others had been withdrawn or ruled ineligible (Carson 2004).

<sup>9</sup> Note here that the response to society's 'paternalistic view' about defective individual behaviour is state intervention to alleviate the negative outcome. That is, when people are considered not to behave in their own interests, the state acts to support them, thereby ensuring that society's desired outcome is met. Under the later paradigm, as will be discussed below, when people are perceived not to act in their own interest, the state acts to change their behaviour. These are significantly different responses to perceived personal failure and are based on significantly different views of individuals and their behaviour. According to the earlier view, 'defective telescopic faculty' is an accident of behaviour; later, it is considered to be a deliberate choice.

## SOCIAL POLICIES AS A CHALLENGE TO EFFICIENT ECONOMIES

In the Introduction to this chapter, I noted that a striking feature of the *Economic Outlook* from the mid-1990s was the linking of economic and social goals in a way not seen for two decades or so. By this I mean that, from the late 1970s to the early 1990s, the OECD's discussion of social issues in its *Economic Outlook* centred less on social outcomes and more on the processes and costs of the various social policies. Social outcomes such as equality and distribution, which had been mentioned in the earliest editions of the *Outlook* (1972a: 82; 1973b: 6) were put to one side as the OECD focused on resolving the economic problems besetting member countries: low economic growth, burgeoning inflation, escalating public debt and rising unemployment. Thus, in this period, the OECD's focus on social objectives *per se* in these publications was somewhat muted, in that its major focus was the need for 'structural' reforms across the whole economy.<sup>10</sup> The organisation's emphasis was on fiscal consolidation, and controlling deficits and debt. Social spending was (and is) a major component of public expenditure, which meant it attracted the OECD's attention. However, this was mainly in the context of current or future economic harm unless major reform was undertaken. Of particular concern were social transfers and a fear of the increased spending that its members' ageing populations would demand.<sup>11</sup> Thus, a new approach to social policies was among the OECD's suggested solutions to the economic problems plaguing its members, with the OECD arguing that social programmes were interfering with the effective and efficient working of the market, and hence were contributing to the economic woes.

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<sup>10</sup> The OECD urged members to do more to implement structural reforms, listing taxation, financial markets, agriculture, trade policies, subsidies to industries, the labour market, government interference in domestic markets for goods and services, and social policies as areas that needed attention (1988a: xi).

<sup>11</sup> In 1987, for example, it noted that the 'cost to government and society of supporting a greater number of elderly is expected to increase substantially' in the next few decades (1987b: 24). While the impact on economic welfare was uncertain, 'a higher dependency burden will place pressures on public sector social expenditures, particularly old age pensions, disability payments and medical care' (1987b: 24). The increase in outlays to the elderly would outweigh any decline in youth-related social expenditures, and the 'increased dependency ratio' would 'impose significant costs on society' (1987b: 24). In 1988, it noted that rising budget costs were straining major social programmes, a problem it expected to worsen as the share of older people in the population increased (1988a: 74).

This is not to argue that the OECD ignored social *objectives* (as opposed to policies) in the *Outlook*; rather, the goals – not the policies themselves – were seen as peripheral to the more important task of solving the economic crises. For example, when the OECD discussed redistribution in the *Outlook*, it did so in the context of urging tax reform. It noted in 1987 that many governments were changing their tax systems because they were concerned that existing structures were ‘unfair’, ‘unnecessarily complex’, and imposed large costs on society by ‘distorting economic decisions’ (1987a: 22). It observed that:

The sense of unfairness is twofold: individuals in similar circumstances are treated differently (horizontal equity); and there is a strong belief that, despite appearances of progressivity as exemplified by rising marginal personal tax rates, *very little redistribution actually occurs* (insufficient vertical equity) (1987a: 22; emphasis added).

It then noted that, despite these concerns, reforms so far had been limited, reflecting the constraints that governments faced in formulating reform proposals, including the ‘conflict between efficiency and equity’, and the ‘political and practical difficulties associated with tax reform’ (1987a: 23). When examining the conflict between efficiency and equity, the OECD was driven towards a focus on the former. The OECD advanced an argument against using the tax system for redistribution, saying that taxation was inefficient at achieving equity. It noted that, while taxation often was regarded as one of the main instruments for achieving a government’s income redistribution objectives, very little redistribution appeared to occur, so that ‘substantial distortions and welfare costs’ were incurred for ‘uncertain and possibly slight benefits’ (1987a: 23). As a result, it argued for ‘careful reassessment’ of the relative merits of the alternative means of redistributing income (taxes, social spending, and transfers) and suggested that it could be possible to ‘design tax reforms that improve horizontal equity, are distributionally neutral, and still achieve significant efficiency gains’ (1987a: 23).<sup>12</sup> The conflict, and subsequent issue of trade-offs, between efficiency and equity will be discussed further below.

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<sup>12</sup> These statements arguing for a reassessment of alternatives away from taxes create considerable problems for the OECD. Elsewhere, it argues for members to avoid direct expenditure and transfers, which it considers to exacerbate debt levels and have negative effects on incentives to work. Combined with this suggestion for tax systems to be ‘distributionally neutral’, it indicates that the OECD is not clear how it intends redistribution to occur, other than through the market, as will be discussed below.

Meanwhile, the OECD's social policy documents in this period also stressed the impact of social policies on the economy. That is, the OECD used these documents to emphasise the interconnection of economic and social policies, and the importance of paying attention to the effects of one on the other. For example, in 1988 it argued that a lesson from the decade after the first oil shock in 1973 was the 'need to link social and economic policies more closely':

Social policies cannot afford to ignore any negative impacts which certain provisions may have on economic performance. Equally, economic policies need to take account both of the social consequences and of the social objectives of economic change, and of the positive contribution which effective social protection can make to economic dynamism (1988c: 7).<sup>13</sup>

Such statements suggest that the organisation continued to view economic and social issues as holistically as it did in the earlier period. However, a closer reading of the OECD's comments reveal that the weighting given to economic concerns has changed to reflect its new understanding of the negative effects on the market, and on individual behaviour, of state intervention undertaken to achieve social objectives. Under the OECD's new paradigm, economic considerations are dominant, and social goals are assessed using economic criteria.<sup>14</sup> Discussions of state actions are couched in terms of efficiency and effectiveness, interpreted narrowly as cost, and they appear to be abstracted from any consideration of why governments might need to be involved in these areas.

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<sup>13</sup> OECD Secretary-General Jean-Claude Paye noted in 1985 that an earlier OECD conference on the welfare state had emphasised the link between economic and social policies:

Because economic policies have social consequences and social policies have economic consequences, it is essential that OECD countries seek to achieve their economic and social objectives through the coordination of both sets of policies. In particular the economic means to support a broad and flexible set of social programmes must be maintained, just as the programmes themselves must be effectively tailored to both social needs and limited resources (OECD 1985c: 7).

<sup>14</sup> For example, when arguing that, 'The very size of social expenditure in most countries also makes it an important part of the economy in its own right, so that its impact and effects merit close attention' (1988c: 7), the OECD's framework for analysis demanded that the 'attention' focus on how much social spending contributed to, or hindered, the economy. By 1994, this had been refined to the following observation:

effective social policies are essential both for the individual and for society. Though economic constraints should not be seen as a reason to underestimate the importance of social objectives, social policies cannot be developed outside the reality of budgetary considerations. Social policy, too, has an obligation to ensure that resources are mobilised more efficiently and effectively, not only because of current economic difficulties, but also for the credibility of the policies themselves as investments in society (1994c: 8).

That is, the OECD is operating under a new interpretation of social policy problems and solutions, and what the main concerns of social policy could be.

Under its old paradigm, the OECD understood the state to be an agent of social justice, one that was to undertake direct intervention to alleviate poverty and redistribute income. Such direct state intervention was not considered to have any significant detrimental effect on economic growth. However, as noted in the previous chapter, the OECD's new paradigm includes four key ideas that challenge those of the old paradigm. These are that direct state intervention, public debt, public spending and the public sector itself are all bad for the economy, interfering with the natural functioning of the market, thereby hindering growth, and discouraging individuals from acting as self-responsible economic agents. The strength of the influence of these ideas can be seen in a 1985 paper on social spending, in which the OECD observes that, while there is *no evidence* of a link between declining economic performance and the increasing size of public sectors, and that any arguments attributing the former to the latter are 'difficult to substantiate', 'there is a ready willingness to adopt such a view, and in recent years it has been having a growing influence on economic policy' (1985c: 15). In other words, the *idea* that a large public sector and high public spending are bad for the economy is used to justify reducing the size of the state and its spending in order to stabilise the economy, regardless of the lack of evidence supporting the link.

According to the new paradigm, public expenditure competes for resources that could be used more efficiently in the private sector, and high tax rates – used to fund welfare – are a disincentive for individuals to work and save. For example, in a 1978 report of a study into public expenditure trends, the OECD comments on the 'politically difficult trade-off' between two conflicting pressures: increasing public spending and reducing taxes (1978c: 8). It notes that, although incomes had risen, social justice remained a concern among the public, in that:

Greater absolute wealth may also make relative inequalities less tolerable and lead to strong pressure to redistribute incomes and to



improve the equality of access to essential services such as health care, education and housing (1978c: 9).<sup>15</sup>

However, it goes on to warn that rapidly rising public spending is likely to reduce productive potential 'by increasing the likelihood of inefficient allocation of resources and lowering incentives to work and invest' (1978c: 12). The emphasis here, then, is that social policy is no longer solely about social objectives, but needs to concern itself with efficient economics.<sup>16</sup>

Within two years of this report, the OECD's new paradigm has become firmly established, with its new world-view supplying the theme for its conference, 'Social Policies in the 1980s', which the OECD arranged 'in response to a concern that the relationship between economic and social policies needed more careful examination' (Podger 1981: 39). The papers and proceedings from this conference were published as *The Welfare State in Crisis* (1981c), and, although the book includes papers from OECD staff, public servants, politicians and academics, it has come to be regarded as an OECD critique of the welfare state. As Bob Deacon notes: 'The association of the OECD with the "welfare as burden" approach stems from that publication' (1997: 71). From this time, the OECD's social policy analysis is focused more on the impact of various policy options (particularly direct state intervention) on the economy. Concerns raised in conference papers – and elaborated in later publications – include that:

- the state's egalitarian goals inhibit economic adjustment and growth because the interventions needed to achieve these aims interfere with the market, and
- policies such as overly 'generous' benefits can have adverse effects on economic efficiency, acting as disincentives to work or adapt to economic

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<sup>15</sup> The OECD quotes one of its economists saying that the higher level of public spending observed in member countries reflected a 'collective decision' about the use of the results of growth. While some of the increased spending was the result of governments supplying goods and services that were not produced by the market, 'part is a result of this pursuit of equity directed at welfare expenditures' (1978c: 9).

<sup>16</sup> That said, the argument in this report reflects the overlap that occurs between paradigms when the old paradigm is breaking down and the new paradigm has not yet been settled, for whatever reason. In this case, the overlaps demonstrate why some regard the OECD as having retained its Keynesian ideas longer than others (see the discussion in Chapter 1). Having argued for a cautious approach to raising taxes in order to pay for higher public spending because of the disincentive effects on labour, the OECD concludes with a statement urging members to weigh decisions according to 'fundamental economic criteria and basic social choices rather than these being dictated by unduly rigid concerns about the virtues of "budget balance" or "fiscal responsibility"' (1978c: 12). That is, the OECD appears to be arguing that members do not need to prioritise economic concerns when doing so would override their social objectives.

change, and can have adverse effects on labour costs, employment, and prices.

In addition, and perhaps more importantly, the OECD fears the 'sheer scale of expenditures on social welfare', which, it notes, averaged 25 per cent of gross domestic product and 60 per cent of total public spending by the end of the 1970s (1980c: 15).

The organisation's new world-view changes its understanding of policy problems and solutions, and leads it to question both the wisdom and the sustainability of the welfare state. Economic factors, such as cost containment and faith in the efficiency of the market's allocative mechanisms, dominate the OECD's discussions of social policy problems and solutions, reflecting the shift in emphasis from poverty alleviation and egalitarianism to cost-containment, efficiency, and effectiveness. The latter is understood mainly in terms of achieving more for less, rather than necessarily meeting social goals effectively. The OECD now questions policies to reduce income inequality, with a report on the 1980 conference noting that economic difficulties have weakened the 'implicit social consensus on the need to promote equality' that had existed in the 1950s and 1960s (1980c: 16). It observes that redistribution policies do not appear to be effective, in that 'the amount of net redistribution appears relatively small compared to the flow of resources involved' (1980c: 17).<sup>17</sup> In addition, it argues, OECD members with 'very different patterns of income distribution' are prospering equally, which means that the relationship between economic growth and income inequality is not clear (1980c: 17). The organisation suggests that this raises the question of whether 'income equality has gone as far as it can' (1980c: 17).<sup>18</sup>

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<sup>17</sup> One conference speaker argued that this was not a problem in that the welfare system had 'objectives other than to redistribute income'; thus, it was 'not necessarily inefficient if the welfare system spends a lot but redistributes only a little' (Professor Irwin Garfinkel, quoted in Podger 1981: 41).

<sup>18</sup> The puzzle for the OECD was that countries with a high level of income inequality did not necessarily have low rates of economic growth and vice versa. This led the OECD to raise the question of whether reducing inequality was worth the cost in terms of decreased efficiency, if doing so was subsequently ineffective in making a difference to outcomes. That the intervention required, such as high taxes, could itself have a negative impact on economic growth also counted against a continued concern with income inequality.

As will be discussed further below, underlying these comments is the OECD's new understanding of individuals as rational, self-interested maximisers who alter their behaviour according to incentives and disincentives. This leads it to reconsider previously accepted mechanisms of welfare and distribution. The OECD was arguing in its *Economic Outlook* at this time that, 'despite the desirability of improving equity', some aspects of social legislation have had undesirable consequences (1981a: 43). Its thinking, then, is that, in order to avoid the negative effects of social legislation, the state should both turn to the market to achieve some of these goals and reconsider some of the goals themselves. Thus, the OECD's new paradigm gives primacy to the economic over the social because it understands that the former will eventually satisfactorily resolve policy problems in the latter.

The OECD's new emphasis on assessing social policy using economic factors such as efficiency and effectiveness continued throughout the 1980s, 'with correspondingly less attention devoted to issues of equality (or inequality)' (Saunders 1990: 14). The first of the OECD's Social Policy Studies series, *Social Expenditure 1960-1990: Problems of Growth and Control* (1985c), set the pattern for the organisation's social policy documents, judging welfare by economic criteria and how well it contributed to the economy, rather than how well it met social objectives.<sup>19</sup> The OECD noted that the strength of a state's commitment to equity objectives and the resulting social policies were the 'outcome of economic, demographic and political developments as well as social ones', with the future growth of social expenditure 'inextricably linked with parallel economic developments' (1985c: 26, 45). Thus, slow economic growth could mean either increased or decreased state spending, depending on the level of commitment the state had to equity objectives or expenditure control. In line with its new faith in the market and concern with cost-control, the OECD now considered it to be permissible to 'trade-off' equity goals in order to achieve economic efficiency. The OECD claimed in this paper that the 'most deep-seated determinant' of social spending growth was a state's commitment to equity objectives along with the 'prevailing judgement' as to the extent to which they could be pursued 'in the face of a trade-off between equity and economic efficiency' (1985c: 26). The

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<sup>19</sup> In this report, the OECD defines social expenditure as 'direct public expenditure on education, health services, pensions, unemployment compensation and other income maintenance programmes and welfare services' (1985c: 18).

earlier belief that reducing income inequality could be achieved without harming growth had given way to a view that equity and efficiency could not be achieved together – a gain in one unavoidably meant a loss in the other. The state could trade-off economic efficiency to attain its equity objectives, or it could sacrifice its egalitarian goals as inefficient. Much of the OECD analysis could be seen as giving intellectual justifications as to why member states should choose the latter course of action.

The OECD used the final chapter in this document to examine in detail the 'effectiveness and efficiency of social expenditure'. Initially, it appeared to acknowledge the complexities of the issues surrounding social spending. It noted that spending priorities were 'inextricably linked with political considerations', and that 'unravelling the complex array of motives' that explained spending patterns and constructing a framework for setting such patterns was 'probably beyond the scope of this or any single report' (1985c: 54). Having raised that proviso, it then emphasised the 'importance of establishing a basis' for making spending decisions and noted that, rather than examine spending priorities, the final chapter would focus on the 'effectiveness and efficiency of the major social programmes'. Thus, it reflected on the potential for the reforms that would 'inevitably be required' if the welfare state was to 'maintain levels of service but spend less, or extend its scope without spending correspondingly more' (1985c: 54). To an extent, the OECD tried to retain an emphasis on equity, acknowledging that income, wealth and social welfare were unequally distributed in all OECD countries, and that redistribution was an objective of society and the state (1985c: 57). But it made its efficiency goals primary when it said that, while there was a:

well established role for the Welfare State which is firmly rooted in the idea of market failure and the desire for distributional justice ... equally the State has a responsibility to society ... to pursue their shared objectives responsibly (1985c: 57).

This meant 'careful' monitoring of both the effectiveness and the efficiency of welfare mechanisms in meeting social objectives, especially given that both 'Society and the State have largely failed to evaluate their social welfare policies thoroughly in decades past' (1985c: 57). The 'failure' of evaluation and the perceived incorrect weighting between social and economic considerations will be discussed in the final section of this chapter.

The important point here is that the OECD's paradigm establishes a framework for assessing 'responsibility' and 'responsible' in a particular way. In the context of an equity-efficiency trade-off, 'responsibly' again can be taken to suggest that it is not possible to pursue both distributional justice and efficiency at the same time. According to the OECD's understanding, state policies to redistribute income would, in most cases, be less effective in achieving this outcome than the market, and 'responsible' pursuit meant choosing the economic over the social. In other words, it can be argued that the state's primary responsibility has shifted from it being morally bound to provide for those at the lower end of income distribution to being morally bound to taxpayers – especially those in the middle and upper income brackets – not to waste their resources. (Note here that I am talking of the state's primary responsibility. I am not arguing that Keynesian ideas had allowed the state to be profligate; rather, that the order of responsibilities was different.) In addition, 'responsible' pursuit meant looking to the market, rather than the state, for the provision and/or management of services.

An example of the OECD's giving primacy to the economic over the social when judging efficiency and effectiveness arises from its discussion of the provision of 'merit goods'. Having described the 'tendency' to view education and health as 'merit goods' that, for reasons of supply and quality, 'governments usually provide', the OECD then used an economic framework to assess the efficiency and effectiveness of state intervention in these areas (1985c: 56-58). We need to recall from the previous chapter that merit goods are those that society believes everyone ought to have, regardless of whether each individual wants them, and that, by their nature, they are difficult to subject to market mechanisms. The OECD's discussion noted 'three principal and related sources of inefficiency':

- collective provision supplied free or at a notional price, meaning benefits were divorced from costs
- allocation on the basis of 'mainly non-budgetary criteria', and
- domination of the services by 'well-organised supplying professionals', who the OECD described in a way that suggested these professionals acted with excessive self-interest (1985c: 58).

The OECD then argued that, because collective provision was 'unlikely to be wholly rejected in favour of the free market', the task of improving the

effectiveness and efficiency of provision was a management problem that could be resolved through 'some retreat from the current level of State involvement' (1985c: 60). It noted that, for example, the state could limit the 'open-endedness' of some services (restricting access to some services and charging for others), or it could retain responsibility for funding, 'prudential regulation', and 'guiding ... specific outcomes', but pass the 'purely management function' to the private sector where it could be 'subjected to the disciplines of the market' (1985c: 60). As noted in the previous chapter, the move to the market contradicts the OECD's earlier view that, 'to a large extent', market mechanisms were inapplicable in these areas. The missing element in the OECD's discussion is an explanation for its argument that the market is better than the state at managing the provision of merit goods. That is, the first two sources for 'inefficiency' in the provision of education and health services are linked to the very reasons that the state, rather than the market, supplies these goods in the first place.<sup>20</sup>

In *The Future of Social Protection* (1988c), the OECD turned its attention to the legitimacy of a previous key component of social policy: income support. It claimed that it was 'accepted as legitimate' for the elderly to receive 'relatively generous degrees of public income support', and that this legitimacy extended to invalids and the handicapped. However, it argued, such legitimacy was 'either not present or exists only in diluted or very conditional form for most other non-

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<sup>20</sup> There are several other problems to consider when shifting the management and/or provision of some public services to the market. These include accountability issues and the difficulties of assessing efficiency and effectiveness in the commercial arena. For example, in 1996, Australia's conservative Coalition Government restructured the job placement market and replaced the Commonwealth Employment Service with a 'contestable and full competitive market in which private, community and public-sector agencies [were to be] contracted to place unemployed people into jobs' (Tingle 2000c). The results of the first 18-month contracts tendered in 1997 were unsuccessful, with many providers going out of business because their bids had been too low to cover the cost of service provision. A second tender sought to avoid such problems and aimed to award contracts on the basis of the quality of service provision. However, a report in 2000 noted that:

Despite the Government's general claims of success for its new scheme, there is little reliable information available about whether Job Network is doing a good job for the unemployed – who seem to have been forgotten in much of the debate – thanks largely to commercial-in-confidence rules and a Government with a scant regard for accountability (Tingle 2000c).

An additional problem for this particular scheme was that church groups won several of the tenders. Their success raised fears of religious discrimination in the services offered, especially when the Employment Services Minister defended the right of the groups to 'employ in the role of job-search helpers only those committed to a specific [religious] ethos'. See *The Australian* (2000a), Tingle (2000a, 2000b).

elderly people' (1988c: 26). The OECD used this notion of the illegitimacy of public income support for the non-elderly as a basis for arguing for work over welfare. Thus, it observed, an adequate income for most of the non-elderly could only be secured if they were in:

an income unit which is in receipt of labour market income. Public income support may ensure survival and subsistence, and *perhaps* even the absence of poverty, but will very rarely provide adequacy (1988c: 26; emphasis added).

This view is significantly different from the OECD's earlier claim, noted above, that a main objective of income maintenance programmes was to 'reduce or eliminate relative poverty' (1976c: 88). Here, the idea is that income maintenance is no guarantee against poverty; rather, it simply ensures that an individual has enough on which to subsist. This is not to argue that the OECD was suggesting that the state had no role in poverty alleviation, but that its view of the responsibility for alleviation (beyond subsistence) had shifted such that individuals now were expected to do more for themselves. An 'adequate' income was an individual (or 'income unit') responsibility that was to be achieved via the individual gaining employment and receiving 'labour market income'. That is, the emphasis was on work (and wages) as the best form of welfare. As noted in the previous chapter, a key assumption of the OECD's paradigm here is that work is available to all and that being without work is related to individual choice and not external market conditions.

The OECD's justification for the shift in its attitude towards income maintenance (that it was not 'accepted as legitimate' for the non-elderly to receive income support) reflected a change in its underlying understanding of state-society relations, roles, and responsibilities. As discussed above, the earlier papers showed that the OECD considered poverty alleviation to be a state responsibility. However, the later papers emphasise individual responsibility. For example, in 1988, the OECD argued that the need to restrict income support was:

not so much because of resource constraints on income support levels but because it is only in limited (and often time-limited) circumstances that the provision solely from public funds of income adequacy to the non-aged will be thought to be acceptable (1988c: 26).

This statement is revealing for several reasons. First, it suggests that economic factors, particularly the cost of income support, are not as important as the underlying attitudes towards the supply of taxpayer funds to the non-aged. That

is, whether or not income support was seen as 'acceptable' was more important than 'resources constraints', suggesting that the justification for controlling the level of income maintenance arises from informal institutions defining what is acceptable and legitimate, rather than economic reasoning. The implication here is that public opinion on what is acceptable guides policy, yet earlier, the OECD had argued that policies 'played a part in changing social attitudes' (1976c: 83). Second, the statement exposes the major shift in the OECD's interpretation of the *raison d'être* for income support. That is, the notion that in civilised countries people were supported out of public funds when they were unable to provide for themselves, 'whatever the cause of their lack of income' (1967d: 28), has been replaced. Except in particular, defined circumstances, it is no longer considered to be a legitimate function of the state to intervene to alleviate poverty or to redistribute income. Again, the new views are that the market is, in most cases, better at provision than the state, and that individuals are responsible for providing for themselves via participation in the market.

## **SOCIAL POLICIES TOWARDS THE NEW MILLENNIUM: TRANSFORMATIONS AND IMPLICATIONS**

As noted at the beginning of this chapter, from the mid-1990s, social goals were back on the OECD's agenda in its discussions in the *Economic Outlook*. That is, the OECD continued to push for reform, but stressed that governments should concentrate attention on ensuring that longer-term policy was aimed effectively at achieving 'fundamental economic *and social* goals' (1994a: ix; emphasis added; 1994b: xi; 1996a: 50; 1997a: 31; 1996b: 21; 1999a: 141; and 1998a: 8). The organisation had flirted with a focus on social goals when it raised the issue of 'social problems and policies' in a short paragraph in the 'Introduction' to *Economic Outlook* 49 (1991a: xiv). Then, it listed the main problems as long-term unemployment, educational failure, poverty and deprivation in particular social groups, urban and rural decay, population ageing, and international migration. It placed these within an economic context saying that continued economic progress would have 'positive effects here as elsewhere'.<sup>21</sup> But these issues then

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<sup>21</sup> In this discussion, the OECD noted that the average real income per head in the OECD was about 25 per cent higher at the beginning of the 1990s than it had been 10 years earlier, and that it expected a further advance in the next decade (1991a: xiv). But it then flagged its concerns about the 'persistence' of several social problems, and the possible emergence of others. It listed the main problems as those given above. Although it argued that economic improvements would help with these problems, it noted that some would need to be 'directly addressed', although doing so would



dropped from the *Economic Outlook* until the mid-1990s when they returned, accompanied by what appeared to be an expanded range of concerns, including 'social cohesion', 'social exclusion', and 'marginalisation'. At first glance, this may suggest that the OECD was now more concerned with social *outcomes* than it had been for nearly two decades and that it had a more holistic understanding of the problems it had raised in 1991. That is, the new terms encompassed all of the OECD's concerns and drew the connections between the problems. However, such a conclusion overlooks the implications of the OECD's new paradigm for its understanding of social justice and related issues. As noted in the Introduction, the OECD was undoubtedly focusing more attention on the connections between social and economic issues than it had at any time since the mid-1970s. Equally undoubtedly, the OECD had expanded the range of issues it was prepared to consider under the rubric of 'social' issues. But its new understanding of the world and how it works, and the state-society relations, roles, and responsibilities within that world altered how it perceived these problems and what solutions it considered to be viable.

The OECD's new interpretation of the division of responsibilities and its new understanding of individual behaviour limited its options when it began to emphasise the pursuit of 'economic and social goals' and to focus attention on social justice and related issues, including poverty alleviation, equality (equity), and redistribution.<sup>22</sup> Its policy advice when discussing social cohesion, and the problems of exclusion and marginalisation, appeared to emphasise a concern with alleviating the 'disturbing degree of social distress' and the 'social hardship and demotivation' of prolonged unemployment (1994a: 1). That is, the OECD noted that there was an 'important social dimension' to such economic issues as preventing rigidities, making economies more innovative and adaptable, and allowing resources to move to their most profitable uses. It explained:

An adequate degree of social protection is necessary to reassure workers, and encourage them to react positively to structural

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require a 'careful blend of policies' (1991a: xiv). For example, the reform of social transfer systems would need to 'establish a better trade-off between relieving poverty and creating a culture of dependence on public support' (1991a: xiv). The OECD concluded its discussion by acknowledging that, within this, there were 'more fundamental matters at stake', concerning 'perceptions of what is just and affordable' (1991a: xiv; emphasis added). These issues then dropped from the OECD agenda until the mid-1990s.

<sup>22</sup> Editions of the *Economic Outlook* published in 1996, 1997, and 1998 included special chapters on these topics.

changes. At the same time, it is necessary to provide a decent minimum standard of living for those members of society who are unable to adjust (1994a: 1).

It also argued that, while many people would need help to fit the requirements of high-skill jobs, some would be unable to meet these requirements and would be unable to find work or would be confined to low-skilled, low-paid jobs. It noted:

The commitment to support them will be a valuable investment towards a more cohesive and caring society. As OECD economies progress, it becomes all the more important to hone the support policies and mechanisms so that they provide effective help to those who most need it (1994a: 2).<sup>23</sup>

Later, when commenting on the need to reform the design and generosity of transfer systems, the OECD noted that it was important to ensure that fiscal consolidation was done in a manner that was 'fair and efficient'. That is, it stated:

Policies must ensure that the benefits of economic growth are shared by all and, in particular, those most in need must continue to be protected to prevent the emergence or exacerbation of poverty and social exclusion (1996a: xiii).

In addition to these concerns with social protection, the OECD also targeted equity, noting that all of its member countries were concerned with 'employment, social cohesion and equity outcomes' (1997a: 12).<sup>24</sup> It noted that market incomes had 'become less equally distributed over time' and that,

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<sup>23</sup> The section in which these views are discussed is a 'synthesis' of *The OECD Jobs Study*, which, the OECD notes in the 'Introduction' to this edition of *Economic Outlook*, examines 'the reasons for and the remedies to the disappointing progress in dealing with unemployment' (1994a: xi). Signalling that the OECD sees a broader application for this study, it notes, 'Although the structural-reform recommendations focus on unemployment, many of them would help to improve economic performance more generally' (1994a: xi).

<sup>24</sup> It argued that the challenges for members as they moved out of recession included reducing the gap between 'aspirations for, and realisation of, economic and social well-being over the longer term' (1994b: xi). Meeting this challenge, it observed, would require that governments 'move forward with the structural-reform agenda ... while meeting domestic and international social (equity) objectives' (1994b: xi). (The OECD did not explain what it meant by 'domestic and international social (equity) objectives'; nor was it clear why it put the word 'equity' in brackets.) The OECD then noted that efforts to speed the pace of fiscal consolidation would need to 'take account of considerations of equity and the impact on living standards for low-income groups' (1994b: xiii). It reiterated the need for governments to ensure that 'rising living standards and increased prosperity are shared, both across countries and among individuals within countries' (1995a: xi, xvi). The OECD noted increased concern about the 'social consequences of rising inequality', even in those countries with favourable employment prospects, and commented that such developments could put pressure on social safety nets designed to minimise marginalisation and provide some protection against poverty (1995a: 8; 1996b: 36).

'[e]xcessive' inequality of income and wealth that could arise from the 'unfettered play of market forces' was 'widely considered unjust' (1996b: 36).<sup>25</sup>

Superficially, it appears that the OECD's concerns with the effects of social exclusion and marginalisation reflect a return to its earlier concerns with the social and political implications of economic policy, but a closer examination of the OECD's arguments reveals that this is not the case. The concerns of the 1960s and the early 1970s were used to justify either economic actions that took the resulting social impact into account, or state intervention to ensure particular outcomes. That is, if pursuing a particular policy direction was considered likely to have negative social and political consequences then the OECD advised that it should not be pursued. The renewed concern with social consequences in the 1990s is not about justifying state intervention to achieve particular outcomes, but instead is about justifying why states should not intervene and, in fact, should continue with reforms to free the market from its 'plethora' of distorting regulation. Hence, the OECD's argument for better economic performance providing the economic basis for 'improved social cohesion' (1994a: xi). This understanding gave the OECD ammunition to use against those of its members who wanted to adopt a cautious approach to reform because they feared that the suggested reforms may damage social cohesion as much as did high long-term unemployment. In the OECD's view, faster implementation of market-based strategies would resolve problems such as decreased social cohesion, not create or exacerbate them. Even when the OECD acknowledged the legitimacy of these fears, noting government reluctance to act because of concerns that negative effects 'could exacerbate social problems and hardship in the short term', it warned that the costs of not taking action could be high (1995b: 7).

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<sup>25</sup> The latter quotes come from a special chapter, 'Growth, Equity and Distribution' in *Economic Outlook 60* (1996b). It opened another special chapter, 'Income Distribution and Poverty in Selected OECD Countries', with the observation that, in the past 20 years, 'pressures tending to widen wage and income distributions appear to have intensified in many OECD countries' (1997b: 49). As a result:

Market incomes have become less equally distributed over time, with the percentage going to the low-income group falling in almost all countries and that going to the high-income group rising in all countries (1997b: 53).

On this issue, it later noted that 'inequalities of disposable income have not generally narrowed since the 1980s' and that technology and, 'perhaps', globalisation were 'tending to increase income inequalities, increasing demands for more extensive income redistribution' (1998a: 158, 157).

While the concerns with social tensions appear similar to those of the earlier period, the OECD's methods of 'soothing' individuals have changed considerably. State responsibility has shifted from the state being an agent of prevention and protection to the state providing a safety net of last resort, with individuals expected to act for themselves. That is, the OECD's new framework for policy analysis shifts the balance between public and private responsibilities and moves much of the responsibility for alleviating social distress from the state to individuals and their market interactions.<sup>26</sup> The result is a transformation in the OECD's treatment of social justice and related issues. Earlier methods to achieve the state's social goals are now considered to have negative consequences for the economy, impeding its efficient functioning, and for the individual, encouraging the wrong type of behaviour. This means that, for example, although the OECD acknowledges its members' concern with 'widening income distributions' and the 'social consequences of rising inequality', it fears the negative effects of redistributive policies on the economy. It argues that the taxes needed to pay for enlarged redistribution programmes could discourage work and saving, and the programmes themselves could 'encourage a "culture of dependency"', weakening incentives to work, save and invest' (1996b: 36). Thus, it cautions that where efforts are made to reduce inequality, it is 'important that they focus on measures that do not negatively affect employment opportunities or work incentives' (1996b: 21).<sup>27</sup>

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<sup>26</sup> As noted above, until about the mid-1970s, the OECD's Keynesian paradigm considered the state to be responsible for ensuring that society's desired social outcomes, such as equality and redistribution of wealth and income, were met. The state also was responsible for directly intervening to resolve economic problems, such as inflation and unemployment, that could prevent these outcomes, and for supporting those affected by such economic problems until they were resolved. But from about the late 1970s, the OECD substantially shifted its view, and placed considerable responsibility for attaining society's desired social outcomes on to individuals. Under the new framework of ideas, the state still is responsible for resolving economic problems, but its means of doing so have been restricted mainly to ensuring that individuals can function as self-responsible 'economic agents' in the market.

<sup>27</sup> The OECD argues that targeting transfers 'more precisely to those in need' could allow governments to meet equity goals while avoiding the 'economic inefficiencies' arising from higher tax burdens, but it acknowledges that targeting could also result in high marginal effective tax rates (1997b: 58). That is, the withdrawal of benefits (cash and otherwise) as income rises acts as another tax, 'discouraging work effort' (1997b: 58). (We should note here that the OECD does not acknowledge that the definition of 'need' varies according to the framework being used for assessment.) In addition, the OECD fears that increased spending on redistributive policies could 'reduce overall economic prosperity by distorting economic decisions' and the increased taxes needed to pay for expanded income distribution could raise labour costs (1997b: 57). The OECD argued that higher labour costs would increase unemployment in countries where wages were inflexible, and reduce wages and labour supply in countries with more flexible wages.

With social outcomes no longer solely a state responsibility, the focus of the social side of economic policy shifts from equality of outcomes (or end points) to equality in opportunity (or starting points), after which outcomes depend on personal effort in the market. For example, the OECD considers that ensuring that an individual has access to education improves that person's chances of finding a job. In a similar vein, low-paid work allows an individual to gain work experience and a 'foothold on the job ladder' that would provide the basis for 'moving up the ladder to higher-paid employment' (1994b: xv). This 'toehold in employment via a low-wage job' is expected to have a 'beneficial impact on that person's lifetime income' (1996a: 26). Justifications for this approach are developed and refined from about the mid-1970s until, by the mid-1990s, the OECD presents a comprehensive argument in which employment and education to obtain that employment are cast as the solutions to a myriad of social problems. It argues that 'broader employment and educational opportunities' are 'equitable in their own right' and 'promote greater social inclusion and cohesion' (1997b: 57).<sup>28</sup> This leads it to claim, when discussing 'income distribution and poverty', that:

lifetime opportunities, rather than *ex post* incomes, might be distributed more equally by policies to improve education and training, to help the young and the long-term unemployed to secure jobs, and to reconcile work and family responsibilities (1997b: 58-59).

Thus, the OECD's focus on economic *and social* goals is not as sympathetic to social justice and related issues as it first appears, in that these issues are no longer understood in the same way. In effect, previously acceptable means of achieving social goals now are seen as root causes of economic and social problems, and changes to these means inevitably alters the desired outcomes. In addition, the goals themselves may no longer exist.

Evidence for this transformation can be found in both the OECD's *Economic Outlook* and its major social policy documents. From these publications, it is clear that the organisation's social policy in the decade before the new millennium is based on a transformed relationship between the state and the individuals comprising society, with a new emphasis on partnership, responsibilities, and

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<sup>28</sup> It considers that education and training programmes not only could raise overall productivity and output, but 'ultimately' also could reduce the need for 'remedial tax and transfer programmes', which the OECD now believes cause more problems than they resolve (1997b: 59).

obligations. According to the OECD's new paradigm, direct 'passive' state intervention has had negative consequences for society and the market, interfering with the incentives and disincentives governing the choices and actions of individuals. As outlined above, this understanding of individual behaviour is based on the notion of 'homo economicus', according to which individuals are considered to make rational choices about their actions based on their own economic self-interest.<sup>29</sup> On the basis of this understanding, social policy is assessed in terms of the incentives and disincentives it gives people to act in particular ways.

Such assessments lead the OECD to argue that, in the past, state provision has been too 'generous' and has encouraged people – understood to be rational, self-interested maximisers – to become dependent on state benefits rather than taking initiatives to become self-sufficient. As a result, the OECD seeks to reduce the role of the state, noting in *New Orientations for Social Policy* in 1994 that, while policy prescriptions may be familiar, the way in which the role of the state is perceived is new:

Governments can no longer be thought of as providers of largesse but instead, as partners that enable and empower people to take initiatives on their own behalf and to exert greater control over the circumstances of their lives (1994c: 12).

Again, such a statement is revealing in that it exposes the underlying assumptions of the OECD's new understanding of policy problems and solutions. An obvious, and questionable, assumption is that governments previously were (and still are) considered to be 'providers of largesse'. The question here is whether state support for the victims of market failure (recall the OECD's earlier comments, noted above) can be deemed 'largesse', in the sense of the dictionary definition: a 'liberal bestowal of gifts' (Brown 1993: 1533).

However, an equally important assumption is that earlier forms of state action have had negative consequences for individuals, preventing them from acting on their own behalf or having control over their lives. This assumption reflects a significant shift in the understanding of the impact of state support. Under its

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<sup>29</sup> As outlined in the previous chapter, according to this view, people try to obtain the most at the least cost to themselves, meaning that they will choose to accept state-supplied benefits over exerting themselves in the market. This will be discussed further below.

Keynesian paradigm, the OECD had considered state income support to allow those suffering 'temporary misfortune' to maintain their independence by giving them the means to continue making decisions for themselves. This is not to argue that welfare was once seen as acceptable, but that the reason for its provision was understood in a different way. Then, the OECD considered state intervention as a means of *enabling* individuals to make choices for themselves and to continue to participate in society and achieve their potential, even if they were the victims of economic circumstances (market failures) that were outside their control. However, now it considers state intervention, especially 'passive' income support, to *inhibit* individual choice and participation. According to the new paradigm, state provision is not a means to independence, freedom, choice, and dignity, but rather a road to dependence that inhibited individual freedom.<sup>30</sup> That is, the OECD argues:

to have people dependent on benefits is preferable to their being destitute, but the next step could be to break the cycle of dependency and low income which limits their scope for independent choice and activity (1988c: 27).

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To the extent that these [social protection] systems may lead to persistent reliance on the State, a poor alternative to self-sufficiency is created; policies which fail to promote the realisation of individual potential and greater personal control over the circumstances of life may hamper rather than help society (1994c: 10).

Under the new policy agenda, people are to be encouraged to look after themselves, thereby giving them maximum freedom through their self-sufficiency. Of course, as noted in the previous chapter, choosing to remain on welfare is not the type of 'individual choice' that the OECD aims to encourage.

The OECD denied that the 'new partnership' it envisaged between 'the government and the people' was 'simply an effort to shift responsibility'

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<sup>30</sup> It is worth noting here the work of Neil Gilbert, who discusses the change in the paradigm underpinning the welfare state as a 'shift in central tendencies from welfare to enabling state' (2002: ch. 2). According to this interpretation of 'enabling', it is the removal of state intervention in its citizens' lives that 'enables' them to pursue their life choices. Gilbert notes that: 'the enabling state emphasizes a market-oriented approach that targets benefits that promote labor force participation and individual responsibility' (2002: 44). Gilbert does not contradict the overall point I make here; rather, his work (in his book, *Transformation of the Welfare State: the Silent Surrender of Public Responsibility*) serves to reinforce my argument that neo-liberal discourse frames welfare in ways that support its new vision of state-society relations, roles, and responsibilities.

(1994c: 12). Rather, it claimed, the new partnership aimed to 'maximise human potential and the choices available to individuals, thereby increasing personal dignity and the resources available to the economy' (1994c: 12). That is, it argued, the new relationship would make better use of the resources available to society by:

attaining a balance between public and private responsibilities that takes advantage of what each can do best; [and] encouraging and facilitating the development of human potential, individual initiative, and self-sufficiency (1994c: 18-19).

Here, the OECD overlooks the fact that the assessment of what each does best depends on the framework being used. We should recall here that Keynesianism had a cynical view about the private sector, believing that markets failed and that the state had to be ready to intervene to correct such failures. The result was a particular view of the boundaries of the public and private sphere that is significantly different to that underlying the observation above.

Meanwhile, the development of human potential and individual initiative meant a new emphasis on participation. Notions of the need for the state to encourage participation were based on an understanding of welfare as dependence, as noted above. In a 1988 report, the OECD noted that policy in the 1990s would have to cope with 'long-term dependency' and 'those who remain excluded from the patterns of opportunity and mobility which are among the important characteristics of open societies and dynamic economics' (1988c: 21).<sup>31</sup> That is:

Whatever the ideological or value basis of governments in different OECD countries, this long-term dependence presents the challenge of

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<sup>31</sup> The OECD noted that the terms used to describe this 'excluded' group included 'persistent poverty', 'welfare dependence' and the 'underclass' (1988c: 21). It continued:

However termed, the concern generally is not so much those whom the welfare state fails to reach but rather those who are, so to speak, within the system ... but whose prospects seem little better than subsistence dependency, without an active role in society (1988c: 21).

This is a narrow view of the 'excluded', given the OECD's emphasis on active participation in society and social activities, in that it takes no account of the working poor, who may lack both time and money to take part in broader social activities. Interestingly, it contrasts with the definitions that OECD members themselves provided in a 1998 survey of social and health policies. The survey report notes that the groups that countries identified as at most risk of social exclusion included: people with disabilities, drug abusers, homeless people, refugees and immigrants, indigenous populations, former prisoners, women, children, young people, and the long-term unemployed (Kalisch et al. 1998: 22). Not all of these would be 'within the system', nor would the factors contributing to their exclusion necessarily be resolved through their being employed, as the OECD seems to suggest with its emphasis on employment as the answer to exclusion. The OECD's view of social exclusion will be discussed further below.



how to eliminate this pattern of exclusion from activity, opportunity and mobility (1988c: 21).

The OECD's solution to dependence was the 'development' of social protection policy objectives so that they were 'aimed at contributing to ensuring for each individual the possibility of an active role and participation in that society' (1988c: 30). For 'most people, most of the time', it claimed, this would be achieved through 'their own work and social activities' (1988c: 30).

However, despite having stressed the importance of 'active social roles', which may suggest a broad interpretation of what it means to participate in society, the OECD's focus in the 1990s directed attention to employment as the key to participation and inclusion. The OECD's theme was that, whereas welfare sapped personal initiative and misused human resources, work allowed people to regain their autonomy. In the OECD's words:

When dependency on public income transfers persists among those who, in principle, are capable of working, then the State (unintentionally) may be facilitating a loss of human potential (1994c: 16).

The organisation urged a 'new orientation' towards an employment-oriented social policy and its members' ministers responsible for social policy endorsed this view, stating that:

social policy should be guided by orientations which: ... Contribute to society as well as to market efficiency by facilitating employment, rather than perpetuating reliance on public income support alone (1994c: 52).

That is, the shift in focus is from passive income support to an opportunity to participate in the work force. As noted above, a key underlying assumption here is that, while work is available, individuals are choosing to depend on state-provided benefits rather than their own efforts. The fault for individuals not working when they are capable of doing so lies with the individuals and their behaviour, rather than with market failure.

A similar assumption underlies another aspect of the OECD's new orientation, which called for income maintenance programmes to be 'consistent with the objective of encouraging individuals to achieve self-sufficiency through earnings' (1994c: 52). That is, the OECD argued:

Transfer programmes were put in place to meet genuine social needs and goals, and the challenge will be to reform them in order to continue to meet those needs while mobilising the available labour supply to the maximum and avoiding excessive and possibly unsustainable budgetary pressures (1995b: xiii).<sup>32</sup>

The organisation noted that this required greater coherence between labour-market, education and social policies so that, for example, 'policies which aim to enhance equity and social protection ... structure their incentives so that workforce participation is encouraged' (1994c: 7). Again, this statement is predicated on an understanding of unemployment as voluntary and on an understanding of individuals as rational maximisers who choose not to work, but who can be persuaded (or 'encouraged') through the judicious use of incentives and disincentives to rejoin the work force. An additional underlying assumption is that beneficiaries do not participate in either the labour market or in society more generally. The OECD considered work to be the solution to resolving the problems of participation, and it linked social activity to work activity. It argued, therefore, that the role of the state was to:

design interventions so as to maximise both the number of people who have opportunities for active social roles, and the durations of their lives over which they can experience such activity (1988c: 30).

Of course, while these 'interventions' were to be based on an 'active' rather than 'passive' state approach, this did not mean direct state intervention of the kind promoted under the earlier paradigm. That is, the 'active labour market' policies that the OECD has in mind to enhance an individual's employment prospects do not include the 1960s strategies of state-organised and state-funded public-employment schemes, which it now understood to have the opposite effect to what it assumed in the earlier period. Rather, 'active' policies were indirect interventions and included such measures as reducing benefits and other activities considered to function as 'disincentives' for people to act on their own behalf. Thus, policy solutions were based on the understanding of individuals as rational maximisers whose self-interested behaviour could be manipulated in order to achieve the desired ends.

An obvious example of this approach was the OECD's emphasis in its social policy papers in the 1990s on 'making work pay'. Here, the organisation's central

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<sup>32</sup> The issue of 'genuine' social needs and goals will be discussed below.

concern was that 'generous' benefits would lead to the unemployed choosing to take welfare over low-paid employment.<sup>33</sup> It observed: "'generosity" as a priority in programme structures may itself conflict with work incentives – and with another goal, minimising public expenditures' (1994c: 17). The fear was that the existence of social protection altered people's behaviour, with rational individuals calculating how they could obtain the most for the least effort. In the OECD's words: 'For those who are expected to move from dependency on public income transfers into employment, the structure of income transfer programmes may not always provide appropriate signals' (1994c: 17). That is, it claimed that 'programmes may not always be reaching their intended goals and, in some cases, may be making things worse – for example, by promoting long-term dependency on benefits' (1995b: 25). It offered two examples:

- *unemployment traps*: where income support was 'adequate', payments might match what low-paid workers earned, which could discourage beneficiaries from taking such jobs and obtaining the work experience necessary for them to increase their earnings capacity (1994c: 13). The OECD believed that, where the lack of a job was the criterion for the receipt of transfers, there was a 'risk' that people would choose to stay on a benefit rather than accept work, and thus become 'trapped in unemployment' (1996a: 25). As noted above, this was not the type of individual 'choice' that the OECD wanted to encourage. In a pithy summation of this theory, it observed: 'if work does not pay, people will be reluctant to work' (1999c: 92).
- *poverty traps*: where benefits were reduced when income from earnings was present, 'particularly if the loss equals or exceeds the value of the money earned', such penalties could encourage beneficiaries 'to ignore his or her long-run interest in acquiring work experience and enhanced earnings capacity' (1994c: 17). Such 'high marginal effective tax rates' could cause a 'poverty trap' (1999c: 92; 1996a: 25; 1995b: 26).

The OECD argued that shifting transfers towards more income-testing could weaken the unemployment trap, but would strengthen the poverty trap (1996a: 25). It noted that possible solutions to these problems included offering stronger financial incentives for claimants to take up work, targeting wage

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<sup>33</sup> The OECD argued in 1992 that the 'more generous' benefits of the 1970s appeared to have reduced the incentives for retraining and finding work in newly emerging jobs and skills (1992a: xi).

subsidies at the long-term unemployed, and providing in-work benefits (1995b: 26). An interesting point here is that these solutions are not necessarily cheaper than providing benefits. As OECD social policy directorate head Peter Scherer notes:

Reform of systems of social protection is often represented as being synonymous with reductions in public expenditure. But ... the short-run budgetary costs of the measures to increase opportunities for the disadvantaged are unlikely to be less than those of the transfer systems they are intended to supersede (1997: 55).

This suggests that, despite the emphasis on the need to reform social transfers in order to control public spending, a clear aim of the reforms is changing individual behaviour.

In itself, the notion of benefits as 'disincentives' to work is not new, nor is the notion that there are people in society who are what the 1967 report (mentioned above) termed 'work shy' (1967c: 27).<sup>34</sup> But the new paradigm's understanding of the causes of, and solutions to, the problem are quite different; the OECD's assumptions about individual behaviour leave it little option but to argue against such measures as income transfers. The OECD had noted the 'adverse incentive effects' of income support in its *Public Expenditure on Income Maintenance Programmes* in 1976. However, it also noted in this report that attitudes to the 'problem of work disincentives' depended on 'value judgments concerning individualism versus social responsibility' (1976c: 91). It argued that, while there were cases of abuse of income maintenance programmes:

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<sup>34</sup> The 1967 report on help for the long-term unemployed demonstrates the different interpretations that the two paradigms under review have of a similar policy problem: long-term unemployment. The 1967 study examined the best means of achieving an 'active manpower policy' that would help the long-term unemployed 'become fully productive, self-dependent members of the society' (1967d: 28, 25). It noted:

If some proportion of them [those who cannot support themselves] could be checked from falling into such hopeless apathy as to accept their unemployment as permanent and beyond their control, the larger the contribution that would be made to both social welfare and the national economy and the smaller the number to be support by the [public] funds (1967d: 28).

On the surface, this appears to be a similar approach to that which the OECD advances to deal with unemployment in many of its more recent documents, and it is couched in similar terms, such as 'active' and 'self-dependent'. However, where this discussion differed from those in the OECD's later documents was in the understanding of the responsibility for the problem and the solution. Although this report acknowledged that a proportion of those interviewed for the study (a quarter of the sample in the Netherlands), were 'work shy', the discussion did not suggest that this appellation applied to all long-term unemployed.

the central question ... is how far any such cost ... is acceptable as a price that society is prepared to pay in return for such benefits as the relief of genuine hardship (as well as the reduction of industrial strife and social tensions), resulting from the existence of large scale programmes for income maintenance (1976c: 91).

In 1976, the doctrine of market failure and the understanding of the state having a responsibility to intervene directly to alleviate poverty weighted the equation towards social responsibility. The OECD's new paradigm prompted it to shift towards an emphasis on individual self-responsibility, especially in view of a growing belief that individuals were 'failing to behave in a socially responsible manner' (1999c: 101).<sup>35</sup> As a result, the OECD's interpretation of what price society is prepared to pay is assessed through a framework that has a new understanding of roles and responsibilities and the impact of state action on individuals.

However, the OECD also justifies its emphasis on reducing social transfers on the grounds that it is simply pursuing a new means of achieving equity. That is, the OECD argued that, in urging members to reform the system of transfers in order to push people into work, it was simply achieving an old goal, equity, via a new means, employment, rather than income transfers. For example, it acknowledged that reducing the 'generosity' of transfers, while weakening both unemployment and poverty traps, 'may conflict with equity objectives' (1996a: 25).<sup>36</sup> It argued that, for this reason, there 'may be a need to see the equity objectives pursued through social transfers in a more dynamic light' (1996a: 26). The 'dynamic light' was to see employment as a means of achieving equity. Thus, the OECD's solution to the lower benefits-lower equity dilemma was to encourage people to take jobs because it claimed that evidence from its member countries suggested that 'mobility of individuals over the earnings scale is substantial'. That is, people may start work in low-paid jobs, but would eventually move up the job ladder and earn more, thereby resolving the equity issue. The OECD argued: 'The implication [of earnings mobility] is that for some workers, getting a toehold in employment via a low-wage job may have a very beneficial impact on

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<sup>35</sup> The OECD noted in *A Caring World* that, in many countries, such a view had led to social assistance being made 'conditional on individual behaviour taking a certain form. Policy in many countries is moving towards *reciprocity*, with assistance ... being made conditional on efforts of the assistance recipients' (1999c: 101, 102; emphasis in original).

<sup>36</sup> That is, they may reduce the amount of redistribution.

that person's lifetime income' (1996a: 26). It recognised that this result did not occur in all cases, and that some workers might experience 'extended periods of low pay'. However, it argued that this problem simply highlighted 'the importance of developing skills and competencies in order to enhance the earnings capacity of all members of the workforce' (1996a: 26). Here again, the OECD highlighted the negative consequences of social transfers, noting that transfers to boost the income of the low-paid created disincentives for them to better themselves and, hence, lowered their chances of finding higher-paid work. That is:

... where transfers and taxes lead to a significant compression of disposable income as compared with earnings, incentives for investing in human capital formation through education and training will become muted (1996a: 26).

The policy challenge for 'a caring world', then, was to balance income adequacy with incentives to be self-responsible and get a job, providing for the needy without encouraging dependence (Kalisch et al. 1998: 130). Thus, the OECD argued, while assistance had to be at a level that ensured an 'adequate living standard' for the family requiring help, it also must be set at a level that was consistent with families regaining their autonomy by (re)entering the labour market (1999c: 101).<sup>37</sup> The framework through which policy problems and solutions are interpreted remains consistent: the problem is that individuals are losing their autonomy because they choose to receive benefits rather than work, thereby limiting their independence. State provision is not alleviating poverty, but is contributing to beneficiaries becoming stuck in 'poverty traps' of dependence on subsistence benefits. This means they are unable to 'enjoy' what the OECD calls 'the fruits of affluent societies' (1994: 19). The OECD's solution, therefore, is to restore their autonomy by changing the incentives underpinning their choices and encouraging them to alter their behaviour. For example, tighter

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<sup>37</sup> The switch here from talking in terms of 'individuals' to talking in terms of 'families' may be related to the OECD's findings that 'households' with two earners were less likely to have incomes below the low-income threshold, were more likely to have shorter spells of low income, and were more apt to rise above the low-income threshold (1998b: 184). Thus, the OECD argued: 'Situations in which low wages are earned by [*individual*] members of *households* with adequate income overall are not necessarily inconsistent with the equity objectives' (1994b: xv; emphasis added). The OECD outlined similar arguments in its special chapter, 'Income Distribution and Poverty in Selected OECD Countries' (1997b: 49-59).

eligibility for lower benefits would encourage people either to use their own resources or to intensify their search for work.

By the late 1990s, societies in the OECD's member countries were more affluent, but the 'fruits' were not evenly shared, and income gaps in most countries had widened considerably.<sup>38</sup> Scherer claimed in 1997 that the 'change in income distribution and the growth of concern about its implications is new', noting that: at the time of the 'Welfare State in Crisis' conference in 1980:

concern about the distributional consequences of changes in tax and transfer systems was not high on the agenda, and is not raised in the discussion in *The Welfare State in Crisis* (OECD, 1981), other than in the context of suggesting that the egalitarian goals of the welfare state were inhibiting economic adjustment and growth (1997: 26, 28).

This overlooks the OECD's concerns with income distribution in the 1960s and the early 1970s. However, Scherer is not overly concerned with wider income distributions, stating:

It is a matter of debate whether a broadening in income distribution in itself – provided it is not accompanied by an absolute fall in the incomes of poorer households – is a matter of policy concern (1997: 28).

This view sits in decided contrast with the earlier concern to not only address *absolute* poverty, but to ensure that *relative* poverty was reduced or eliminated. It appears that, in the new economic environment, income inequality is not regarded as a serious problem; rather, it is considered, to an extent, to function as an engine of economic growth, encouraging people to strive to improve their situation. This is not to argue that the OECD ignored the broader income distribution. In fact, the increasing income disparity created two new policy concerns – a decline in social cohesion and increased social exclusion – that were reminiscent of the concern of the 1960s that an unhappy society is a volatile society.

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<sup>38</sup> In chapter three of *A Caring World*, the OECD gives a breakdown of income distribution in 13 of its member countries (1999c: 65-80). It notes that inequality in *market* income rose over time in 12 of the 13 countries, and inequality in disposable income rose in 10 of the 13 countries (1999c: 67). It observes: 'in all countries, inequality of disposable income is much less than that of market income, demonstrating that tax-transfer systems play a strong redistributive role' (1999c: 67).

The concern with social cohesion had two components: one, noted by Secretary-General Donald Johnston, was the backlash against economic reforms as those at the bottom of the income distribution responded with social unrest and protests to an 'impression' that reforms placed 'too little emphasis on social objectives' (1997: 9). Johnston's solution was what he called a 'triangular paradigm' that gave 'proper recognition to each of the three crucial elements of progress ... economic growth, social stability and good governance' (1999: 3). The other component to social cohesion, noted by Scherer, occurred at the other end of the scale where the 'economic interests' of those who paid for income transfers diverged more from those of beneficiaries, 'leading to a loss of social cohesion' (1997: 14). The second new policy concern was the social exclusion of those suffering multiple disadvantages that went beyond poverty and included education, health, employment, race, housing, and family structure. The OECD observed that those marginalised by these factors were outside the mainstream, 'dependent on benefits and excluded from the labour market and even from society' (1999c: 91). It noted that there were multiple costs to failing to prevent long-term exclusion in that those who were excluded could not 'fully contribute either in the labour market or in systems of family and social support' (1999c: 138). Nor were they able to participate in the active society, which contributed to a loss of social cohesion.<sup>39</sup> A noteworthy point here is that social exclusion from the active society is interpreted as something that happens to the disadvantaged, but not the advantaged. That is, when the wealthy opt out of collective ventures in favour of private health, education, and so on, this is interpreted as contributing to a loss of social *cohesion*, but is not viewed as social *exclusion*, although the wealthy effectively are excluding themselves from participating in broader society.

Suggested policies to combat exclusion reflected the shift in social policy focus, and emphasised the need for increasing opportunities for the excluded to enter the labour market. For example, in *A Caring World*, 'Policies Against Exclusion' were discussed in subsection three of the chapter, 'Policy Challenges in Implementing Employment-Oriented Social Policies', following subsection two, 'Making Work Pay' (1999c: 92-103). Although I have described social exclusion

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<sup>39</sup> We should note here that poverty has been subsumed into exclusion – those who are denied opportunity for a variety of reasons. The aim of dealing with exclusion is to remove barriers to participation, not to ensure an equitable outcome. Once individuals can participate, they are on their own.



as a 'new' problem in the late 1990s, I should note that the OECD first discussed it as a potential problem in 1988, noting in *The Future of Social Protection* that it would have to be a major policy focus in the 1990s. However, the OECD mentioned social exclusion only fleetingly in 1994's *New Orientations for Social Policy*, before returning to the topic in the 1997 and 1999 papers quoted above, and in two separate volumes called *The Battle against Exclusion* (1998c, 1998d).<sup>40</sup> These latter publications carried a statement on their back covers noting that poverty could 'tear at the fabric of society', but preventing hardship while reducing exclusion and marginalisation was 'no easy task'. Central questions, however, were:

How can social assistance best balance these goals, minimising disincentives to paid employment? What can be done to promote independence and individual responsibility?

The implication here is that, somehow, exclusion is a matter of individuals not taking responsibility for their actions, although the connection between some of the factors contributing to exclusion (for example, race and/or poor health and education) and self-responsibility is not necessarily clear. The OECD's statements continue in this vein, mentioning 'efficient use of resources' and stating that benefits 'cannot be raised too high because this would harm work incentives'. Thus, the thrust of policy solutions to exclusion is based on the new vision of state-society relations and human behaviour. The state's responsibility is limited to ensuring that rational individuals recognise their self-responsibility and choose the path to independence. All of which suggests that people choose to be excluded and can include themselves again when they elect to take a job.

To conclude this section, the OECD's discussions indicate that it has undergone a major shift in its central assumptions and concerns about social policy. This can

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<sup>40</sup> A 1998 report, compiled from member countries' responses to the OECD 'Caring World' questionnaire, noted that nearly all countries had highlighted that combating social exclusion was a policy concern, 'although the specific terminology of social exclusion was not widely used in a number of countries' (Kalisch et al. 1998: 21). The authors note that: 'Most countries did not provide a functional definition of "social exclusion", and many noted the absence of such a definition' (1998: 21). However, they observe, the responses from both those countries which provided a working definition and those which did not 'indicated a broadly shared understanding of the concept' (1998: 22). In a footnote, they state that, although the term social exclusion has been used for some time, especially in Europe, 'it is rarely defined' (1998: 22, fn 6). That said, since this report was published, social exclusion has become an oft-used term, though it is still rarely defined. In Australia, *The Australian* newspaper organised a conference, 'Australia Unlimited', in May 1999, at which attendees heard a range of speakers give their views on this topic.

be described schematically as a shift from a concern with outcomes (egalitarianism and reducing income inequality) to a concern with starting points (increasing opportunities to enter the labour market, which enables participation in society). These are different approaches, and reflect an associated shift in the understanding of the responsibilities of the state and the individual. In the words of the OECD's social affairs ministers in their communiqué after a meeting in June 1998, social policies today involve:

striking a balance between dignified self-reliance and social solidarity  
... individuals are increasingly expected to take as much  
responsibility for their lives as is possible (1999c: 148).

The 'frames and names' here reveal a new understanding of state-provided assistance: relying on others in this way (that is, not being 'self-reliant') is undignified. This view is in marked contrast to the earlier understanding of benefits as a means of allowing individuals to maintain their dignity and self-responsibility. That is, in the past, benefits were seen to ensure that individuals were not forced to rely on the charity of others, especially that which may be tied to particular actions in return, and that they had the means to make and pursue their own choices.

Whereas, in the 1960s, the OECD would have backed state intervention to redistribute and decrease the inequality of income, the later focus has been on improving equality of opportunity. While this could suggest more state intervention in the areas of, say, health and education in order to resolve the multiple problems of the excluded, this is not possible within a framework that understands state intervention as inhibiting self-initiative and self-sufficiency. As Scherer comments about social exclusion:

The problem from a public policy perspective is that the proper boundaries of public concern are unclear: how is isolation resulting from individual choice to be distinguished from isolation imposed by lack of opportunity? (1997: 28).

Social policy, therefore, is now framed in terms of measures to encourage individuals to act on their own behalf.

In the late 1990s, the OECD considers increased social spending over the past 30 years to have 'alleviated poverty', but claims that some of these social programmes had also 'distorted economic incentives', reducing employment and

output (1996b: xiii). While it understood the importance of redistribution to alleviating poverty, it was anxious that redistribution also had negative effects. In its view, distributions of disposable income partly reflected the 'redistributive effects of taxes and transfers, and are central to the questions of poverty and the distribution of economic resources' (1996b: xiii). However, it fears that redistributive measures that 'heavily distort economic decisions' have adverse economic effects, and 'blunt growth'.<sup>41</sup> From these arguments, it appears that the OECD has considerable trouble reconciling its claimed desire for better social outcomes with its understanding of the need for a limited role for the state.

For example, we should recall that, reflecting its new emphasis on 'social cohesion', the OECD argues that the commitment to support those who will never be able to hold well-paid, highly skilled positions 'will be a valuable investment towards a more cohesive and caring society' (1994a: 2). But it goes on to criticise the very policies that such a stance would suggest, saying that the capacity of economies to adjust had been progressively diminished over the past 20-30 years, 'often as the unintended and unexpected side effect of policies put in place to regulate markets and to provide social protection' (OECD 1994a: 2). For example, it argued:

In the areas of labour market and social policies, benefit levels and structures have variously: encouraged a disproportionate share of the labour force in some countries to become registered as disabled; and reduced work incentives for the unemployed and low-wage workers through the interaction of tax and benefit systems (1994a: 2).

The organisation claimed that rigidities in member economies had inhibited growth and made economic recovery more inflation prone, and the 'ways in which most OECD countries sought to extend and deepen social protection have played an important role in this respect' (1995a: ix). In addition, it claimed that inflexibility had weakened the pace of potential growth in output and living standards, 'making it increasingly difficult to achieve social goals, and contributing significantly to rising unemployment' (1995a: ix). Thus, it argues against the very social protection it claims is needed, on the grounds that it results in more harm than good.

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<sup>41</sup> They also, however, have positive effects. A report in *Family, Market and Community* (1997c) notes that poverty rates are lower in countries with higher levels of social spending (Cantillon 1997c: 121).

## TRANSFORMATION AND THE IMPLICATIONS FOR SOCIAL JUSTICE

As noted in the opening sections of this chapter, under the OECD's Keynesian paradigm, markets were assumed to fail in some areas and the state was responsible for resolving consequent economic problems and supporting affected members of society until such problems had been fixed. In addition, the state had a range of social goals, including social justice objectives such as the redistribution of income. As a result, the paradigm linked social and economic policies in a particular way; economic policies were assessed in terms of what they contributed to society and how they affected the state's ability to meet society's desired goals. That is, under this framework, the economy was the servant of society. However, the OECD's new neo-liberal paradigm reversed this world-view, making society the servant of the economy. As a result, the organisation assessed social policies according to what they contributed to the economy and how they affected the functioning of the market and the behaviour of individuals acting within the market. For about two decades, from the mid-1970s to the mid-1990s, the OECD's economic analyses, as published in its major economic series, the *Economic Outlook*, ignored the specific achievement of social goals and focused on measures to mitigate the harmful effects of social policies on the economy. The implicit assumption was that removing impediments to the natural functioning of the market would lead to improved social outcomes, without direct state intervention.

By the mid-1990s, the desired social outcomes had not been achieved: income distribution was wider, poverty rates had not diminished, and there were new social concerns. Thus, when the OECD again focuses attention on social outcomes in the mid-1990s, it uses both old terms, such as poverty, and introduces new terms, such as social cohesion, social exclusion and marginalisation. It now subjects social goals to extensive commentary in the *Economic Outlook*, not only in the editorial, introduction and 'general economic assessment' sections of the documents, but also in separate 'special sections' or chapters. Its social policy documents emphasise the interconnections between 'family, market, and community' and argue for policies to ensure 'a caring world'. On the surface, these discussions suggest that the OECD has returned to its earlier social concerns. Its explicit emphasis from the mid-1990s on economic and social goals suggest it is not subsuming the latter into the former as neo-

liberal ideas would demand. That is, it would appear that, although the OECD is suggesting new *means*, it retains the same *ends*. The OECD itself presents its paradigm shift as an unproblematic change in *means* only (that is, it is still concerned with social issues and outcomes). It notes that its single-minded pursuit of the supply-side approach resulted in criticism of the organisation for being 'insensitive' to the negative consequences of such policies on the jobless, the ageing, and 'those incapable of adapting to a harsh new world' (Sullivan 1997: 55).<sup>42</sup> But it rejects such criticisms as 'nonsense' on the basis that '[n]ever before in its history had the Organisation been so deeply involved in analysing social issues and producing proposals to limit social damage' (Sullivan 1997: 55). It claims it has gone beyond supply-side theory to blend it with a sense of 'social obligation'.

However, the organisation overlooks the fact that the social issues on which it is focusing are not the same as before, despite the similar terminology, because they are interpreted through a new framework predicated on a new understanding of the world and its constituent state-society relations, roles, and responsibilities. That is, the OECD may believe that it is focusing more intently than previously on the social impact of its policies, but its understanding of problems and the range of viable solutions is guided by its new world-view. This is not to argue that old problems necessarily simply disappear or are no longer considered, but that the approach to these problems has shifted dramatically, resulting in a new vision of old problems such that they may be neither recognisable nor comprehensible (this will be explored further below). As outlined in the previous chapter, the new framework – neo-liberalism – interprets policy problems and solutions through a lens that understands problems as related to too much state intervention (of a particular kind) and too little individual self-responsibility. In addition, the neo-liberal paradigm casts the blame for many problems on impediments to the working of the free market. Both economic and social issues are now subject to assumptions that the state's role should be limited to actions that do not interfere with the functioning of the market and that encourage individuals to become self-responsible economic agents. These assumptions eliminate many of the previously accepted methods for achieving social goals, and also change what can be considered to be acceptable or 'legitimate' social objectives. The assumptions of a decreased and limited role for

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<sup>42</sup> Sullivan notes that, in France, the OECD was dubbed 'the house of the single policy' (1997: 55).

the state, and an increased role for individual self-responsibility, leave no option but to reinterpret social policy objectives. State intervention to achieve equality or redistribution is no longer desirable, nor is it comprehensible, in a framework that understands inequality as providing incentives for individuals to better themselves and social transfers as having negative consequences for the economy and for individuals (creating disincentives to work or improve skills).

Thus, although the OECD talks about economic *and social* goals, its neo-liberal paradigm subordinates the latter to the former. Economic and social issues are not seen to have equal weight, because the lens through which social objectives are viewed is distorted by a paradigm that filters the priority of such objectives by how much they contribute to a positive economic performance. The paradigm gives priority to economic considerations, with social concerns coming second. We can recall here, for example, the OECD's claim that: 'Society and the State have largely failed to evaluate their social welfare policies thoroughly' (1985c: 57). That is, according to the OECD, public spending and too much state intervention are problems in and of themselves, and contribute to the problems of rising numbers of poor and excluded in that they create the wrong incentives for individuals. Given this interpretation of the problems, the only option comprehensible to the OECD is to urge greater reliance on the market. This is not to argue that the OECD demands no state intervention to deal with poverty and social exclusion, or that it ignores former goals such as equality and a narrower distribution of income. Rather, the point is that, when evaluating and weighing social and economic concerns, it gives greater weight to the latter because it understands this path to be the better route to resolve the problems in the former. For example, the OECD complains in *Economic Outlook* 60 (1996b) that, when governments try to resolve the conflict between social and economic objectives, 'the line of least resistance too often gives economic objectives and ... intergenerational equity too little weight' (1996b: 22). That is, the OECD accepts that the 'the weight that is given to competing considerations in making policy decisions is ultimately political', but it then laments that the 'complexity of most political situations' makes it difficult for governments to prioritise the most economically efficient options (1996b: 22).<sup>43</sup>

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<sup>43</sup> The OECD notes in *Economic Outlook* 58 (1995b) that meeting existing and medium-term challenges would require 'politically difficult decisions':

Later in this edition of the *Outlook*, the OECD acknowledges member concerns that income inequality is increasing, and their fears for subsequent adverse social and economic consequences, but it is more concerned that any efforts to reduce inequality do not 'negatively affect employment opportunities or work incentives' (1996b: 21). The measures it recommends that states pursue in order to encourage individuals to take jobs, such as decreasing benefits and lowering minimum wages to ensure that more work is available, may exacerbate income inequality. In a similar vein, its focus on 'the effectiveness and efficiency of the major social programmes' (1985c: 54), inevitably shifts its policy goals because it concentrates on an economic assessment of individual programmes rather than the overall objectives of policy. In doing so, the more general concern with income equality is subsumed into specific concerns with efficiency. As Saunders notes:

The concepts of efficiency and effectiveness are used to refer to aspects internal to the operation of specific programs, rather than in relation to more general, societal concerns. This increasing focus on individual programs has been reinforced by the replacement of concerns about equality – issues of relevance in a broad social context – [with] the concern with effectiveness – an issue which is again of more immediate relevance to individual social programs (1990: 15).<sup>44</sup>

Such a shift enables a new focus on the market as the most 'efficient' means for achieving social goals, allowing the transfer of more of the state's previous roles to the market, without any recognition that the shift also significantly alters the goals themselves. Thus, the OECD's framework modifies its views of the state's overall social policy concerns. The organisation's discursive shift from the term 'equality' to that of 'equity' can be seen as an indication of this modification. It may also reflect that such goals are now subordinate to economic goals.

The neo-liberal paradigm transforms the OECD's understanding of social problems and how they are to be addressed in that its vision of state-society relations changes the understanding of responsibility for the cause and resolution of such problems as well as the range of policy options that can be considered.

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Concerns that fiscal retrenchment may have a negative impact on activity and employment and that it could exacerbate social problems and hardship in the short term often lead to reluctance to act (1995b: 7).

<sup>44</sup> An additional point here is that minor or incremental changes to achieve efficiency in a specific programme may have more significant effects than is recognised. See the discussion in Chapter 3 on the impact of incremental change.

We should recall from Chapter 2 Mark Blyth's claim that ideas set out the optimal state of affairs by defining what elements constitute the economy and the polity, the roles of individuals and groups, and proper and improper relationships. These definitions underlie what is deemed to be possible in terms of means and goals. Thus, the neo-liberal way of thinking about government offers a new understanding of what the state should and should not do. The neo-liberal interpretation affects both the definition of policy problems and the range of plausible remedies (that is, it offers a new 'regime of truth'). Accordingly, the OECD's suggested policy solutions are based on a decreased level of responsibility for the state and an increased level of responsibility for individuals, especially in light of its new understanding of individuals as rational, self-interested maximisers looking to take advantage of state generosity. That is, there is a new view, as discussed earlier, of individual behaviour. As Nikolas Rose observes: 'All aspects of *social* behaviour are now reconceptualized along economic lines – as calculative actions undertaken through the universal human faculty of choice' (1999: 141; emphasis in original). The state can manipulate the elements factored into these calculations, thereby shaping individual choices (Rose 1999: 142).

The result of the paradigm shift, then, is that the OECD's understanding and treatment of social justice and related issues changes in two fundamental ways. First, social outcomes are no longer considered to be the preserve of the state. Rather, the state is to focus on ensuring that individuals have the opportunities to achieve the desired outcomes for themselves. For example, equality is no longer considered to be solely a product of market failure that the state must intervene to resolve; rather, it is a problem of individuals not having an opportunity, or failing to take advantage of an opportunity, to increase their potential. Thus, the solution is not a state responsibility, but an individual one. In a similar vein, the state's responsibility for poverty alleviation is to be constrained to ensuring that individuals have the opportunity to participate in the market. Second, and perhaps more important, previously accepted goals, such as equality and income redistribution, are no longer considered to be as desirable as they once were. In fact, the new paradigm understands an (unspecified) degree of inequality as being good for both individuals and the economy, at least in the short run, in that a 'wider distribution' of income provides individuals with incentives to improve their positions. We have already noted the OECD's observation that '[e]xcessive



inequality of both income and wealth, which may arise from unfettered play of market forces, is widely considered unjust' (1996b: 36; emphasis added). The interpretation of 'excessive', of course, depends on the assessment criteria of the framework being used. According to the OECD's framework, any initial disparity of income would be offset, either fully or partially, in the long term through higher employment, increased scope for people to gain an initial foothold in the labour market, and stronger incentives for 'human capital formation' (1997a: 12). This is not to argue that the OECD is against a more equitable distribution of income; rather, it is against state intervention to achieve such an outcome.

### **FRAMES, NAMES, AND INFORMAL INSTITUTIONS**

Thus far in this chapter, I have presented an argument for a transformation in the OECD's understanding and treatment of social justice and related issues. In this final section, I want to argue that this transformation reveals that ideas can be changed. The renewed focus on social issues in the 1990s, as outlined at the beginning of this chapter, can be seen as a re-framing of the issues to allow the pursuit of policies based on the new understanding of problems and solutions. It may also reflect that the informal institutions of the new paradigm are considered to have infiltrated social consciousness such that the public now accepts the new mechanisms to handle new understandings of social problems and solutions. That is, the public now accepts the frames and names that suggest (among other things):

- that former conceptions of social justice and related issues are no longer affordable
- that the unemployed are bludgers who choose to be without work and who need to be coerced back into work through cutting their 'generous' benefits, and
- that social transfers encourage some people to be lazy at the expense of those who are prepared to work.

This shift in informal institutions from those underpinning collective responsibility to those of individual responsibility suggests that there are problems with the arguments for path dependency and institutional lock-in with regard to the welfare state. That is, institutions are less resistant to change than

some scholars argue.<sup>45</sup> The OECD's new ideas mean that its old understandings of social justice – and previously accepted policies and actions to achieve social justice – are no longer plausible to the organisation or to the wider public because the foundations on which they were based have changed. Thus, when the OECD talks of social issues and outcomes, including those related to social justice, it is generally not talking about the same issues with which it was concerned 30 and 40 years ago, in terms of either methods or goals. Nor does the public necessarily still understand social justice in the same way, although the resistance that the OECD reports to its reform agenda suggests that there may be some residual impact from the earlier informal institutions (see below).

The neo-liberal understanding of state-society relations, and its associated view of individuals and their likely behaviour, rules out many of the earlier methods *and* goals. For example, as discussed above, 'generous' state benefits and/or transfers to redistribute income are now regarded negatively because they are considered to be outside the state's area of responsibility and to create the wrong incentives for individuals to make efforts on their own behalf. As a result, state redistribution can no longer be considered a social policy goal. Thus, although the OECD talks of the aim of economic reform as being to improve economic performance, thereby 'generating the resources needed to achieve better redistribution of income and other social goals' (1996a: 23), it cannot mean state distribution of such resources. Rather, it must be a vision in which those who participate in a healthy economy can obtain their share of resources as a reward for their own efforts. In addition, the paradigm constrains what the state can do when it tries to comprehend and resolve 'new' social issues, such as social exclusion, and when it tries to deal with the effects of some of its economic policies on issues such as equality and fairness and on social cohesion.

The changes described above cannot be divorced from informal institutions in that the new understanding of state-society relations incorporates and reinforces a new set of informal institutions that underpin the new policy directions. The OECD's new informal institutions are revealed clearly in the discourse it uses to discuss policy problems and solutions; that is, in the 'frames and names' it uses to portray policy issues and describe potential solutions. Using Bacchi's notion

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<sup>45</sup> We should recall here the arguments for the tenacity of the welfare state canvassed in Chapter 2. Scholars cited included Pierson (1994, 1996), Keating (2000b: 58, 59), and Kuhnle (2000).

of 'problematizations', as discussed in Chapter 2, these 'frames and names' are revealed in how the OECD presents the answers to two major questions: 'what is the problem?' and 'who has the problem?'. As outlined above, the OECD considers the problem to be too much direct state intervention and too little individual self-responsibility. Thus, the state and individuals have the problem, which can be resolved through rearranging state-society roles and responsibilities. It is through using these 'frames and names' that the OECD shifts public understanding of policy problems and solutions to that of the new paradigm. That is, discussion that frames many formerly accepted social goals as 'illegitimate' or the result of state aid being too 'generous', thereby creating 'disincentives' for individual self-responsibility, attacks the previous informal institutions underpinning support for the old policies and replaces them with the new informal institutions underpinning the new policies. In a similar vein, the discourse of 'rights and responsibilities' replaces former notions of an extensive range of social rights with a new set of norms, values, and attitudes that emphasise individual responsibilities.<sup>46</sup>

Informal institutions are important to the implementation of new policy directions because a disjuncture between informal institutions and policy proposals creates public discontent with policy, as described in Chapter 3. Some of the OECD's discussions suggest that it is aware of the need to change society's informal institutions in order to facilitate the acceptance of the new policy directions. I have already noted the organisation's concern with social cohesion and Johnston's fear of a backlash from those who have the 'impression' that reforms place 'too little emphasis on social objectives' (1997: 9). Such a backlash can be seen as reflecting the tension between policies based on a new understanding of state-society relations and society's existing norms and expectations. The OECD acknowledges that its members are facing problems with poverty and exclusion and that there is concern that 'rising wage and income inequality have had adverse social consequences' (1996b: xii-xiii). It also acknowledges that there is concern that pressures for fiscal consolidation and

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<sup>46</sup> On this point, see the discussion in Dean (2004). See also Jacob Torfing, who argues for a discursive shift in which the 'enterprising society' has replaced 'full employment' and 'independence and opportunity' have replaced 'solidarity and equality' (1999: 240). It is also useful to recall here Chris Rudd's observation, noted in Chapter 3, that, in the wake of several years of neo-liberal reforms, New Zealanders have shifted from supporting a 'desirable' welfare state to thinking in terms of an 'affordable' welfare state (2001: 425).

other reforms may affect 'the public sector's ability to deal with social problems' (1996b: xiii).<sup>47</sup>

These observations indicate that the OECD is aware of public concern over both social issues and the impact of economic reform measures on social objectives. But it is also aware of the difference between the old and new informal institutions, and the need to shift the public between the two. It noted in *Economic Outlook* 56 (1994b), for example, the difficulties of achieving public expenditure reforms in the face of 'entrenched expectations of acquired rights and implicit social contracts' (1994b: xiii). Later, Johnston explicitly acknowledged the need to change such 'entrenched expectations'. He noted in 1997 that, although the 'language of sacrifice is not designed to win hearts and minds', the 'message' that the OECD wanted to 'promote' was that controlling public-sector deficits and debt was a 'necessary condition' for maintaining social protection and social well-being in future years (1997: 10). Thus, its suggested method to tackle the public concern over social issues and economic reforms is to shift public opinion and the framework of informal institutions on which it is based. That is, it argues that the acquiescence of governments to the line of least resistance:

points to the importance of improved communication and informed public debate in order to enhance public understanding, and to develop a broad consensus that cuts across the political spectrum, about the need to give adequate weight to both micro- and macroeconomic consequences of various policy decisions. This is particularly important where decisions are largely driven by non-economic objectives (1996b: 22).

In other words, it wants more efforts made to convince the public of the need to focus more on the economic concerns because it believes that the market is the best means to raise both living standards and generate the means to support 'the displaced and the excluded' (1996b: xii). According to the OECD's world-view, a flexible, productive economy reduces the number of those seeking state support

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<sup>47</sup> That is, it notes that, social transfers are such an important part of budgets that measures to restore sound public finances are likely to 'put pressure on governments' ability to pursue social objectives' and policy-makers face problems 'finding ways to manage the social aspects of carrying through effective reform' (1996b: 21).

and provides the resources to support those who are not active market participants.<sup>48</sup>

## CONCLUSION

The evidence presented in this chapter suggests that the OECD's new ideas have transformed the organisation's understanding and treatment of social justice and related issues, which counters the claim in the literature that new ideas have little impact because they cannot overcome old ideas embedded in institutions. The OECD's new paradigm has brought a new interpretation of state-society relations, roles, and responsibilities and a new range of informal institutions that underpin this interpretation and make it comprehensible to the public. Under the new framework, the OECD takes a different approach to social policy, assessing policies in terms of what they add to the economy, how they affect the market, and whether they reflect the right balance between state and individual responsibilities. As a result, the new ideas constrain the available options for both the *means* and *ends* of social policy, including those related to social justice. The result is a new conception of social justice, based on a profoundly different understanding of state-society relations and the inherent obligations, rights, and responsibilities of state and the individuals comprising society. The new informal institutions reflect the new paradigm's understanding of the world and provide justifications for – and an acceptance of – a new range of policies. Thus, neo-liberal ideas have had a more profound effect on policy means and goals than the literature suggests, which means that ideas are not embedded as firmly in institutions as many scholars claim.

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<sup>48</sup> In the OECD's words:

The adverse effects on particular groups or individuals of the rapid changes sometimes associated with competitive markets and technological advances can be addressed by enhancing OECD societies' capacity to adapt constructively, rather than attempting to slow the pace of change. In the final analysis, the productivity improvements which competitive processes and technological advance generate are the main source of rising living standards. They will also provide the means for increased support for the displaced and the excluded, and in particular for programmes to help re-integrate them (1996b: xi-xii).

# CONCLUSION

Having spent much of the previous chapter exploring the implications of a paradigm shift on the OECD's understanding and treatment of social justice and related issues, I need hardly repeat that discussion here. Instead, I want to return to the more general context of the OECD and the need to pay more attention to both the organisation and its ideas. As noted in the Introduction to this thesis and in Chapter 1, the OECD is one of the most well-known, but least studied, of the world's inter-governmental organisations. A quick glance through any library catalogue reveals a large number of works by the OECD or about its member countries, but almost nothing on the organisation itself. What material is available tends to be buried within broader analyses of multilateral organisations and is usually a cursory discussion of the OECD's major functions.<sup>1</sup> Even the spectacularly disastrous Multilateral Agreement on Investment, which was vilified, ultimately, by anti-globalisation protesters and governments alike, failed to catapult the OECD into the centre of scholarly endeavour. Rather, the organisation remains a convenient grouping with which to study a broad range of topics. In a similar vein, the media has spurned the OECD itself in favour of a focus on the organisation's seemingly endless stream of statistics, surveys, and reports, which it covers without reference to the context of their sponsor. It appears that Cinderella, having tripped the light fantastic with the MAI, has turned back into a scullery maid.

It is difficult to understand why the body representing many of the world's richest countries should attract so little attention. In a recent work examining globalisation, David Held and Anthony McGrew note that: 'the structure of the

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<sup>1</sup> The recent volume from Nicholas Bayne and Stephen Woolcock, for example, incorporates its discussion of the OECD in a chapter on 'plurilateral' and multilateral organisations, including the G-7/G-8, the Commonwealth, the WTO, the IMF, and the World Bank. See Bayne (2003).

world economic activity is dominated (and increasingly so) by the OECD economies and the growing links between them' (2002: 40). They cite sceptics of globalisation theory as arguing that the world remains divided into 'core and periphery', with 'institutions of liberal global governance, such as the IMF and the WTO', policing 'this pattern of international economic activity' (2002: 84-85). Given the OECD's mechanisms of multilateral surveillance and peer pressure to keep its members 'in step', I see no reason to discount the OECD's role as an international sheriff. In addition, Nicholas Bayne argues that the OECD is one of the international organisations which sets standards in the international economy, whose endorsement governments value, and which governments do not like to go against (2003: 230). Further, he argues that its 'underlying motivation is *political*, to support the open democratic system', and that it 'goes deep into *domestic policy-making*' (2003: 238-239; emphasis in original). He also claims that it has 'the gift of supplying governments with good ideas they can then pretend they thought of themselves' (2003: 239). Why, then, has the organisation been subject to so little scrutiny?

I noted in the Introduction the arguments that some of the organisations created after World War II, including the OECD, have 'had their day'. In Chapter 1, I examined claims that the OECD is a toothless watchdog that has no powers that it can use to force its members to pursue its recommended policies; rather, it is 'all bark and no bite', using accumulated evidence to shepherd its members into taking the desired action. Such an image of an out-dated organisation that has no real influence may explain why both academics and journalists have chosen not to waste time investigating the OECD. If it serves no useful purpose, and it has publicly demonstrated through the failed MAI that it cannot get its members to agree to a binding deal, then why should anyone care what it says or does? My argument, as outlined in Chapter 1, is that an interpretation of the OECD as an organisation without 'fangs' neglects the impact of the mechanisms noted above (multilateral surveillance and peer pressure) and the fact that 'technical' advice and measures may not be as benign as they appear. Much depends on what is being measured, how, and in what context; details that the media usually fails to report.

However, both of these reasons for being more 'alert and alarmed' (to twist a current Australian phrase) about the OECD relate to its role as an ideas monger

or epistemic community whose ideas may come to both construct the 'reality' or 'truth' of the situations that face policy-makers and delineate the options from which policy-makers select solutions. That is, states are increasingly turning to international organisations as independent, authoritative sources of ideas and solutions to help them cope in an increasingly complex, interdependent world. As a result, epistemic communities such as the OECD have the ability to stimulate policy discussions and, importantly, to set both the parameters of what may be discussed and the terms of the discourse. Its opinions carry weight because it is seen to offer the professional, scientific, rational, and technical advice that has come to be associated with modern bureaucracies, and that appears to respond to the 'growing technical nature of problems' (Haas 1992: 11). This view returns us to Bayne's observation that the OECD is a source of 'good ideas' for its members. My concern here is with Bayne's further observation that the OECD is not as accountable or transparent as it would appear at first glance. Bayne claims that the organisation's transparency is in output, rather than input:

Since the OECD produces voluntary cooperation rather than formal agreements, very little of its work actually has to go to parliaments. Hardly anyone gets into the meetings where deals are struck except government officials (or sometimes ministers) and OECD staff (2003: 239).

Given the OECD's role as an ideas monger, and the fact that at least 40,000 senior officials from national administrations attend OECD committee meetings each year to 'request, review and contribute to' the Secretariat's work (OECD 2001c), not to mention take the resulting work home with them, this would strongly suggest that further investigation of the OECD's ideas is imperative.<sup>2</sup>

Of course, such a demand for further investigation of the OECD's ideas rests on the assumption that ideas matter to policy-making. I noted in the Introduction and in Chapter 2 that the role of ideas in policy-making is the subject of some discussion in the literature. Key debates include whether ideas are an independent variable or whether their impact depends on interest groups, elites, or institutional structures. I placed my examination of the OECD's underlying framework of ideas within the debate over the role of institutions, using it to explore the claim that new ideas have little impact in practice because existing

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<sup>2</sup> I say 'at least 40,000 senior officials' because the OECD says 40,000, but critic Pierre G  linas claims that, each year, 'some 60,000 senior civil servants and politicians of all kinds file into its Ch  teau de la Muette offices in Paris to retrain themselves in neoliberal policy and management' (2003: 120).



ideas are 'embedded in institutions'.<sup>3</sup> As outlined in Chapter 2, the argument here is that 'history matters': policy-makers are tied to an earlier set of ideas because these ideas have been incorporated into the institutions that implement and enforce policy. These institutions include formal organisational structures (rules, laws, departments, and so on) and informal normative structures (the taken-for-granted or unconscious assumptions behind policy practice and discourse). Such institutions are said to make policy-makers path dependent; that is, allegedly they are confined to examining current problems with reference to past solutions. As a result, they find it difficult, if not impossible, to implement radical change because they are tied to existing policy options delineated by the ideas embedded in institutions. Yet, as was noted in Chapter 2, this does not explain how and why radical, rapid policy change occurs. (On this point, it is interesting that those scholars who use 'embedded' arguments to explain the alleged tenacity of the welfare state fail to explain the radical change in ideas that brought about the welfare state in the first place. That is, they appear to accept an initial transformation in ideas, but do not allow that such an event could recur.)

It is here that my examination of the shift in the OECD's underlying framework of ideas may offer some insights to advance the debate over the role of ideas in policy-making vis-à-vis institutions. Looking at the OECD, there has been a distinct and obvious shift in the framework of ideas within which the organisation locates its analyses of policy problems and solutions, from Keynesianism to what it calls the 'supply-side approach', but what I (and others) have called neo-liberalism. I described this change in framework, using Hall's Kuhnian-influenced model, as a paradigm shift. We should recall that Kuhn describes such a shift as a 'revolution': 'When the transition is complete, the

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<sup>3</sup> These debates are still current and, in some senses, look to be no closer to resolution. Two recent articles, for example, come to opposing conclusions. Ian Bartle examines telecommunications and electricity reforms in Germany, France, and Britain, and rejects path dependence and the importance of initial choices on the grounds that the three countries reviewed took different paths and made different choices, yet all have 'moved to full liberalisation and, where appropriate, privatisation' (2002: 22). Martin Powell and Armando Barrientos examine welfare regimes in the wake of the introduction of 'active labour market policies' and argue that the differentiation between welfare state regimes (à la Esping-Andersen) is stronger in the 1990s than in the 1980s, 'suggesting welfare regime path dependence' (2004: 96). That said, they note that they have looked at aggregate spending and observe that they do not know how 'decomposing' aggregate spending would affect their analysis (2004: 97-98). I discussed in Chapter 3 the inaccurate conclusions that may arise from looking only at aggregate expenditure.

profession will have changed its view of the field, its methods and its goals' (1970: 85). Thus, the new paradigm is not simply a different view of how the world works, it *is* how the world works. In this way, it acts as a 'regime of truth', which gives the ideas a legitimacy that competing points of view cannot claim. Alternative conceptions of policy problems and solutions, couched in different terms and based on a different understanding of how the world works, can be dismissed as being outside the sphere of the current policy discussion. They are, as noted in Chapter 2, 'unintelligible' and 'beyond the pale of accepted argument'.

As outlined in Chapters 5 and 6, the OECD presents the shift in its world-view as an unproblematic, and non-political, change in the means by which it achieves the same set of ends (or goals). I have argued, on the contrary, that the move should be considered political, both because it has transformed the political arrangement of state-society relations, roles, and responsibilities and because it was the result of political contestation. I do not intend to repeat here the implications of this shift for the OECD's understanding and treatment of social justice and related issues, which I canvassed in detail in Chapter 6. Rather, I note only that the shift is much more problematic for the organisation's treatment of social issues, including social justice, than it acknowledges. That is, the OECD's new attitude to social justice is not as sympathetic as it appears at first glance, or that those who look only at a scattering of its publications often assume.<sup>4</sup>

My broader point in relation to the effect of ideas on institutions is that those who argue that ideas are embedded in institutions need to pay more attention to the informal institutions associated with a set of ideas. As noted in Chapter 3, a new paradigm brings with it a new set of informal institutions (or norms, values, attitudes, implicit codes of conduct, and so on) arising from its particular arrangement of social and political relations. These informal institutions change

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<sup>4</sup> See, for example, Neil Gilbert, who finds that the OECD's 'advice to limit or redefine entitlements is often qualified by an affirmation of social rights' (1995: 66), a claim that is difficult to support if more than a few of its publications are examined and the context of its framework for analysis is taken into account. In a similar vein, John Donald claims that the OECD (among other multilateral organisations) has shifted back from its neo-liberal stance towards a 'middle way' (2000: 1). Unfortunately, he cites only the OECD's *A Caring World*, which results in his missing the broader context of the organisations understanding of social issues and thus misinterpreting the organisation's statements.

the way of understanding government, the nature and scope of legitimate authority, and who and what is to be governed and how. This new understanding means that interpretations of policy problems and solutions are based on a new set of assumptions about state and society, and the roles and responsibilities of each sphere. Thus, new ideas change the very foundations on which formal institutions are built and maintained, including public understandings of state-society relations and the expectations that citizens have of the state and of themselves. Even when policy changes introduced under a new paradigm appear to be incremental, which some scholars take to indicate the resilience of existing ideas and institutions, such changes reflect the larger shift in the framework within which the understanding of policy problems and solutions is located. Again, I do not intend to reiterate the implications of such incremental changes, which I canvassed in Chapter 3. I note only Kees van Kersbergen's useful summary of this hypothesis: that small adjustments 'weaken vested interests, change ideas and approaches, alter public attitudes, transform the normative and political discourse on the welfare state, and cause instability and a greater susceptibility to fundamental change' (2000: 29). Viewed in this way, a new paradigm can be seen to undermine institutional stability, thereby challenging the notion that earlier ideas are embedded firmly in institutions.

Some of the arguments for institutional stability canvassed in Chapter 3 suggested that fears of electoral backlash from existing interests are another reason that new ideas have little effect in practice. One problem with this explanation is that it assumes that interests are fixed, taking no account of the ways in which, as Mark Blyth argues, ideas act to redefine existing interests, and even create new ones. Moreover, claims that changes to institutions, and especially informal institutions, are driven from the 'bottom up' (from society to the state) overlook the impact of a paradigm's intrinsic discourse, or the 'frames and names' it uses to describe policy issues. These 'frames and names' help to establish and reinforce the 'regime of truth' through which both policy-makers and citizens understand the world and what is possible within it. As this discourse is adopted and used, it comes to permeate society as the values, attitudes, beliefs, and social mores that support the paradigm's established order. It becomes the taken-for-granted, common-sense context through which ideas are interpreted and understood. That is, as outlined in Chapter 2, the discourse that articulates the paradigm's organisation of social and political relations permeates

society, becoming the *lingua franca* in which policy issues are discussed and resolved. Alternative conceptions of policy problems and solutions, couched in different terms and based on a different understanding of how the world works, can be dismissed as being outside the sphere of the current policy discussion.

Thus, the discourse intrinsic to a set of ideas forms and maintains the informal institutions that support the paradigm's established order and its associated formal institutions, and attacks and replaces the informal institutions of the earlier paradigm.<sup>5</sup> An approach to the role of ideas in policy-making that pays attention to their discourse is likely to prove a useful addition to the explanations of how ideas matter. For example, it may offer insights for those scholars, including Mark Blyth, who seek clarification of the mechanism through which ideas pass 'from academic debate to popular consciousness' (1997a: 237). That is, to return to Keynes's eloquent terms noted in Chapter 2, Blyth wants to know more about the means by which 'madmen in authority' and the general public come to accept the ideas of some 'academic scribbler[s]' over others. I suggest that it may be beneficial to explore the effect of discourse in this process. Second, it may add to the explanations of scholars who see ideas as important, but who offer only partial explanations of how and why they are important. John Kingdon, for example, argues that, although ideas 'sweep policy communities like fads, ... government does not act on ideas quickly. To become a basis for action, an idea must both sweep a community and endure' (1984: 137). He contends that policy entrepreneurs have to 'soften up' policy communities and larger publics in order to have their ideas endure, but an idea's intrinsic discourse is not among the 'softening up' mechanisms he puts forward (1984: 134).<sup>6</sup> It is worth recalling here the discussion in Chapter 2 of the influence

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<sup>5</sup> I would note here the recently published work in this area of Hartley Dean, who has explored the effect of 'third way' discourse on notions of citizenship (2004: 65-82). See also Lister et al. (2003: 235-253).

<sup>6</sup> This is an interesting shortcoming in Kingdon's discussion. He notes that consensus on an idea spreads through a policy community through awareness of the problems and agreement on solutions or proposals, and that there is what he calls a 'bandwagon effect' (1984: 147). He observes:

Gradually, the idea catches on. People in and around government speak of a 'growing realisation,' an 'increasing feeling,' a 'lot of talk in the air,' and 'coming to a conclusion.' After some degree of diffusion, there seems to be a take-off point: Many people are discussing the proposal or idea. At that point, knowledgeable people refer to a 'widespread feeling,' or ... 'by now, this is orthodox thinking' (1984: 147).

of the 'there is no alternative' discourse in enabling a particular set of policy options at the expense of others.

I noted both at the outset of my thesis and at the beginning of my conclusion that there was a distinct lack of scholarly and media scrutiny of the organisation, and I asked why this should be so, given the combined weight of its members in the international arena. Another obvious question is whether we should care that we know so little about the organisation. I would argue that the answer to this question is an emphatic 'yes'. As noted in Chapter 1, the OECD is an autonomous site of authority through the legitimacy of the rational-legal authority it embodies and its control over technical expertise. It is seen as a source of independent, neutral, authoritative, 'good' (says Bayne) ideas that its members can then 'pretend to have thought of themselves'. Yet, it is also an epistemic community driven by its own, particular set of ideas about the world and how it works, and these ideas establish the boundaries of its vision of policy problems and solutions. Thus, when policy-makers consult the OECD, they receive its version of 'the "reality" or "truth" of the situation at hand' (Haas 1992: 21). An important feature of this 'reality' is that it is not neutral between political arrangements of state-society relations, roles, and responsibilities, but confers legitimacy on one arrangement over others.

This suggests that, if the organisation is an epistemic community whose version of reality its members come to accept and utilise, then we need to know more about these ideas and, equally importantly, their implications. For example, if the OECD is able to endorse its particular interpretation of social justice to the exclusion of others, such that those offering alternative interpretations are seen as 'unintelligible, mad, or at least beyond the pale of accepted argument' (Keeley 1990: 91), then we need to be aware of exactly what it is endorsing. To return to Carol Bacchi's argument: we need to know what the OECD is presenting as the problem, what presuppositions are implied or taken for granted, and what effects are connected to this representation. As outlined in Chapter 6, the implications of the OECD's treatment of social justice are more significant than the organisation acknowledges. This raises questions about the implications of the

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My suggestion is that discourse is an important element in this diffusion process; it is the 'talk in the air' that establishes the 'widespread feeling' and, ultimately, the 'orthodox thinking'. Kingdon acknowledges the diffusion, but not the mechanism via which this occurs.

OECD's ideas on other policy areas. Bayne notes that the OECD 'covers all the subjects of interest to governments, from agriculture to transport and including education and employment, but none of the political ones – no defence, law and order, culture or sport' (2003: 238). I would suggest that, even without these 'political' topics, scholars are left with considerable scope for their investigations. My focus was on the OECD's representation of social justice and related issues, but I have hardly touched its ideas on other issues.

I would reiterate here that the OECD's specific policy ideas are only one level of investigation. As noted in the Introduction, given the dearth of either academic or media analysis of the OECD, there are several areas that are likely to prove rewarding areas of research. I have mentioned in passing those relating to the transfer of ideas from the organisation to its members. Other factors that could stand further scrutiny include the OECD's internal mechanisms, such as the relationship between departments and between the Secretariat and member delegations, and the movement of individuals between Paris and member countries.<sup>7</sup> External factors that need to be explored include the OECD's relationship with the other international organisations. As noted in the Introduction and Chapter 1, there is some debate as to the OECD's role in the international arena. Bayne claims that the OECD's 'well-researched work is often used as the basis for rule-making in bilateral, regional and multilateral contexts' (2003: 238). This may be the case, but he does not offer evidence to support his statement. Again, this suggests an area that would benefit from further research.

I conclude with the following observation: on 25 May 1998, a month after street protests and a breakdown in negotiations had resulted in the suspension of MAI talks, a cartoon appeared in my local newspaper, *The Canberra Times*. It depicts a businessman in his shirtsleeves in a hotel room, a drink in his hand as he stares out the window at billowing smoke. A newspaper on the table has the headlines: 'country in chaos', 'government in disarray', and 'mass rebellion'. His suitcase has a tag: 'IMF'. The speech bubble has a single word: 'Oops'. At the time, the

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<sup>7</sup> Bob Deacon, for example, has claimed that it is not possible to 'ascribe a meta-policy on economic and social matters to the OECD' because of the hierarchical relationship between its departments (1997: 70). He argues that the 'IMF flavoured' Economic Directorate is 'on top', while the 'less powerful Directorate of Education, Employment, Labour and Social Affairs ... pursue its own agenda' (1997: 70). My examination of the OECD's ideas suggests that there is more conformity of view than Deacon allows, which suggests, in turn, that further study is needed.

IMF was the subject of debate over its tendency to use the same framework of ideas to assess policy problems in a range of different countries, imposing the same solutions on all, regardless of the differing circumstances. The framework offered the 'truth' about policy problems and solutions; it was the way that the IMF understood the world and how it worked. Alternative articulations of the situations in these countries and what could be done to aid them were incomprehensible. The result, as former World Bank chief economist Joseph Stiglitz has described, was often disastrous. I am reminded of this cartoon when I think about the OECD and the lack of scholarship on both the organisation and its ideas. Will we, too, look out the window one day and say, 'Oops'?

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