

Chapter 1: Introduction: Partisan influence upon public policy in decentralised polities

The question of whether parties matter – the extent to which parties exert an exogenous influence upon public policies – is a central one for the study of Politics. Debate upon it has raged in the discipline for generations (Hibbs 1977; Tufte 1978; Garrett / Lange 1986; Blais et al. 1993; Schmidt 1995, 1996; Garrett 1998; Boix 1998), yielding inconclusive, and at times contradictory, results. No less striking are analyses of state activity that do not acknowledge the possibility of partisan influence upon public policy. For instance, Genschel and Zangl (2007), in their discussion of ‘stateness’, do not discuss this potentially significant determinant of what states do. Other recent work, considering the extent of convergence on Anglo-Saxon, liberalised economic models, either does not discuss, or downplays, the impact of parties (Streeck and Thelen 2005).

Where partisan influences upon public policy have been explicitly examined, the analysis has tended to be quantitative in nature, in particular focusing on levels of public expenditure. This brings clear advantages – notably comparability of data, and the facilitation of research into a large number of cases, giving rise to generalisable conclusions. However, there are several ways in which such research may be insufficient.

First, the most important features of public policy change may have nothing to do with public expenditure, and be hard to capture in terms of numbers (save by quantitatively coding qualitative changes). For example, the degree of selection or the method of assessment in an education system might be affected by a government’s partisan composition, yet is unrelated to the level of expenditure. Kittel and Obinger (2003, p.40) remind us of the importance of

programme design, and make a compelling case for the use of qualitative research to capture this in consideration of parties' influence upon public policy.

Secondly, in understanding whether policy changes are due to partisan orientation, or other factors, the researcher needs to drill down into specific policy choices, and evaluate what prompted them. For instance, a rise in welfare expenditure might appear to be the result of the election of a left-leaning government; however, it might be that both are due to an exogenous event, such as a rise in unemployment (with the change in the population prompting more votes for the left, as well as higher welfare expenditure). As Hicks and Swank put it, there is a risk of some quantitative research 'courting biased findings by omitting variables that may be correlated with included variables' (1992, p.658).

Thirdly, research measuring policy change by looking at the level of public expenditure may prove too sensitive to changes in the dependent population. For instance, if unemployment increases, as it did in 1980s Britain, spending on welfare also increases, but that may not reflect higher levels of benefit for individuals, or a shift to an expansionist welfare policy by the government of the day (Allan / Scruggs 2004).

The literature upon partisan influence also has a significant gap: discussions of partisan influence upon public policy have tended, barring a few studies of US federalism (e.g. Erikson et al. 1989), to focus on exclusively on the nation-state level. Although such a focus is perfectly understandable, it gives us an incomplete picture. As Watts notes, some 23 nations count as federal states (on a strict definition), encompassing around 40% of the world's population (Watts 1999, p.xi). In these federal states, at least, an exclusive focus upon the national level will tend to neglect partisan influence upon any areas of policy where

sub-national levels of government have autonomy. There is a further, interesting puzzle about partisan influence in federal states. Scholarship on federalism often asks if the existence of federal structures has a particular influence upon policy (for instance, inhibiting the development of a welfare state, or curbing public spending). Such analyses tend not to consider the impact of parties upon public policy in federal states, but this may be a mistake: it is not obvious that a federal state dominated by governments of the left would necessarily curb public spending, for instance.

This study attempts to fill two major gaps in the literature, namely the dearth of qualitative research into the influence of parties upon public policy, and the shortage of consideration of the sub-national level in assessing partisan influence. It undertakes a qualitative study of partisan influence upon public policy at a sub-national level in a major western polity, Germany. In doing so, it attempts to complement the existing literature on partisan influence, which has pursued a quantitative approach focused upon the national level.

The introduction is split into two chapters. The remainder of this chapter sets the book in context, firstly by reviewing the *Do-Parties-Matter?* debate in Political Science, and then considering some of the reasons why parties might not, contrary to expectations, have such a profound, exogenous influence on public policy. Thereafter, the chapter considers the dynamics of decentralised policy-making, looking in particular at whether federalism will spawn territorial policy variation of a particular sort, and how parties might fit into this picture. Chapter 2 then brings discussion back to Germany, examining the way public policy is made at the regional level in Germany, and reviewing earlier attempts to consider ways in which parties attempt to shape it.

1.1 The *Do-Parties-Matter?* debate in Political Science

In a seminal paper, Manfred Schmidt spells out a number of key propositions which underpin what he terms the ‘partisan hypothesis’, namely that ‘a major determinant of variation in policy choices and policy outputs in constitutional democracies is the party composition of government’ (Schmidt 1996, p.155).

Amongst the most important of these propositions are that parties represent social constituencies with distinctive preferences, and parties’ policy orientations mirror these preferences; and moreover, that governments are capable of implementing policies that are chosen by incumbent parties (*ibid.* p.156). These claims are by no means uncontroversial: after all, social change is often held to have weakened the distinctiveness of parties’ social constituencies (Mair 2008), and there are now a wealth of constraints upon the ability of national-level policy-makers to change policy (arising for instance from globalisation, competitive pressures and the power of organisations such as the European Union).

Schmidt (1996, p.156) also notes that the extent to which the partisan composition of government can shape policy depends upon a number of variables: the distribution of power in parliament, institutional arrangements, and the extent to which a country’s economy is vulnerable to international markets. For instance, partisan effects would be greater in a relatively closed economy, where power is strongly concentrated within an executive in a unicameral legislature. In contrast, in an open economy, with power dispersed vertically and horizontally, we would expect government composition to have less impact upon policy choices.

The number of empirical studies finding conformation of the partisan hypothesis outnumbered, by some distance, those which did not (Schmidt 1996; Blais et al. 1993), at least until the end of the 20th century. Starting with data ranging from 1960 to 1975, Cameron (1978) considered the relationship between government revenues as a proportion of gross domestic product (GDP) and the electoral base of left-wing parties, and found a significant, positive correlation: left-wing governments were associated with higher spending increases. In a similar vein, Hibbs (1977) found that governments of the Left pursued policies that tended to reduce unemployment at the expense of inflation, whereas the opposite policy trade-off was pursued by governments of the right.

Although this view was not universally shared (e.g. Rose 1980), subsequent analysis continued to detect significant partisan influence upon public policy. Castles / McKinlay (1979), in an influential study, considered the relationship between different levels of welfare development and three political factors (federalism, type of leadership, and the ideological dominance, or otherwise, of right-wing parties). They found that the political dominance of right-wing parties did indeed lead to lower levels of welfare development, refuting views which suggested welfare development was largely a function of social modernisation – although federalism was found to be a significant inhibitor of welfare development. Castles (1982) developed this line of enquiry, finding a powerful correlation between the growth in public expenditure and the electoral strength of parties of the left – a view confirmed by Corina *et al.* (1982) in the same volume.

Further important contributions to this debate were made by Garrett and Lange (1986; 1991). In an investigation of economic performance in the 1970s, when countries confronted the

problem of ‘stagflation’ (economic stagnation and high inflation), they assessed the impact of domestic political structures upon economic performance (Garrett and Lange 1986). Their key finding was that economic growth was significantly higher when the political power of the Left was combined with strong and centrally organised trade unions (the requirements of ‘corporatism’). In the absence of left parties in government, strong trade unions would pursue immediate gains, through industrial militancy, at the expense of growth in the medium term.

Garrett and Lange (1991) developed this finding. Although evidence for expansionist economic policies in circumstances of corporatism was limited, they ascertained that ‘economic strategies in corporatist political economies have combined traditional welfarist concerns with interventionist government industrial, investment, and labor market policies designed to promote competitiveness and flexible adjustment’ (p.563). Taken together, these findings suggest that, at least in the 1970s and 1980s, parties could make a difference in key areas of economic policy, albeit far more when combined with strong, centralised trade unions. Alvarez, Garrett and Lange (1991) demonstrate that the flip-side is true for parties on the Right: they could, and did, pursue different economic strategies, and were able to do so successfully if trade unions were weak and divided.

Swank (1988) examined governments’ domestic expenditure over the time periods 1960-73 and 1973-80. He found that, in the earlier period, there was quite strong confirmation for the ‘partisan hypothesis’, and that governments of the left and the centre routinely spent more than governments of the right. In the latter period, the gap narrowed somewhat, as parties’ room for manoeuvre was circumscribed by the economic circumstances of the time. During both time frames, the strength of unions and working-class protest also affected spending levels. Unsurprisingly, party politics was a determinant of spending policy choices – but not

their sole determinant, and its influence upon them was contingent upon social and economic circumstances.

Hicks and Swank (1992) developed a further refinement of the partisan hypothesis, finding that, in terms of state expenditure, governments of the political centre are more likely to have higher welfare spending than those of the right. More surprisingly, they are also likely to have higher expenditures than left governments – a result Hicks and Swank explain through the greater likelihood of leftist governments pursuing full-employment policies, reducing the level of reliance upon welfare transfers. They also find that higher voter turnout exerts upward pressure upon welfare expenditure (as poorer voters make their presence felt in the electoral process), and that the shape of the political opposition plays a role (for instance, a centrist government will spend more on welfare if it faces a strong leftist opposition).

Garrett (1998), in an important contribution, revisited the possibility of partisan influence upon public policy in circumstances of globalisation. His conclusions were far-reaching: parties of the left retained the ability to develop national economic policies to reduce inequality, and indeed often had strong incentives to do so, in particular to support those who had been affected by market dislocations. Boix (1998) similarly identifies distinctive supply-side policies that can be and are pursued by governments of the left and of the right, even though globalisation has reduced the ability of the left to pursue a distinctive demand-side agenda.

All these studies, and many more, provide confirmation of Schmidt's 'partisan hypothesis', which, to recap, is the claim that the party composition of government is a major determinant of policy choices and outputs. None claims that the party in government is the only variable

to affect public policies, nor that its importance as a variable will be constant. There are, however, a number of alternative viewpoints that place far less emphasis on the partisan composition of government in shaping policies, and these are discussed in the next section.

1.2 Alternatives to partisan influence

As we recall, Schmidt (1996) notes that, for the partisan hypothesis to hold, political parties need to pursue distinctive policies. Yet this claim has been challenged in a number of recent works (Mair 2008).

Some authors suggest that partisan influence upon public policy has diminished due to *partisan convergence*, that is, parties no longer seeking to pursue distinctive policy agendas. This may be due to an inexorable drift to the political centre, as predicted, albeit in quite particular circumstances, by Downs (1957), in order to maximise the electoral appeal to the median voter.

Partisan convergence might also occur if there is a breakdown in the size or the coherence of the social groups on which parties previously focused their electoral appeals, such as unionised, manual workers in the case of social democratic parties, or church-going Catholics, for Christian democratic parties (Mair 2008, p.219). Parties' shift away from particularist appeals to such groups will partly be prompted if, following the title of Rose and McAllister's well-known book (1986), 'Voters begin to choose', and the connection between membership of a social group and partisan affiliation is weakened. As Mair puts it, 'It is beyond dispute that ... parties have become electorally more catch-all In part ... this is the inevitable result of social change' (2008, p.219). In addition, parties have increasingly tended

to cast their appeal more widely, learning ‘to be more attractive to those segments of the electorate which were once seen as beyond the pale. ... In other words, it is not only that the vote has become more free-floating and available, but so also have the parties themselves, with the result that political competition has become characterised by the contestation of socially inclusive appeals in search of support from socially amorphous electorates’ (ibid. p.219-220). In this area also, a study into the sub-national level will be useful in elucidating trends. Research has tended to focus on national parties and national elections but it might be hypothesised that, confronted with greater social homogeneity at a regional level, and a greater proximity to policy-seeking grassroots members, partisan convergence would be more limited below the level of national politics.

Parties might also find that their ability to change public policy is constrained by ‘path dependence’ (Pierson 2000). Levi (cited in Pierson 2000, p.252) defines the concept thus:

‘Path dependence has to mean, if it is to mean anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice’.

The notion of ‘path dependence’ originated in economics – with the argument, in contrast to the neo-classical orthodoxy, that markets will not always clear at an optimal outcome (Arthur 1989, 1990; Mokyr 1991). Instead, errors can be made at first, and these are ‘locked in’ through a process of positive feedback. So, for instance, manufacturers of typewriters persisted in using the QWERTY keyboard, even though it was less efficient than the Dvorak

alternative (David 1985), and equally the VHS video cassette persisted in favour of the apparently superior Beta system (Arthur 1990).

In our case, we are not so much interested in policy choices which happen to be sub-optimal (after all, parties' view of what is optimal will differ depending on their political standpoint), but instead in the extent to which path dependence constrains their room for manoeuvre; their ability to change policies in the direction which, all other things being equal, they would ideologically favour.

To illustrate this, we might consider the area of welfare benefits. Pierson (1996), in a discussion of welfare policy, found that the right-wing governments of Ronald Reagan and Margaret Thatcher were unable to implement radical cutbacks in benefits as might have been expected:

‘Even in Thatcher's Britain, where an ideologically committed Conservative Party has controlled one of Europe's most centralized political systems for over a decade, reform has been incremental rather than revolutionary, leaving the British welfare state largely intact. In most other countries the evidence of continuity is even more apparent’ (p.174).

The reason for this, Pierson finds, is that ‘... Today's policymakers operate in an environment fundamentally shaped by policies inherited from the past’ (p.179). In particular, once groups in society receive certain benefits, interest groups will form to defend them and there is likely to be a substantial electoral cost to retrenchment, so that, in the area of welfare policy at least, change will be incremental at most.

Pierson's findings are by no means universally supported. For instance, Clayton and Pontusson (1998) believe that he understates the extent to which parties of the right were able to undertake retrenchment of the welfare state. They point out that measuring overall welfare 'effort' by looking at the proportion of GDP spent is misleading, as it is very responsive to external factors, such as growth in unemployment – confirming a point made earlier in this introduction. In fact, the recession of the 1980s and the expenditure increases associated with serving a larger number of claimants served to mask substantial welfare cuts. Secondly, they highlight the importance of programme design, contending that, for instance, a shift to means-tested benefits and the privatisation of public services can constitute retrenchment, but may not be captured by spending data. Again, this emphasises the value of a qualitative assessment of public policy change.

Just as with the partisan hypothesis above, the counter-hypothesis that partisan policy change will be limited owing to path dependence will not be confirmed entirely: just as few would anticipate an immediate transformation of public policy owing to the presence of a new government, so the hypothesis of path dependence suggests policy change will be incremental, rather than non-existent. Our purpose here is to understand the *extent* to which the past and the financial and political costs of deviating from set policy paths, constrain party politicians in the realisation of their policy goals. Here, too, a focus on the sub-national level is useful, giving the opportunity to consider whether historical development trajectories are as important at the regional level as they are at the national level in accounting for policy stability.

Critics of those who see the partisan complexion of a government as being a major factor in shaping policy change often point to the openness of an economy as being a major constraint upon policy change (Keohane / Nye 1989). Indeed, even exponents of the partisan hypothesis argue that, the more open an economy, the less parties can make a difference (Schmidt 1996, p.156). There are three principal arguments here (Garrett / Lange 1991, pp.542-3). First, Keynesian policy instruments, often associated with left parties in government, which involve the macroeconomic stimulation of domestic demand are significantly harder to pursue in an open economy, as they may simply lead to a surge in imports or balance of payments deficits. Secondly, financial market integration has the potential to undermine such efforts almost instantly. Thirdly, with growing exposure to international trade, governments of all political colours face pressure to liberalise their markets in order to attract inward investment. This leads to downward pressure on levels of taxation, regulation and public spending, even where this is anathema to governments of the left.

There are, however, two reasons to be sceptical of such claims. The first challenges the assumption that all countries' economies are equally open and thus subject to the same ubiquitous pressures. However, as Garrett (1998) convincingly demonstrates, this is not the case, and in fact there are stark variations between industrialised countries both with regards to their exposure to international trade and the degree of capital mobility. Secondly, the classical demand-management instruments which are no longer available to left-wing governments do not constitute the totality of national economic policy, and indeed significant variations remain possible on the supply side (Garrett / Lange 1991; Boix 1998; Garrett 1998).

For our purposes, there are two important points to draw out here, which are investigated in this study. First, it is not obvious whether international economic integration necessarily poses the same level of constraint upon policy-makers at the sub-national level as at the national level. Even though regional actors had little scope, in integrated national economies, to pursue regional demand-management strategies (we don't, after all, hear of Keynesianism on a regional level very often!), it is quite possible to believe that international economic integration reduces regions' scope for higher levels of taxation, spending, and labour market regulation. Moreover, central governments, as a result of these pressures, may restrict the fiscal or regulatory capacity of sub-national politicians, not wishing them to disadvantage the national economy in a competitive market. These possibilities demand investigation.

Secondly, the focus upon questions of economic policy in consideration of the partisan hypothesis neglects other important areas of policy where parties have fundamentally different views, such as on the role of the family, or the relationship between church and state (Schmidt 1996, pp.168-9). Indeed, if parties' ability to shape economic policy declines, they might seek to achieve a distinctive policy profile by pursuing divergent strategies in other policy areas.

Further grounds for scepticism of the partisan hypothesis can broadly be grouped under the headings of *institutional and constitutional inertia*. As Schmidt notes (1996, p.156), the partisan hypothesis assumes that 'governments are capable of implementing the policies that were chosen by incumbent parties'. However, there are several ways in which governments are constrained – to varying degrees – in doing this.

First, it is often assumed that the civil service will be immediately responsive to a new government's demands. But, to follow the popular German saying, 'Politicians come and go, but the civil service stays'. The civil service might lack the capacity to deliver large programmes of policy change, or it might lack the will. In particular if there is a high level of political appointment of the civil service combined with employment protection, any new government faces the unenviable task of persuading ideologically hostile bureaucrats to implement its policies (Lees 2000, pp.37-8).

Secondly, constitutional and legal constraints will have a key bearing upon the ability of partisan actors to implement their policies. Lijphart (1984, 1999) contrasts the constitutional arrangements of different types of democracies (Table 1.1).

Table 1.1: Majoritarian vs. Consensus democracy (adapted from Lijphart 1999, pp.3-4)

| Majoritarian democracy | Consensus democracy |
|--|---|
| Concentration of executive power in single-party, majority cabinet | Executive power-sharing in broad, multi-party coalition |
| Executive-legislative relationship dominated by the executive | Balance of power between legislature and executive |
| Two-party system | Multi-party system |
| Majoritarian electoral system | Proportional electoral system |
| Pluralist interest groups with free-for-all competition | Co-ordinated and 'corporatist' interest groups aiming at compromise and co-ordination |
| Unitary and centralised government | Federalism and decentralised government |
| Concentration of legislative power in a unicameral system | Division of legislative power between two equally strong but differently constituted |

| | |
|--|--|
| | houses |
| Flexible constitutions which can be amended by a simple majority | A rigid constitution that can only be amended by a super-majority |
| No system of judicial review | Laws subject to judicial review by a supreme or constitutional court |
| Central bank dependent on the executive | Independent central bank |

Majoritarian democracies are likely to see a higher degree of partisan influence, both because more spheres of policy are amenable to political control (such as monetary policy), but also because institutions such as a powerful second chamber, a restrictive constitution backed up by a powerful constitutional court, and in particular a system of federalism, will all restrict a government's ability to act.

Although Lijphart focuses on the national level, such constraints are no less important for regional and local governments. In particular, their degree of constitutional autonomy and the extent to which they can exercise influence over the central government are likely to be key to determining the scope partisan actors at the sub-national level have to pursue their policy goals.

There are four conclusions that can be drawn from this short exposition of literature concerning the partisan hypothesis. First, we can see that, although there is a strong body of literature in support of the partisan hypothesis, there are also good reasons to believe that countervailing pressures will, in some circumstances, also be very important: investigation of the degree of partisan influence upon public policy, and the circumstances when it is greatest or most restricted, is vital. Secondly, we can see a bias in existing studies towards socio-

economic areas of policy, yet in some polities parties may well be divided along quite different lines. Thirdly, quantitative literature dominates explorations of the partisan hypothesis to date, yet qualitative research has something significant to add. Finally, we see a strong focus on the national level, but investigation of the sub-national level is important as well.

This study aims to shed light on all of these areas.

1.3 The dynamics of decentralised policy-making

So far, this chapter has considered whether parties matter. Next we need to turn our attention to whether *federalism* matters. This can be considered in two ways.

First, many Political Scientists have addressed the question of whether federalism will affect public policies pursued in a nation state. Famously, Riker (1975) is noted for his scepticism on this point, suggesting that, save for delaying national legislation, the impact will be limited. Riker believes that it is the underlying distribution of preferences, not political structures, that will determine policy choices. This view has been robustly and successfully challenged by Rose-Ackerman (1981) and institutionalist scholars (e.g. Tsebelis 2002), who see institutional arrangements as having a profound impact upon public policies, both because institutions such as federalism will *shape* political views, and also because different decision rules can lead to different decision outcomes.

Secondly, scholars of federalism often consider whether the existence of federalism is likely to shape a nation's public policy in *particular* ways. For instance, Hicks and Swank (1992)

argue that federalism has been anathema to welfare state development, and Huber et al (1993) confirm this view, finding that the greater number of veto points in a federal system allow actors hostile to a welfare state's development to resist its expansion. More broadly, Weingast (1995) contends that federalism restricts the scope of state economic activity, and provides a secure foundation for the functioning of markets.

On the other hand, some scholars oppose the view that federalism invariably leads to a smaller, more market-driven state. Manow (2005) argues that, in some circumstances, federalism can have expansionary consequences, and exemplifies this with reference to the German welfare state. Such a view is supported by Pierson (1995, pp.457-8), who notes that, in some cases, component territories in a federation might press central government to intervene to solve certain collective action problems amongst units of a federation, thus widening the scope of state activity. Obinger *et al* (2005a, p.38) see two reasons why federalism can obstruct welfare retrenchment: sub-national actors may become veto points, resisting reductions in entitlements. Secondly, as they baldly put it, 'vertical power separation means more democracy': there will be more elections, and politicians will be loath to propose unpopular acts of retrenchment and risk incurring voters' wrath at the ballot box.

Fritz Scharpf (1988) highlights the possibility that federal states, characterised by 'bargaining' rather than 'problem-solving' relationships between component sub-national units, may end up with sub-optimal policy choices because of the 'joint decision trap'. This 'trap' concerns the fact that the *de facto* requirement for unanimity for constitutional issues means in a number of policy areas that the only decisions that can be reached are at those of the 'lowest common denominator', where there is complete agreement. Even if some actors recognise that a particular outcome is sub-optimal, they will be reluctant to change the rules

of the game, believing that this could harm them in the future. As a result, in Scharpf's view, federalism can be associated with the entrenchment of harmful compromises on the rules of political decision-making.

Scholars of federalism in divided societies also debate its impact in those circumstances, with some, such as Bunce (1999), arguing that it will fuel the flames of ethnic conflict, while others (Stepan 1999) consider it to be an essential ingredient in successful, multi-ethnic states.

Those who disagree with Riker, contending that federalism can impact upon public policy, specify different mechanisms at work. Sometimes these are associated with a particular normative standpoint. For example, Jeffery discusses the notion, which originated in the United States, of 'laboratories of democracy':

'A theoretically powerful argument in favour of allowing greater territorial variation is that of regions as 'laboratories of democracy'. There is a tradition of argument in the US that the existence of the states as fifty separate locations for policy-making promotes a 'competition of ideas' which fosters innovation, benchmarks alternative approaches and diffuses good practice' (Jeffery 2002, p.177).

Particular benefit can be gained from testing policies in regions, without the necessity of nationwide roll-out (although of course this can be achieved by regional or local pilots in a unitary policy); the tailoring of policies to local circumstances; and the facilitation of feedback and institutional learning (ibid. p.179).

In his discussion, Jeffery draws upon examples of laboratories of democracy from economic policy and social policy. In the case of economic policy, this centres upon regions trying to ‘find the right niche for the regional economy amid global economic flows’ (ibid. p.181). In particular, regions work to develop the right kind of local incentive to attract inward investment: ‘... the new regionalism is about a shift from the demand-side to supply-side economic intervention and has to varying degrees come to shape regional economic policy debates in the US, Germany and Canada’ (ibid. p.181). The impact of federalism on encouraging policy laboratories in social policy is more debatable, but there is still some evidence that federal states attempt different policies, testing different ideas and tailoring them to local need (ibid. pp.186-7).

If ‘laboratories of democracy’ represents a positive normative view of the decentralisation of decisions upon public policy, the idea of a ‘race to the bottom’ potentially represents a negative standpoint. The ‘race to the bottom’ occurs when states engage in competition to maintain a competitive advantage over other states, be it in the field of regulation (for instance of labour markets or the environment) or government activity (with states seeking to under-cut each other’s levels of taxation). There is a particular twist to this in the field of social policy, with states not only seeking to reduce their expenditure in order to keep taxes low, but also wanting to avoid becoming ‘welfare magnets’, which attract poor people with their more generous rates of benefit (Peterson 1995, p.121). Such a view is popular amongst those who see federalism as anathema to welfare development.

Empirical examination of the ‘race to the bottom’ hypothesis has yielded mixed results. For instance, in the field of welfare policy, although evidence of vast population moves to chase the highest level of benefits is lacking, policy-makers do appear to factor competitive

calculations, as well as anxieties about welfare migration, into their decisions on benefits (Schram / Soss 1998; Brueckner 2000; Rom 2006). In the field of environmental regulation, to take another example, Vogel (2000) finds that there is little evidence of decentralisation of policy decisions undermining environmental regulation (and indeed it has on occasion led to its strengthening); the competitive advantages attached to lower levels of environmental regulation are relatively small and do not outweigh the perceived disbenefits. In the case of labour market regulation, evidence again suggests that there can be downward regulatory competition in a decentralised polity, but that need not be the case: it will depend upon the preferences of the actors involved, and also whether there is any likely competitive advantage from a more regulated labour market (Barenberg 2000). In a detailed study of the Canadian federation, Harrison expresses scepticism towards the ‘race to the bottom’ narrative:

‘The clearest lesson from this volume is that provinces within the Canadian federation are not completely at the mercy of destructive provincial competition ... Rather, corporate taxes continue to increase steadily while subsidies to business have fallen, environmental standards are stable ..., minimum wages continue to increase. ... That is not to say that provinces do not face a less extreme version of a race to the bottom ... that prompts them to set standards or taxes lower than they would have done in the absence of mobility of capital, goods and individuals’ (Harrison 2006a, p.257).

Green and Harrison (2006, p.193) identify the intriguing possibility of a ‘race to the middle’ dynamic, in which ‘politicians seek to stay in line with other provinces in order to show voters that they have struck a reasonable balance between generosity ... and the economic imperatives of business’. More commonly, there are a number of mechanisms which are classed as a ‘race to the top’. Vogel (2000) identifies a ‘California effect’ in environmental

regulation, whereby powerful companies sometimes identify that an upward shift in standards will give them an advantage over competitors; this was named after the case of California, which varied its air quality standards upwards, only for Congress to follow suit and increase national regulations to the same level. Of course, this sort of ‘race to the top’ might be more associated with larger jurisdictions, with large internal markets. Rom (2006, p.253) finds that, in the case of education spending, those states with higher spending, ‘are willing to increase educational spending, perhaps to increase their competitive edge, in a race to the top in demand side policy’.

Even in the area of social policy, a ‘race to the top’ is not inconceivable. Keating notes that this is sometimes in evidence in the United Kingdom, following devolution, as ‘citizens become aware of better services elsewhere and demand the same of their elected representatives’ (2010, p.15).

Rodden (2003) has influentially argued that the effect of federalism upon public expenditure and service provision depends upon the nature of fiscal arrangements. If subnational units are responsible for raising their own taxes, they will indeed seek to keep spending, and thus tax rates, low. However, if expenditure is funded primarily by intergovernmental transfers and government grants, expenditure can actually be driven up: ‘by breaking the link between taxes and benefits, mere expenditure decentralization might turn the public sector’s resources into a common pool that competing local governments will attempt to overfish’ (Rodden 2003, p.497). German fiscal federalism is sometimes cited as an example of such a trend (e.g. Seitz 2000; Rodden 2003a), whereby states face little incentive to widen their tax base by increasing efficiency, as these gains will simply be redistributed to other, less efficient states.

In sum, we can observe a tremendous debate in political science about the likely impact of federalism upon public policy. It seems that, almost by turns, federalism can lead to downward or upward convergence of levels of taxation, regulation and spending; it is associated in turn with welfare states that are either under-developed, or especially resistant to cutbacks. It produces politicians seeking benevolently to provide the most generous level of public services, those who aim to be precisely in the mid-range of such provision, or paranoid souls looking to keep benefits down to avoid welfare recipients pitching up in their states. The circumstances in which each phenomenon applies vary according to the structure and history of the federation, as well as the area of policy under discussion.

Yet in all this discussion, political parties rarely merit a mention. For instance, when Rom (2006) considers the dynamics of education spending in the US and finds divergent trends, he sees no need to test a partisan hypothesis. In discussion of the possibilities of a ‘race to the bottom’ (or, for that matter, a ‘race to the top’), the role that partisan actors might play is also neglected. Yet public policy change relies upon partisan action, and it is, at any rate, not implausible that party politicians respond to pressures resulting from federalism in different ways: for instance, politicians of the right may be more willing to yield to downward regulatory pressure, while politicians of the left may be attracted to growth theories that point to the benefits of higher levels of regulation. The discourse of ‘laboratories of democracy’ assumes rather technocratic lesson-drawing (‘laboratories of public policy practice’ might be an appropriate designation), yet here, too, partisan actors might step into play: ‘laboratories of social democracy’, or ‘laboratories of conservatism’ might hold, whereby politicians are keen to draw lessons from the practice of political soul-mates.

If we find, in this study, that parties *do* matter at a sub-national level, it will at any rate caution scholars against far-reaching conclusions about the impact of federalism, and make a strong case for tempering such claims with the possibility of partisan influence.

In all of this, the history and design of the specific federal system clearly matters. Stepan (1999) influentially distinguished between different types of federalism along three dimensions:

1. Between *coming together*, *holding together*, and *putting together* federalism (ibid. pp.22-3). ‘Coming together’ federal states, such as the US, pooled their sovereignty so as to achieve greater security and other collective goals. ‘Holding together’ federal states, such as India, Belgium and Spain, by contrast, saw the centre pass some sovereign to constituent states in order to keep their countries together as a democracy. ‘Putting together’ federalism refers to those federations, such as the USSR, where a non-democratic, centralising power constructs a polity of states that might otherwise have been sovereign and independent.
2. Between *demos-constraining* and *demos-enabling* federalism (*ibid.* pp 25-9). ‘Demos-constraining’ federalism sees states act as a significant impediment upon the centre, characterised in particular by weak federal parties, strong over-representation of smaller component units in the second chamber nationally, a second-chamber with large policy scope, and strong powers reserved for states. ‘Demos-enabling’ federalism, by contrast, is characterised by strong federal parties, no over-representation of smaller territories in the second chamber nationally, a second chamber with limited powers, and few residual powers for states.

3. Between *symmetrical* federalism, where all components of a territory have the same power, and *asymmetrical* federalism, where this is not the case (*ibid.* pp.29-32).

To this we can add some other important features of the institutional design of federal states. In particular, Leibfried *et al* (2005, p.339) distinguish between inter-state (or ‘dual’) federalism and intra-state (or ‘co-operative’ federalism). They find that the latter is significantly more conducive to the growth of welfare states than the former. Of particular consequence, as noted above, is the nature of *fiscal decentralisation*, that is, which functions have to be paid for by the centre, and which by states (Oates 1999; Rodden 2003).

In chapter 3, we will review the precise nature of German federalism’s institutional framework. The point here is simply that, in seeking to identify the likely influence of federalism upon public policy (that is, the way in which federalism matters), we need to be very clear what sort of federalism we are talking about.

1.4 Conclusion

In this introduction, we have very briefly sketched two major controversies in political science: the *do-parties-matter?* debate, which seeks to understand the impact of political parties upon public policy, and the *does-federalism-matter?* debate (admittedly, not often so characterised), which seeks to understand what systematic impact federalism might have upon public policy. Surprisingly, these debates are rarely linked: discussion of whether parties matter focuses, more often than not, upon the national rather than sub-national level, and discussions about the policy impact of federalism tends to neglect the role that might be played by political parties.

In its focus upon the influence of parties upon public policy at a sub-national level, this study contributes to filling these gaps. The study examines whether, and under what circumstances, partisan actors at a state level can influence policies, and when instead they find themselves stymied, be it by path dependence, bureaucratic intransigence, legal barriers, the economic logic of globalisation, or indeed by binding policy 'logics' arising from federalism like the 'race to the bottom'.