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Is Expenditure Enough?
On the Nature of the Dependent Variable in Comparative Public Policy Analysis

Francis G. Castles

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Abstract

This paper offers a methodological critique of comparative policy outcome studies which base their conclusions exclusively on variance in public expenditures. Using examples drawn from the field of social policy in Australia, Finland, Singapore and Scandinavia, it argues that undue reliance on state expenditure necessarily leads to a distorted understanding of outcomes. This is because spending is generally only one of several routes to a given policy objective and because different countries employ quite different mixes of policy instruments to achieve similar policy goals.

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Introduction

For many scholars who undertake comparative research at the interface between politics and public policy, public expenditure is the dependent variable of choice. State spending has two enormous advantages, which are difficult to overstate:

(1) all modern governments use much the same national accounting methodology to generate annual data in a form which is more or less standard across nations and

(2) that data unequivocally relates to the role of government in so far as public expenditure is both initiated and authorised through the political process. It is hardly surprising then to find that those who want some common measure of the extent to which governments keep their promises (Hofferbert, Budge and McDonald, 1993) look to budgetary outcomes or that the majority of policy outcomes studies use public expenditures as a proxy for outcomes.

As Blais (1993) sums up the case: "expenditure data provide useful and meaningful information on the size and direction of government intervention. That information tends to give, on the whole, a good approximate indication of government activity. The picture one gets when looking at expenditure data is certainly imperfect, but, even though the picture is not very accurate, it is not fatally flawed or distorted".

Although, past (Castles, 1982) and present research (Castles and Mitchell, 1993) I have undertaken in the area of comparative public policy has made extensive use of public expenditure data, I am inclined to think that judgement rather too sanguine, at least in the context of a methodological account of how, ideally, we should go about comparing government activity. The point I want to make is not that we should be looking at other dependent variables **in preference to** public expenditure[1], but rather that, in the context of comparative research, public expenditure looked at **in isolation** can sometimes present a picture which is quite seriously flawed and is very likely to present one which is more than somewhat distorted. My argument is simply that by itself public expenditure is not enough!

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1. That is the case argued by Gösta Esping-Andersen in his Three Worlds of Welfare Capitalism (1990) and the argument is manifestly mistaken. He suggests that, instead of expenditure data, we should utilise information on the nature of social policy instruments as our preferred measure of social policy outcomes. In fact, however, he uses replacement rate data as his single most favoured instrument measure, but given that such rates are derived by dividing total spending by total coverage, in effect, he simply concedes the importance of expenditure by the back door.

The reason that is so is quite simple. Implicit in cross-national comparisons that focus only on public expenditures is one of two possible assumptions: either that public expenditure is the only means available to governments to attain their goals or that all governments utilise the same mix of policy instruments in pursuing their objectives and, hence, that public expenditure has the same salience as a policy option in each of the countries compared. Neither assumption is even faintly convincing as a proposition about the nature of the cross-national policy variance revealed by advanced democratic states. In what follows, I shall seek to demonstrate that this is so with some simple illustrations drawn from the field of comparative social policy. Each illustration takes the form of a question that cannot properly be answered using expenditure data alone.

Is Australia a laggard in the field of sickness protection?

The case for the prosecution, as it were, consists of evidence that Australian social insurance sickness expenditure as a percentage of GDP (Varley, 1986) has always been amongst the lowest in the OECD, that the days of leave taken under such schemes is comparably low (Kangas, 1991) and that Australia was amongst the last of the OECD nations to introduce a social security sickness scheme in 1944 (Dept of Health, Education and Welfare, 1990). The extent of the cross-national variation in the field of sickness expenditure is very considerable. In 1984, Australia spent 0.18 of one per cent of GDP on social insurance sickness benefits, the OECD average was 0.78 per cent and Sweden, the group's biggest spender, spent 2.83 per cent (Castles, 1992).

The flaw in the case for the prosecution is that all non-casual Australian employees are provided with sickness coverage by their wage awards, which stipulate an entitlement that five or more sickness days (colloquially known as "sickies") per annum must be reimbursed by the employer at full salary. This coverage means that, whilst social insurance sickness expenditure in Australia is low by international comparison, and counted as such in cross-national public policy studies (see Kangas, 1991), the actual cost of sickness social protection in Australia is at and around the OECD average and the number of days of sickness absenteeism only somewhat below the OECD average (Castles, 1992, 40). Moreover, since the inclusion of sickness days in federal wage awards goes back to 1920, and since wage awards in Australia are backed with the full force of the state (wage awards in Australia used to be made by a Court of Arbitration; now they are made by a so-called 'Industrial Relations Commission', the findings of which are binding on all parties), a complete re-evaluation of the lateness of Australian provision is required. Given that, prior to World War II, most European schemes of sickness social insurance were voluntary or covered only certain classes of workers, the probable conclusion (although without proper comparative data) is that, until World War II, Australian workers were generally better and more generously covered than those in Europe.

Is Finland, like the other Scandinavian nations, a big welfare state?

Here, if OECD social security transfers data are to be believed, Finland differs quite radically from the other Scandinavian nations. In 1990, Finland spent 10 per cent of GDP on income transfers, whilst Denmark spent 18.4 per cent (1989), Norway, 19.0 per cent and Sweden, 19.7 per cent (OECD, 1992). The OECD average expenditure was 15.4 per cent, so that Finland measures up as making a social insurance effort of roughly two-thirds the OECD average and only just over half the average of the other Scandinavian nations. It is also worth noting that on most other measures of OECD nations' overall fiscal effort - total outlays of government, current disbursements of government and current receipts of government all as percentages of GDP - Finland scores at or below the OECD average and very markedly lower than Denmark, Norway and Sweden.

But should we believe OECD data on social security transfers? Judging by the standard Scandinavian source (NOSOSO, 1993, 114), we clearly should not. Comparing age pension expenditure alone - and, pensions are much the biggest component in all social security systems - makes nonsense of the Finnish/Scandinavian comparison above. Finland remains the smallest pensions spender amongst the Scandinavian countries, but not by a great deal (3 percentage points of GDP less than Sweden, the highest spender), but Finnish expenditure on age pensions as a percentage of GDP derived from this source actually exceeds that country's OECD total transfers figure by 23 per cent. Obviously, then, a substantial part of Finnish age pensions expenditure is not appearing as part of OECD social security expenditure, whereas, for the other Scandinavian nations, all or most of pensions expenditure is included in the OECD figures.

So why doesn't Finnish pensions expenditure count from an OECD perspective? The reason, just as was the case of Australian sickness coverage, is because much of the expenditure that undoubtedly takes place is not technically public but private expenditure undertaken by employers. What differentiates the Finnish pension system from others in Scandinavia is that supplementary, income-related, pensions or superannuation expenditure - which constitutes much the largest component of old age related provision in all these systems bar Denmark - is, in Finland, funded by employers and remain in funds which are technically private (Salminen, 1993, 231 ff). As in the case of sickness days granted by Australian wage awards, Finnish supplementary pensions are in no sense voluntary. They are backed by the coercive, regulatory and public power of the state, even though they do not, according to the OECD classification, count as public expenditure.

How minimalist is the Singaporean welfare state?

Very minimalist indeed according to a recent article on 'Social Security in Singapore' (Ramesh, 1993), which goes on to point out that "concerted efforts are under way to reduce (state involvement) further by privatising the provision of social protection" (119). According to figures cited in this source, social security expenditure has gone down in recent decades, with a decline from 8.3 to 6.8 per cent, not of GDP but of government expenditure. The benefits that do exist - for the aged poor, the disabled, the chronically ill and vagrants - are strictly means-tested and well below subsistence level (112).

In the same article, however, indeed on the very same page, there is a description of Singapore's Central Provident Fund (CPF) in the following terms:

> "It is a compulsory savings scheme to which both employers and employees contribute a fixed percentage of wages. The accumulated deposits can be withdrawn as a lump sum at the age of 55, the normal age of retirement...in Singapore. The rate of CPF contribution is currently set at 18 per cent of wages for employees and 22 per cent for the employers" (Ramesh, 1993, 111-112).

Now, the question is why we should not count the CPF as a welfare scheme almost exactly analogous to contributory earnings-related social security schemes in Western Europe? Elsewhere in the article, Ramesh implicitly seems to be offering us three reasons: first, that the CPF is a savings and not a welfare scheme, second, that it is private scheme and not a public one, and third that the scheme has various inadequacies, including the fact that it excludes some categories of (poorer) workers, that it has no equalisation element and that it provides very low benefit levels for some workers.

Singapore is only minimal if we adopt a definition of state intervention which relates exclusively to state expenditures.

Why are the Scandinavian countries, and particularly Sweden, characterised by such egalitarian income distributions?

Although it is obvious that income distribution is not just a function of government expenditure, it is natural to assume that the income transfer system will have a very major impact on what redistribution takes place. Giving substantial benefits to the aged, the unemployed, single mothers and the parents of young children means that large sections of the population who would otherwise be poor are offered the means to a decent existence. Without payments to those in need, inequality would most certainly be much greater than it is. Hence, one might expect - and many commentators simply assume - that Scandinavia's reputation for income equality is based on the extent of Scandinavian income transfer spending.

But although, as already shown, with the exception of Finland, the Scandinavian states spend more than the OECD average on income transfers, they are a long way from being OECD leaders in terms of such spending. That honour goes to a group of Western European nations including, as of 1990, the Netherlands, Belgium, Luxembourg, France and Austria (OECD, 1992). This grouping of nations has been consistently at the forefront of OECD income maintenance spending throughout the postwar period and, in earlier decades, also included Germany and Italy. So, whilst transfer spending is obviously the most direct route to income redistribution, the quantum of such spending is not a particularly good predictor of the extent of such redistribution.

One way to resolve the paradox of an outstandingly egalitarian income distribution and only moderately high levels of state expenditure is to accept the uncontentious methodological claim contained in Gösta Esping-Andersen's recent work: that, at a minimum, the character of the instruments of social policy modifies transfer expenditure outcomes or that, in his own words, not ... "all spending counts equally" (Esping-Andersen, 1990, 19). An important reason that the very expensive transfer systems of the core nations of Western Europe do not distribute income to the same extent as do the Scandinavian systems is that they are, to a greater extent than the latter, income-related and, hence serve to perpetuate rather than alleviate horizontal inequalities.

To the extent that this is so, it is quite possible that greater income maintenance expenditure may actually detract from income equality.

Another important part of the reason that there is no obvious match between income maintenance expenditure and income distribution is that things other than transfer expenditures count as well. One of those things is another form of state expenditure - public consumption expenditure, ie. direct state purchases of goods and services - in respect of which the Scandinavian states are undoubtedly the OECD leaders (OECD, 1992). Clearly, by promoting free, universal and equal access to high quality services in health, education and age care, the state is contributing to societal equality just as much as when it provides income maintenance benefits to those in lower income deciles.

A final part of the answer lies in factors quite apart from expenditure which contribute to income redistribution. In the Swedish case, the literature points to both wage compression and taxation policies as having a major impact on inequality. The former is, admittedly, only partly a consequence of public power, in that the main impetus has been a solidaristic trade union wages policy. But the factor conditioning the success of that policy was the very high marginal tax rates in force prior to the mid-1980s (see Hibbs, 1990). Those tax rates were, moreover, quite conscious acts of public policy, demonstrated, in recent work by Mitchell, to redress the universalist distribution of income maintenance transfers in Sweden in such a way as to make the net redistribution of income through the tax-transfer system markedly greater than in any other of the nations included in the Luxembourg Incomes Study (Mitchell, 1991).

Discussion

Each of the illustrations above shows how grossly misleading can be cross--national comparisons based on public expenditure alone. In each case that is because the kinds of and balance between public policy instruments differ from country to country. In the Australian and Finnish instances - where countries appeared to be laggards using an exclusively public expenditure benchmark - the reason was that expenditures which in many countries are defined as public were counted as being private, even though mandated by the state. That was also partially the case in the Singaporean instance, but (somewhat schizophrenically), it was also because the Singaporean CPF tends to be defined as a public savings scheme rather than a welfare scheme, even though amongst its more important functions is the alleviation of life-cycle poverty. In the final

Scandinavian example, it was because social security transfers are not - either in Scandinavia or in any country - the exclusive instrument of income redistribution and that the governments of different countries vary very markedly in their use of the redistributive instruments available to them.

It may be objected that the final Scandinavian example has a different methodological status from the first three instances. On the one hand, our critique of research on Scandinavian income distribution amounts simply to an argument against illegitimately assuming that redistribution is effectively a monocausal function of state expenditures. On the other hand, the point in each of the other examples is that state mandated outputs with more or less identical functions are counted as state expenditures in some countries, but not in others. However, in terms of issues examined here, the methodological problem is the same in all four cases: that an exclusive focus on expenditure distorts our picture of reality because it diverts our attention away from the full range of means to a given policy objective and biases cross-national comparison in favour of (or against - depending on our evaluation of public expenditure for a particular purpose) countries which utilise the expenditure instrument in preference to others.

The Swedish example of the crucial role of redistributive taxation in enhancing the impact of an already substantial transfer welfare state is a straight-forward illustration of such a distortion: that, since policy goals may be achieved by a variety of means, any approach which rests exclusively on measuring one such means is liable to underestimate the extent of public commitment to such a goal in nations which typically employ alternative means. The point also made more generally about Scandinavia, that different types of expenditure - public consumption or transfers - may be used to achieve similar egalitarian goals, leads to what is really the same conclusion: that comparative studies which employ a single measure of expenditure will exaggerate the outcomes of countries that tend to favour that type of expenditure and diminish the outcomes of those which prefer other types of expenditure.

The Australian and Finnish cases may appear more contestable. Two possible counter positions might be taken. The first is that Australian sickness days and Finnish superannuation schemes are not, in fact, public policy outcomes at all because they are paid for by employers. The second is that, quite on the contrary, the issues here are merely definitional and that both instances of employer benefits should simply be counted as public expenditure exactly comparable to the items which are included under standard OECD definitions. Neither position is, I think, ultimately defensible. Clearly, benefits deriving directly from employment, funded by employers and held in private funds represent a quite different set of arrangements for delivering welfare outcomes from those involving the payment of benefits from the public purse. However, equally clearly, where the payment of employer benefits is enjoined and guaranteed by the state, as is true in both the Australian and Finnish cases, we remain very firmly in the arena of public policy. In both cases, measures of social protection have been initiated by public action through state agencies and would certainly not persist without the continued exercise of legitimate authority by agencies of the state.

The Singaporean case is not really contestable at all, although confusing commentary (and certainly not just by the author cited above) may make it appear so. No commentators contest that the CPF, in its role as a compulsory savings scheme, is an act of public policy; it is only when its welfare (side-) effects are considered that it suddenly takes on the character of a private scheme, presumably because, as savings, compulsory contributions are not labelled as taxation and, hence, payments at age 55 are not labelled as public expenditure. But if the case for public intervention is conceded in respect of the savings role, it must, surely, also be conceded in respect of welfare.

The diverse strategies by which governments may seek to achieve their objectives, and the particular importance of taking full account of that diversity wherever we seek to assess the overall role of government in promoting policy outcomes, in no sense involve novel observations of the nature of government activity. Richard Titmuss (1958), the distinguished English social policy analyst, makes an essentially similar point in suggesting that commentators on the distribution of welfare within a particular nation have too frequently tended to ignore two crucial categories of social provision, which he described as 'occupational' and 'fiscal welfare'. They too distort because they ignore everything other than the expenditures of the state.

The form of Titmuss' argument is exactly analogous to that offered here. In talking of fiscal welfare, Titmuss is referring to the benefits individuals receive from the tax expenditures of the state, and expanding that designation to include the overall impact of the taxation system on income distribution merely takes the same point further. If the incidence of taxation, whether as between individuals in a nation or as between nations, markedly influences distributions of income, it is methodologically inappropriate to base any study of redistribution exclusively on expenditure data. In talking of occupational welfare, Titmuss is referring to the many benefits individuals receive as part of the conditions of their employment, and the point made here, that in some countries the state may compel employers to deliver benefits through occupational channels rather than via direct expenditures, merely extrapolates from the situation confronted in comparing outcomes for individuals within a nation to differences between national social policy systems.

The Singaporean case, arguably, suggests the need for yet another category of state welfare provision. The CPF has certain occupational aspects (the employer contribution) and attracts some tax expenditures (earned income tax relief for those who work beyond the retirement age - Ramesh, 1993, 112), but can scarcely be classified under either heading. Its main welfare-related feature is the use of public power to compel individuals to save (one gets out what one puts in plus interest) as a means of life-cycle redistribution. A possible descriptive term might be 'directive welfare', with the adjective singling out the state's directive power as the distinguishing characteristic of social protection by this route. Since Titmuss' original 'occupational' designation was intended only to cover employer benefits to workers which were not mandated by the state (although, very frequently, encouraged by tax concessions), it is, at least, arguable that it might be appropriate to include Australian and (now) British employer sickness days and Finnish superannuation in the same 'directive' category.

One possible objection to the general tenor of my argument here is that I am referring to a situation which is now a thing of the past. It might well be suggested that, whereas once different nations could employ a wide range of diverse strategies of social protection, now, in the era of economic globalization that leeway for policy diversity no longer exists (cf. Simeon, 1993). Whilst some recent tendencies in this direction may be noticeable (eg. some degree of convergence in the character of tax systems - see Heidenheimer, Heclo and Adams, 1990, 207-17), this view is almost certainly exaggerated. In the arena of social policy discussed here, it is very far from obvious that employer benefits mandated by the state are on the decline. On the contrary, in an era of economic restraint, the possibility of transferring the responsibility for benefits to employers is an attractive one for governments, wishing to cut public expenditure and restrain the deficit. The United Kingdom is but one of a number of nations which, in the 1980s, modified their arrangements for the support of the sick in such a way as to require of employers a much more substantial role.(Hill, 1990, 66-67). Rather than Australia being a one-off oddity for historical reasons, it is now but one of a group of nations which, in the area of sickness policy, prefer a strategy which does not, ostensibly, centre on public expenditure.

Moreover, it is worth noting in this context that, even if globalization were to bring some degree of policy convergence in its train, there is no guarantee that the convergence would be in the direction of policy outcomes delivered via means of state expenditures. On the contrary, globalization is frequently taken to presuppose a sort of economic survival of the fittest in which the race is likely to go to those which most exploit comparative advantage through greater competitiveness and enhanced productivity. Economists frequently tell us - and policy-makers in most OECD nations have been recently inclined to believe - that these characteristics tend to be inversely related to direct state intervention through taxation and expenditure. To the extent that this is true, or believed to be true, the future of the welfare state could very well take what we have described as a 'directive' form.

My examples here have been social policy ones, and the specific elaboration of alternatives to public expenditure discussed here may be specific to the social policy field. The argument is, however, a methodological one and applies across all fields of public policy. Governments almost invariably have choices about how they go about achieving their goals and those choices are unlikely to be similar in different nations.[2] At the broadest level of distinction, there is always likely to be a choice available between direct mechanisms like spending and taxing and more indirect (indirect because they constrain others to do things which elsewhere are undertaken by the state) ones relying on the regulatory powers of the state. Within the indirect category, there may also be systematic differences between using the state to regulate behaviour by fiat and a more permissive and passive kind of intervention, seeking to modify incentive structures for individuals and groups.

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2. Such choices will also be different at different levels of government. Constitutional provisions concerning the division of powers prescribe the choice of instruments available at central government and sub-national levels, and these provisions are likely to be different in different countries, and, in particular, will differ as between federal and unitary states. This creates additional problems for studies such as that of Hofferbert, Budge and McDonald (1993), since expenditure comparisons, particularly between different federal states and between federal and unitary states, will be further distorted because mandate promises by the central government to intervene are likely to be directly translated into expenditures in some systems, but, in other systems, constrained into regulatory channels or into pressures on other levels of government to spend.

Nor are the differences between nations likely to be random walks. For cultural, historical and concomitant ideological reasons, governments in particular nations are likely to have consistent biases in favour of particular modes of intervention in particular areas and, quite possibly, across policy areas. Types of intervention cluster, with the interesting consequence that the countries employed in our first two illustrations could quite readily have been interchanged. Finland, just like Australia, has a sickness leave scheme which is occupational in character, and Australia has just introduced a superannuation pensions scheme which, like the Finnish one, mandates employers to set up private funds. Both countries, then, are ones with a bias to occupational or directive forms of welfare and both necessarily come out very badly in comparisons based on direct government expenditure. Other nations have other biases. The rest of Scandinavia has tended to favour policy solutions based on public consumption expenditure. Much of Western Europe has also taken the direct expenditure route, but, in this instance, largely via income maintenance transfers. The countries of North America and, arguably, Switzerland have tended to prefer more indirect and laissez-faire policy solutions. It is possible that the NICs of South East and North Asia will prefer routes to social protection that mandate or encourage particular types of citizen behaviour rather than utilising direct forms of intervention.

If countries have particular biases and countries cluster into distinct 'families of nations' (see Castles & Mitchell, 1993), it will always be the case that cross-national comparisons resting on exclusive use of a particular measure will be problematical. That is far from saying that we should not compare expenditure levels, but it is to suggest that we should be quite explicit in comparing other things as well.

The simple message of this paper is summed up in the old English adage that 'there are more ways than one to skin a cat'. The obvious implication is the correct one: that policy outcomes are almost invariably more similar than they seem, because there are basically different routes to the same goal. But the concession that outcomes are generally more similar than they seem is not to be confused with the view that all outcomes are the same. Policy differences between nations are often more subtle than they at first appear and the only certain method of coming to grips with those subtleties is to map the diversity of ways in which governments in different nations tackle the rather similar objectives of democratic public policy.

Can we do better?

There may be some temptation to view these conclusions as both trite and purely negative. The argument that 'expenditure is not enough' is likely to be readily conceded, but, perhaps, only with the caveat that no one (despite their practice?) ever really believed it was. Moreover stressing what becomes obvious once it is mentioned does not seem to take us any further in offering guidance as to how to improve the conduct of comparative research. What would clearly be far more useful would be if we could answer the questions of whether there are forms of government activity other than expenditure that must be systematically taken into account in comparative studies and how we should proceed to integrate findings concerning different modes of achieving similar policy goals?

In reality, our account has been less negative than might appear from the simple rejection of the question informing the title of this paper and the nature of prevalent forms of activity have been quite specifically addressed in respect of the arena of comparative social policy from which all our examples have been drawn and, in far more general terms, in respect of the realm of public policy as a whole. In the social policy area, it is a straight-forward methodological implication of all that has been said here that comparisons that seek to be comprehensive - and, in particular, comparisons the seek to evaluate cross-national performance - must, in addition, to expenditure look at the impact of fiscal, occupational and directive forms of welfare. More broadly, and, necessarily, rather less helpfully, we have also pointed to the need for all comparative studies of public policy outcomes to establish, whether, in addition to expenditure, the state utilises a range of direct or indirect, active or passive, mechanisms to achieve its ends.

The reason for this lack of specificity is, of course, that there is no inherent reason why the range of mechanisms dominant in a given policy area will be the same in other policy areas. Indeed, there is no inherent reason why expenditure should even feature as amongst the most important of the options available. General categories of activity are, however, discernible, most of them already mentioned, including, apart from different types of expenditure (and it is always worth asking whether expenditure directed at one set of policy objectives impacts on others), regulation, extraction (whether in the form of taxation or compulsory saving), subsidies and incentives. Although it too may sound trite, much comparative policy outcomes research would benefit from researchers asking themselves the important initial question of whether the outcomes in

The absence of a methodological problem does not, of course, mean the absence of a practical problem. Policy outcomes conceived as measures of the achievement of policy goals are generally far less easy to quantify than are expenditures. Indeed, that is a reason why expenditures are so often preferred in the first place and why their obvious defects are so frequently glossed over, even by those who do have an informed, contextual knowledge of the countries under investigation. But, however difficult and however tentative is our progress in overcoming the practical problems of devising adequate measures of outcomes and relating such outcomes to the variety of means by which they are achieved, such a research focus makes a greater contribution to our understanding of comparative government activity than does expenditure research which tells us about only one of the means to such policy ends and, to the extent that it claims more, actually distorts the reality it purports to explain.

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