Outline Overview of the Book

I. *Chapter I:* Postwar governments in all developed democracies committed themselves to some (varying) degree of political provision of social insurance, public goods, and macroeconomic-management.

- **A.** These commitments reflect broader, often conflicting, goals both to foster capitalist efficiency and growth and to ameliorate their distributional consequences.
- **B.** Democracy and capitalism distribute political and economic resources differently, creating popular pressures on public policymakers that force tradeoffs between these competing goals that typically expanded the public role in the economy.
- **C.** However, the universal tensions induce differing policies and outcomes:
  - **1.** Differing deviations of policies from those that would maximize unweighted citizens' utilities and differing degrees of government growth in different areas in trying to fulfill the commitments.
  - **2.** The differences arose because the incentives for political-economic actors that emerge from these conflicting goals and distributions of interest and influence depend on multiple interactions among the domestic and international political-economic institutions, structures, and conditions within which they interact and to which they respond.
- **D.** As these (varying) fiscal-policy difficulties evolved, democratic governments turned first toward monetary-policy and then toward institutional-structural "reform", attempting to rebuild broad postwar coalitions behind democratic macroeconomic management (putatively) for aggregate efficiency.
  - **1.** However, like their predecessors, these new policy paradigms have strong distributional consequences, whatever their efficiency effects.
  - **2.** The *new* political struggles over institutional-structural "reforms" look remarkably similar to old left-right, employment-inflation, efficiency-equity tradeoffs long-familiar to political economists.
  - **3.** Only the locus of political battle changed: from the policies themselves, to the institutions and structures within which democratic policymakers choose those policies.

II. *Chapter II:* Democratic Commitments to Social Insurance, Welfare, Pensions

- **A.** The differential distribution of votes (one-person, one-vote) and income (few very wealthy, many poor and middle class) in capitalist democracy tends to produce median voters who are poorer than the economy average, generating a general demand for public transfers.
- **B.** Economic conditions and these differential distributions of political and economic influence broadly explain the common experiences across countries of (rapidly) rising transfers-shares of GDP (since the seventies).
  - **1.** While economies grew rapidly in the first two postwar decades, expanding demand for redistribution could be met with only moderately growing transfers-shares of GDP.
  - **2.** But, when stagflation hit in the seventies and persisted into the eighties, the costs of maintaining the democratic commitment to social-insurance and so transfers-shares of GDP skyrocketed.
- **C.** Political institutions and structures broadly explain the cross-national differences in the paces of transfers-growth reflecting differing responses by policymakers to similar economic conditions and political pressures.

1. Stronger labor organization and more-left governments created more-effective political pressure toward transfer expansion and more government responsiveness thereto.
2. Systems with more frequent elections and slower policy-adjustment, ratchet opportunistic manipulations of transfers around election years into greater long-run transfers levels.
3. Most importantly, electoral institutions that induce greater political participation increase the range of income distribution, from right (wealthy) to left (poor), represented in the electorate and so increase the effective political pressure on democratic governments from any given distribution of economic resources.

D. Economic Effects and Political Implications:

1. Rising transfers drove growth in government more generally, which, being partially deficit-financed, drove growing public debt as well.
2. Rising transfers increased labor-market rigidities, thereby increasing unemployment and reducing fiscal-policy efficacy in controlling it.
3. However, the rising transfers also ameliorated the economic hardships of those who remained or became unemployed.
4. Therefore, political conflicts over transfer-system "reform" replicate rather than replace familiar left-right conflicts.

III. *Chapter III:* Deficit Finance of the Commitments and Public Indebtedness

A. Common pressures and economic exposure explain the broadly shared path of falling debt through the seventies and dramatic reversal thereafter.

1. Common pressures toward partial deficit-finance of transfers-driven growth in total spending were offset through the seventies by strong GDP growth, allowing simultaneous expansion of public involvement in the macroeconomy and reduction of debt-to-GDP ratios.
2. Common exposure to terms-of-trade shocks in the seventies, which triggered stagnant growth and high unemployment through the eighties, increased the debt costs of continuing expansion of the democratic commitments to macroeconomic involvement.
3. As governments turned toward anti-inflationary monetary policy to redress the inflation aspect of stagflation, real-interest rates on the newly accumulating debt rose sharply, dramatically exacerbating the effects of slowed growth and higher unemployment.

B. Interactions among differing political-economic institutions, structures, and conditions magnified these effects in some and dampened them in other democracies, yielding cross-national and -country-time differences.

1. Presidentialism creates a powerful policymaker with one national constituency, reducing motives for debt-financed distribution projects.
2. Systems with autonomous, conservative central banks diminish governments' access to politically expedient inflationary debt-default, dissuading them from debt-accumulation.
3. More complicated fiscal systems aggravate voters' difficulties in evaluating the full and true costs of deficit-financing, increasing incentives for policymakers to issue debt.
4. Systems with more frequent elections and slower policy-adjustment, ratchet opportunistic manipulations of transfers around election years into greater long-run transfers levels.
5. Most importantly, fractionalized-polarized governments retard policy adjustments, thereby geometrically multiplying the long-run debt-effects of the high real-interest following the terms-of-trade shocks and, indeed, the effects of all other political-economic conditions.

C. Economic Effects and Political Implications

1. Public debt had little effect on real growth, but strong, opposite effects on inflation (positive) and unemployment (negative).

a. The economic effect of debt, therefore, reflects less any large efficiency difference between public and private investment and more their differing distributional effects.

b. Accordingly, political battles over "reforms" to reduce debt, however couched in the language of efficiency and responsibility, mirror familiar macroeconomic-policy struggles.

2. Rising public debts, plus transfers-induced increasing labor-market rigidities, plus growing international trade and financial exposure, increasingly limited fiscal-policy efficacy and maneuverability.

3. Accordingly, governments turned to monetary policy, freed from fixed-exchange restrictions, to fulfill their democratic commitments to macroeconomic management...

a. ...to redress the inflation inherited from the oil shocks, and...

b. ...to attempt to rebuild broad postwar coalitions behind political regulation of the economy (putatively) for aggregate efficiency.

IV. *Chapter IV:* Monetary Regulation of the Macroeconomy

A. The anti-inflationary effects of monetary conservatism depended on how inflationary the political economy would be absent such monetary conservatism. Where the institutions and structure of the macroeconomy produce small (great) inflationary pressures on governments, monetary-authority conservatism adds little (much) further anti-inflationary bite.

B. The real (e.g., unemployment) effects of monetary conservatism depend on the credibility with which the monetary authority could threaten to quash inflationary pressures, but also on the incentives and capacity of wage-price bargainers to respond efficiently to those threats.

1. More-coordinated bargaining-units encompass greater shares of the economic aggregates to which monetary authorities' threaten responses and so have greater incentives and capacity to respond efficiently.

2. Enaction of monetary threats raises interest rates, hindering private investment and appreciating exchange rates, so private-sector and, especially, traded-sector bargainers have greater incentives to respond more efficiently to monetary threats than public-sector bargainers.

C. Thus, both the nominal benefits and the real costs of governments monetary-policy shifts toward conservatism were larger where political economies had less-coordinated and more public-relative-to-traded-sector dominated bargaining (and where they were otherwise inflationary).

D. Coordinated bargaining tended to equalize wage-growth across low-productivity-growth service and high-productivity-growth industrial sectors, tending to price private sectors out of service provision.

1. Governments in such economies therefore tended to respond by increasing public-sector service provision and employment.

2. However, the increasing public-sector employment undermined the efficiency of coordinated bargaining in delivering wage-price restraint and responding to monetary conservatism

E. Therefore, as governments turned toward monetary conservatism to restrain inflation...

1. ...the real costs of doing so were growing even where they used to be low and everywhere tended to be larger wherever the nominal benefits of doing so were larger, and...
2. ...the inflation effects of public-sector employment-growth were converted into real effects, undermining political support for coordinated bargaining.

F. Again, modern political struggles over institutional "reform", increasing labor-market flexibility and credible monetary conservatism, merely paraphrase long-familiar macroeconomic-policy debates.

V. *Chapter V* concludes summarily.