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# European social democracy between planning and market: a comparative exploration of trends and variations

Paul Pennings

**ABSTRACT** Since the 1970s many social democratic parties have moved in a neo-liberal direction. This article examines the variations in the orientation of social democracy towards welfare state retrenchment. There are significant differences in this respect in thirteen Western European countries. Social democratic parties that opt for market solutions in socio-economic policy-making are mostly positioned in welfare state regimes with a strong planning tradition. The planning option is often chosen in countries with a strong market tradition. In both instances the goal is the same: striking the balance between planning and market in a mixed economy by adapting to changing socio-economic conditions. Most social democratic pledges in favour of market solutions are not signs of irreversible neo-liberalism, but merely attempts to assure the economic viability of welfare statism.

**KEY WORDS** Market; neo-liberalism; planning; retrenchment; social democracy; welfare state.

## INTRODUCTION

Since 1973, Keynesian social democracy has come under attack because of deteriorating economic national conditions, increasing international competitiveness and the growth of a strong middle class ('a contended majority'). Since then, strategies have gained influence that propagate the dismantling of the welfare state as the quickest route towards long-lasting economic recovery. This article presents a comparative overview of trends and variations in the orientation of social democratic parties towards welfare state retrenchment.

The basic assumption that underlies the analysis is that parties are rational actors that will adapt their ideological profile to changing conditions. This adaptive capacity helps parties to gain benefits in terms of votes, policies and office that are crucial in order to survive (Strom 1990; Pennings 1998a). Reacting and adapting to the changing environment in a way that voters appreciate is one of the basic mechanisms that parties use to organize electoral support.

One strategic problem is that the three goals are not always consistent with each other. Parties are multi-faceted actors that might (under certain conditions) accept the loss of votes in exchange for other gains, like office. One example of this

'conflicting aims problem' is the case of the Dutch Labour party (PvdA) (see Kitschelt 1994, 1995). This party is captured within this paradox: if the PvdA polarizes (moves to the left) it wins votes but it also loses on the office-seeking side as it is hard to compromise (in order to get into office) and polarize (in order to win votes) at the same time. If this party converges (moves to the centre) it is losing votes but also increasing the probability of becoming a party in government. This dilemma can be solved only by making a choice: either being a large opposition party or a somewhat smaller party in government. Opting for both might result in a relatively large governing party in an unstable (polarized) government that might turn out to be less rewarding. In the Netherlands these three situations have occurred under varying conditions. The Dutch example illustrates that parties have conflicting goals and that their goal achievement is often sub-optimal.

The choices that parties make between goals depend mainly on their political-institutional environment and the socio-economic conditions. If a party system offers many possibilities of influencing policies (like Norway – see Strom 1990) a party such as the Dutch PvdA might make different choices than in a system with fewer possibilities. In this way, the room to manoeuvre of parties is constrained by exogenous institutional factors (Milner 1996: 157). These factors also influence the degree to which social democratic parties will adapt to market-oriented ways of problem-solving (Pennings 1997).

The given example shows us that it makes sense to interpret the adaptation of parties to changing circumstances as an *effort* (or cost) and the pay-off in terms of votes, policy or office as a *reward* for their efforts. Some efforts may be more rewarding than others, meaning that some problems will be perceived as more important to adapt to than others. This is where ideology comes in. As parties cannot usually gain all the rewards (since they have to *share* votes, seats, ministries, etc.) they have to choose between goals and their related rewards. As parties are not only policy-seeking, but also vote- and office-seeking, it is important to include electoral motives in the evaluation of socio-economic party responsiveness. Vote-seeking parties are expected to forward solutions to problems that are electorally rewarding. The electoral rewards depend on the electoral system and on the median voter position (i.e. the central ideological tendency among voters) on political and policy-related issues.

The emphasis in the literature is either on the internal party-organizational factors that influence the choices that parties make (e.g. Kitschelt 1994; Bell and Shaw 1994) or on the external regime-type characteristics (e.g. Esping-Andersen 1990). This article examines both types of factor by studying retrenchment in relation to the ideology and size of parties, on the one hand, and the characteristics of the welfare state regime, on the other. The universe of discourse comprises the main social democratic parties in thirteen Western European countries in the period 1980–95.<sup>1</sup> The data analysis is based on a pooled time series data file (n = 208) that is an amalgamation of yearly data on programmatic emphases,<sup>2</sup> social, economic and political-institutional features of Western European countries (Pennings *et al.* 1999).

## PROGRAMMATIC VARIATIONS IN WELFARE STATE RETRENCHMENT

Planning and market are two important alternative ways of socio-economic problem-solving. Since all OECD countries are mixed economies with various degrees of state intervention in the functioning of the market economy, it is self-evident that both planning and market are present in socio-economic policy-making (Pennings 1998b). Although planning must be seen as a part of the market economies, there is a continuous tension between planning and market. Generally, the leftist policy stance on socio-economic issues favours a planning direction of handling socio-economic problems (implying state interventionism), whereas the rightist stance mostly favours the market direction (implying state abstention). The recent transitions of welfare state regimes are basically changes towards more market-oriented policy-making.

To what degree are social democratic parties adapting their policy goals towards the market? The Party Manifestos Project<sup>3</sup> provides detailed information on policy stances of political parties in the Organization for Economic Co-operation and Development (OECD) (Volkens 1994). The post-war party manifestos of all relevant parties are coded into fifty-four categories covering the domains of external relations, freedom and democracy, political system, economy, Keynesian demand management, welfare and the quality of life, the fabric of society and, finally, social groups (Klingemann *et al.* 1994). On the basis of these data it is also possible to measure the position of social democratic parties on a retrenchment scale. This scale is constructed in order to measure the emphases which parties put on either solutions based on state intervention and market regulation, on the one hand, and on state restrictiveness and free enterprise, on the other. The emphases in favour of planning are operationalized as the sum of five variables (based on Laver and Budge 1992: 24):

- regulation of capitalism: need for regulations designed to make private enterprises work better;
- economic planning: favourable mentions of long-standing economic planning of a consultative or indicative nature, need for government to make such a plan;
- protectionism (positive): in favour of tariffs and quota restrictions to protect internal markets;
- controlled economy: general need for direct government control of economy; control over prices, wages, rents, etc.;
- nationalization: in favour of government ownership.

The emphases in favour of the market are operationalized as the sum of five issues (based on Laver and Budge 1992: 24):

- free enterprise: favourable mentions of free enterprise capitalism; superiority of individual enterprise over state and control system;
- incentives: need for wage and tax policies to induce enterprise;
- protectionism (negative): not in favour of the protection of internal markets;

- economic orthodoxy and efficiency: e.g. reduction of budget deficits, retrenchment in crisis;
- social services and expansionism (negative): in favour of welfare state limitation.

In short, 'planning' stands for socio-economic interventionism and 'market' stands for socio-economic restrictiveness. The retrenchment scale<sup>4</sup> is obtained by subtracting the latter (market) from the former (planning). A high score means that a party is in favour of welfare state interventionism, whereas a low score indicates that a party favours retrenchment. For our purposes, we ignore the possibility that there is more than just one single 'more market' direction of socio-economic policy-making. The article is therefore limited to the general variation and trends on a single market versus planning dimension. In order to test the external reliability of the scale, it is compared to Laver and Hunt's (1992) expert survey for the years closest to 1990.<sup>5</sup> The scale that comes closest to our retrenchment scale is the scale 'taxes versus public services' that juxtaposes increasing taxes in order to increase public services alongside the cutting of public services and taxes. This scale ranges from 1 (= raise taxes) to 20 (= cut services). A negative relationship between the expert scale and the party manifesto scale is expected. The results are reported in Figure 1. The Pearson correlation between both scales is  $-0.51$  which indicates that both scales do indeed tend to position parties in a similar way. Although this correlation is moderate and there are several significant outliers, the relationship is strong enough for us to feel confident that the reliability of the retrenchment scale on the basis of the party manifestos is acceptable.

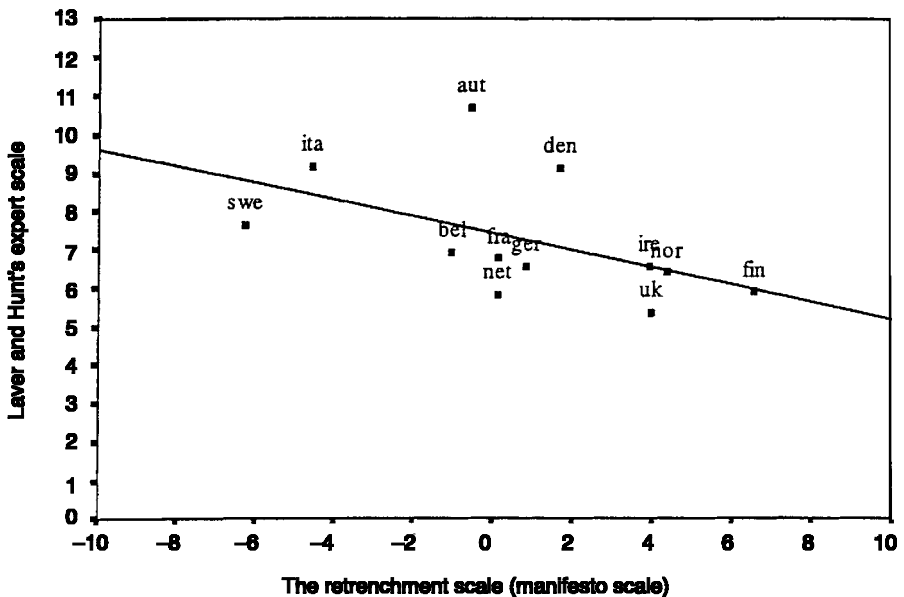


Figure 1 Comparing the expert and manifesto scales of social democratic retrenchment

Table 1 shows the mean emphasis on welfare state retrenchment by social democratic parties. It confirms that, on average, the 1980s and 1990s are characterized by a drop in the support of social democratic parties for welfare statism. It also suggests that there are many variations in the emphasis on welfare state retrenchment by social democratic parties. Some parties show consistently positive scores (Finland, Norway), others negative scores (Sweden, Italy). How do we explain these variations? When we look exclusively at the party characteristics, two determinants come to the fore: ideology and size. This is graphically illustrated in Figure 2 which presents a three-dimensional plot of the variables: (1) the position of social democratic parties on the Klingemann *et al.* left–right scale<sup>6</sup> (Klingemann *et al.* 1994: 40), (2) the retrenchment scale<sup>7</sup> (as explained above) and (3) the vote share of these parties as an indicator of their size.

The pattern in Figure 2 indicates that social democratic parties that prefer the market to planning (i.e. low scores on the retrenchment scale) are relatively right-wing (i.e. low scores on the left–right scale) and large (i.e. high vote shares). Social democratic parties in favour of state interventionism are mostly left-wing and relatively small. Among these factors the left–right ideology is clearly the most important one.<sup>8</sup> Since the Pearson correlation between left–right position and the position on the retrenchment scale is only 0.43 ( $n = 139$ ;  $P = 0.000$ ), it implies that there are significant exceptions to this rule.

The analysis of residuals is based on a regression of retrenchment on the ideology and size of social democratic parties. The residual scores indicate that the Swedish social democratic party is more inclined towards welfare state retrenchment than

*Table 1* Mean emphasis on welfare state retrenchment by social democratic parties, 1980–92

	1980–84	1985–9	1990–92	1980–92
Swe: SSA Social Democrats	-4.3	-8.4	-6.7	-6.4
Nor: DNA Labour Party	5.2	4.1	4.3	4.6
Den: Soc Social Democrats	0.13	1.7	1.6	1.1
Fin: SSDP Social Democrats	14.4	5.0	3.0	8.1
Bel: PSB-BSP Socialist Party	4.3	1.6	-1.1	2.0
Net: PvdA Labour Party	-1.1	-1.3	0.1	-0.9
Fra: PS Socialist Party	10.4	4.9	0.1	5.9
Ita: PSI Socialist Party	-3.3	-4.6	-4.3	-4.0
Ger: SPD Social Democrats	-3.2	-4.5	0.8	-2.8
Aut: SPÖ Socialists	-0.7	0.1	-0.6	-0.4
Swi: Social Democrats	10.1	8.4	7.1	8.7
UK: Labour Party	9.8	8.2	3.2	7.7
Ire: Labour Party	5.9	4.9	3.9	5.0
Mean	3.7	1.5	0.9	2.2

*Note:* Welfare state retrenchment is defined as the emphasis on planning *minus* the emphasis on market. A high score means a planning-oriented policy stance. A low score indicates a market-oriented policy stance.

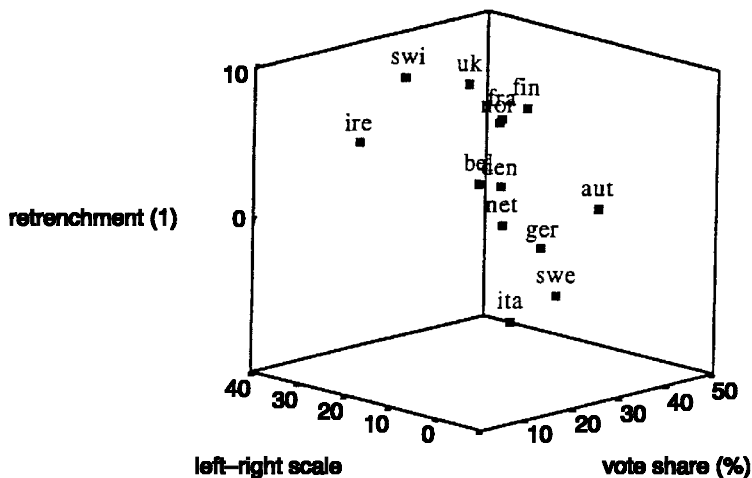


Figure 2 Retrenchment variations in Western Europe (mean scores of social democratic parties, 1980–92)

Source: Klingemann et al. 1999 (high = left). (1) Social democratic emphases on planning and market (high = planning).

would be expected on the basis of its ideology and size (the standardized residual scores lower than  $-1$ , in this case:  $-1.5$ ). Within the Nordic countries, Sweden is clearly an outlier because of its public debt and budget deficit that forced the social democrats into a pro-market direction (Milner 1994, 1996). The country with the highest positive residual score (1.9) is Finland where, on average, the social democratic party is more in favour of welfare statism than would be expected on the basis of its size and left-right ideology. These residual scores indicate that additional factors are important, most notably the institutional environment and the economic conditions under which social democratic parties are operating. These are best summarized in the type of welfare state regime which will be discussed hereafter.

## VARIATIONS IN WELFARE STATISM

Esping-Andersen (1996) distinguishes between three welfare state responses to economic and social change since the 1980s that are to some degree linked to ‘families of nations’:

- The Scandinavian or Nordic ‘social investment’ route: welfare state employment expansion by means of public employment (Stephens 1996);
- The Anglo-Saxon ‘neo-liberal’ route: deregulating wages and the labour market and welfare state erosion (Castles 1996; Myles 1996);
- The Continental ‘labour reduction’ route: labour supply reduction by means of early retirement, creating a male ‘insider’ workforce (Esping-Andersen 1996).

That these routes are more or less linked to families of nations is illustrated by means



of Table 2. This table gives an overview of welfare state regimes per family of OECD nations. The Anglo-Saxon route is liberal, the Continental route is conservative and the Scandinavian route is social democratic. There are only two countries that depart from this rule: Switzerland (the liberal Swiss route) and the Netherlands (the social democratic Dutch route).

This typology, however, does not provide us with detailed year-to-year information on welfare state retrenchment. More helpful than a typology would be an indicator that reveals the year-to-year changes in welfare statism. Unfortunately, there is no overall accepted indicator of actual trends in welfare state retrenchment. One category of indicators stems from the OECD data on public management reforms (OECD 1990–94, 1995, 1998). The main problem here is that the drift towards decentralization and privatization of service delivery should not be equated with the neo-liberal route of marketization. This is because it is often part of a broader adjustment to the heterogeneous ‘post-industrial’ need structure that replaces the traditional social democratic universalism (Esping-Andersen 1996: 14).

Another set of indicators is related to public spending. In this case the problem is that spending forms only one side of the extraction–distribution cycle which embodies both spending and taxation. Hence, levels of social spending are only reliable indicators of welfare statism if they are related to the level of tax income. Additionally, levels of public spending do not normally change overnight. In fact, it would be hard to detect any retrenchment solely on the basis of social expenditures because of institutional incrementalism: on an aggregated level these expenditures are mostly increasing, even when the welfare state is being minimized.

For this reason, I opt for an indicator of the tax-supported spending on economic welfare (Keman 1993; Budge and Newton 1997: 368). It is the proportion of tax

Table 2 Welfare state regimes per family of nations in Western Europe

		<i>Welfare state regimes</i>		
		<i>Liberal</i>	<i>Conservative</i>	<i>Social democratic</i>
	Anglo-Saxon	UK		
	Continental	Switzerland	Austria Belgium Italy France Germany Ireland	The Netherlands
<i>Family of nations</i>	Scandinavian			Denmark Finland Norway Sweden

Source: G. Esping-Andersen (1990) *The Three Worlds of Welfare Capitalism*, London: Polity Press; G. Esping-Andersen (1996) ‘After the golden age? Welfare state dilemmas in a global economy’, in G. Esping-Andersen (ed.), *Welfare States in Transition. National Adaptations in Global Economies*, London: Sage.

income that is spent on economic welfare and it measures the level of redistribution of welfare-supported goods (abbreviated hereafter as TEDC: tax-related extraction–distribution cycle). It is calculated by means of factor analysis on the following variables:

- the total taxes (TAX) and social security contributions (SSC) (both as a percentage of gross domestic product (GDP)) represent the revenues side of the welfare state;
- public economy (PE) (i.e. the total outlays as a percentage of GDP) represents the expenditures side of the welfare state;
- budget deficits (DEF) (as a percentage of GDP) represent the balance between outlays and revenues.<sup>9</sup>

The comparative advantage of this measure is that it neatly captures the type of welfare state regime because it is directly linked to the extraction–distribution cycle that is the most distinguishing feature of welfare states (Keman 1993). It reflects how the fiscal inputs are organized in relation to the redistributive outputs. The fiscal crisis of many welfare states is a sign of an unbalanced extraction–distribution cycle, or a ‘scissors crisis in public finance’ in which expenditures rise more than revenues. With the help of this measure it is not only possible to distinguish between types of welfare state (as in the typology that was presented before), but also to observe developments over time. The main distinction is between the ‘minimal welfare state’ with a low level of extraction and the avoidance of budget deficits and the ‘reputed welfare state’ in which the public sector transforms revenues into transfers and into services such as education and health care (Keman 1993). When the year-to-year changes in the TEDC scores go in a downward (negative) direction, this is a sign of welfare state retrenchment. Table 3 provides an example of how these factor scores are calculated for the arbitrarily chosen year 1988.

Table 3 shows the scores of the variables and the extracted factor scores. The communalities indicate the explained variance of the extracted factors in the observed variables. Public economy and taxation appear to be strongly associated with the extracted factor TEDC. This confirms the earlier statement that the balance between revenues (tax) and expenditures (public economy) is the main axis of socio-economic policy-making. The results of the factor analysis mostly confirm the divisions in Table 2. Negative factor scores between  $-1$  and  $-2$  indicate a liberal or restrictive type of economic policy-making, based on a small-sized public sector and a slow rate of deficit-spending. A score between  $1$  and  $2$  indicates an interventionistic type of policy-making with a large public economy which relies on tax and social security income. A score near zero indicates an in-between type of socio-economic policy-making. There are, however, some exceptions. Finland has a lower score than expected because of a relatively low level of SSC. Norway has a lower level owing to a relatively low level of public economy and taxation. Belgium has a higher level owing to a large public economy and a high level of SSC. These exceptions are related to the year 1988: the situation may be slightly different for the other years as the position of countries on the TEDC scale is not fixed, but varies more or less over time.

Table 3 Example of the calculation of TEDC with the help of factor analysis (1988)

	DEF	TAX	PE	SSC	TEDC factor score
Sweden	3.5	55.8	58.1	13.9	1.21
Norway	2.6	43.1	52.5	12.0	0.039
Denmark	-0.5	51.2	60.2	1.2	0.73
Finland	4.1	43.3	44.0	3.1	-0.86
Belgium	-6.4	46.2	57.3	15.2	1.08
The Netherlands	-4.2	47.5	56.3	20.4	1.20
France	-1.7	44.0	50.0	19.0	0.44
Italy	-9.8	37.1	50.3	12.4	0.15
Germany	-2.2	38.0	46.3	14.0	-0.33
Austria	-3.0	41.9	50.6	13.7	0.19
Switzerland	4.4	32.1	30.4	10.4	-2.09
UK	1.0	37.1	37.9	6.9	-1.31
Ireland	-4.5	38.8	47.1	5.8	-0.45
Communality	0.18	0.68	0.93	0.20	

Notes: Basic statistics: Eigenvalue = 2. Explained variance = 50 per cent. DEF = budget deficits; TAX = total taxation; PE = public economy; SSC = social security contributions. All as a percentage of GDP.

Figure 3 compares the degree of welfare state retrenchment (= TEDC) in three periods by means of a high-low chart. The downward pattern in the plot can be interpreted as the result of the family of nations' routes in social policy-making; the Nordic, Continental and Anglo-Saxon countries are more or less three distinctive groups with three levels of socio-economic interventionism. Figure 3 shows the level of state interventionism of 1985-95 relative to those in the periods 1965-75 and 1975-85. In the case of welfare state retrenchment one would expect the symbol for the period 1985-95 to be below the values of the earlier periods, which actually occurs in 50 per cent of the cases. Hence, welfare state retrenchment is not an overall phenomenon that takes place in all OECD countries (Stephens *et al.* 1995; Pierson 1996; Esping-Andersen 1996).

Another central question is how the social democratic policy stance on socio-economic interventionism relates to the real world trends in tax-supported spending (= TEDC). Figure 4 shows that the relationship between TEDC and social democratic retrenchment is negative: high levels of tax-supported spending levels correspond with relatively strong pledges in favour of retrenchment. Where the levels of spending are low, this emphasis on retrenchment is not so strong or even absent.

How is this remarkable negative relationship to be explained? It appears that the role of social democratic parties is a balancing one. Social democratic socio-economic policy-making is aimed at keeping or restoring the balance between state and market. Most social democratic parties are in favour of retrenchment in countries where the level of welfare statism is traditionally high. This explains why a social democratic party in a liberal welfare state such as Switzerland is more in favour of interventionism than in a social democratic welfare state such as Sweden.

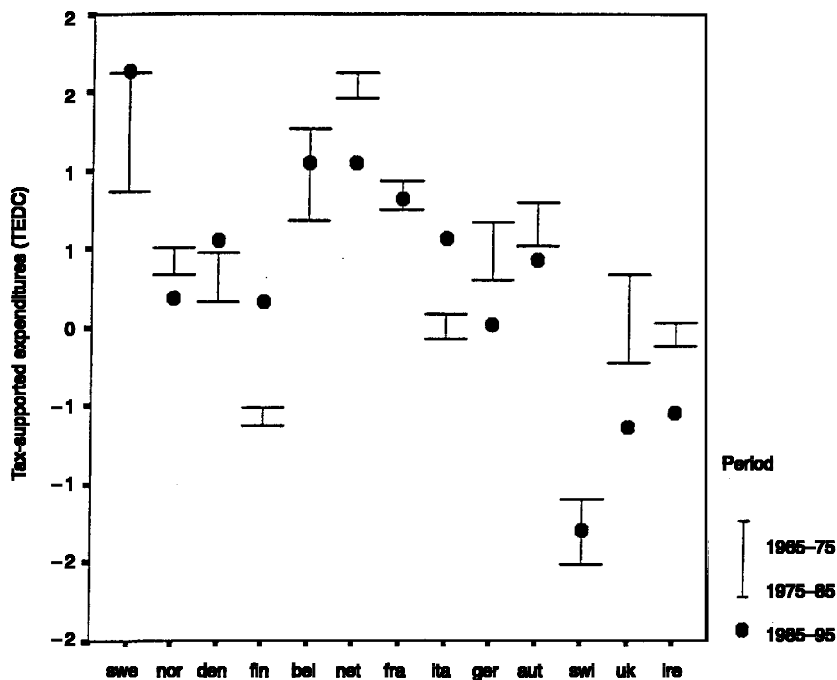


Figure 3 High-low chart of tax-supported expenditures (factor scores)

There is a second explanation for this negative relationship. Case studies on Sweden, for example, have shown that the electoral fate of the social democrats is crucially linked to the management (and balancing) of social and economic welfare (Stephens 1996). By means of restoring this balance, the social democrats are assuring their political survival in the long run. In this way, both a growth and a decline of the public sector may be favoured by one and the same actor under different conditions and both may be interpreted as a sign of rational behaviour (i.e. optimizing electoral support by favouring a balance between social and economic welfare).

Three types of factor seem to give plausible explanations as to why social democratic parties are inclined to stress restrictiveness in countries where socio-economic interventionism is traditionally strong: institutional (i.e. the mixed economy), ideological (i.e. social capitalism) and electoral factors (i.e. vote-seeking aspirations). Yet, there are some exceptions to this rule. One explanation for this was given at the beginning of this article. There it was stated that parties have conflicting aims and there may be a trade-off between votes and office. In those cases electoral losses go hand in hand with an increased chance of becoming a governing party.

What does this tell us about the post-Keynesian social democratic parties in Western Europe? Mainly that these parties are not just positioned between planning and market: that would be too static a description of the social democratic strategy.

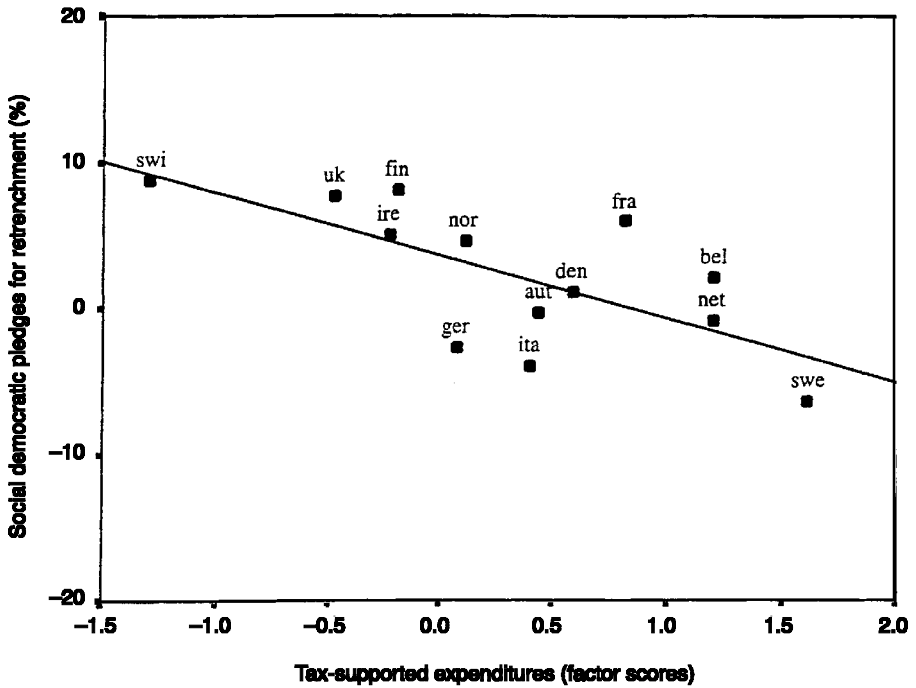


Figure 4 Social democratic pledges and tax-supported expenditures

Instead, social democracy is constantly adapting and changing to new socio-economic conditions. It is seeking a balance between planning and market because that is most in line with the ideological identity of social democracy. Being in favour of 'more market' is for social democratic parties a way of maintaining the welfare state and adjusting to new circumstances in ways that are electorally most rewarding.

In order to determine whether these findings are unique for social democratic parties or not, they are compared with the liberal parties. Figure 5 shows that the negative relationship between pledges for retrenchment and TEDC is also prevalent in the case of the liberals. This means that the liberals are equally inclined to restore the balance in the extraction–distribution cycle. As a consequence, the liberal parties in minimal welfare states like Switzerland are *more* in favour of welfare statism than liberals in reputed social welfare states like Sweden. The main difference between the liberals and the social democrats is that the liberals (and probably also the Christian Democrats: see Huber *et al.* 1993) are, at the national level, mostly more in favour of market-related solutions than the social democrats. The finding that most liberal parties are also attempting to strike a balance between social and economic welfare, albeit on a different level, indicates that this effort is electorally rewarding for *all* political parties in mixed economies.

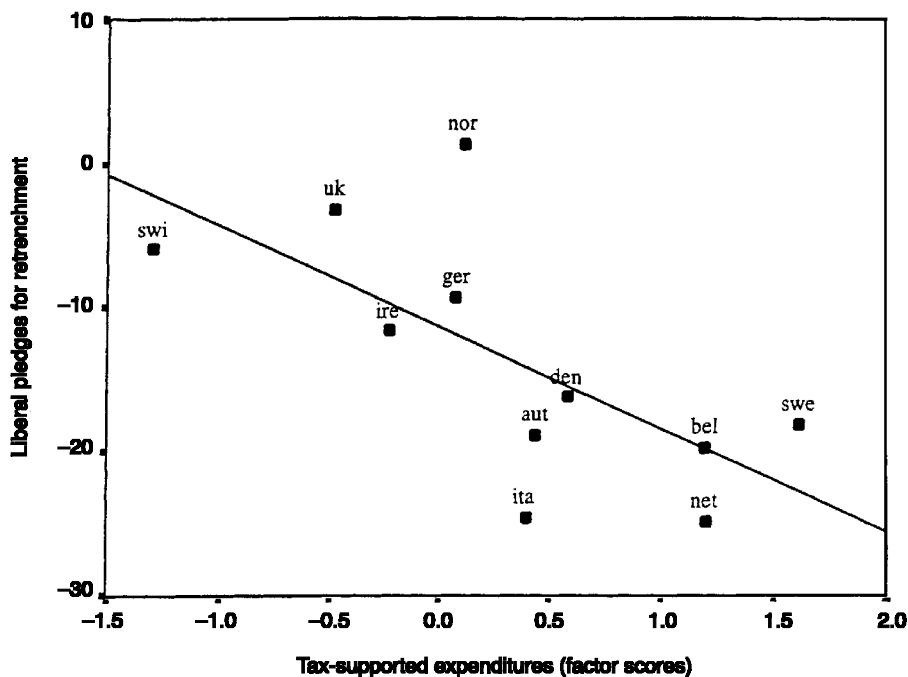


Figure 5 Liberal entrenchment pledges and tax-supported expenditures

## CONCLUSIONS

There are significant variations in the degree to which social democratic parties favour welfare statism. There is also a clear pattern in these variations. Social democratic parties that opt for the market solutions in socio-economic policy-making are mostly positioned in welfare state regimes with a strong planning tradition. The planning option, on the other hand, is mostly chosen in countries with strong market traditions. This pattern is quite strong, although there are a few exceptions.

In both instances the goal is the same: striking the balance between planning and market in a mixed economy by adapting to changing socio-economic conditions. The chances for social democratic success seem highest in institutional settings characterized by compromise. This explains why social democracy and the welfare state are relatively strong in corporatist countries, especially when there is also a coalescent political leadership. The real short-term effects of these endeavours, however, are severely limited because welfare state regimes do not normally change overnight (Stephens *et al.* 1995). Paradoxically, most social democratic pledges in favour of market solutions must be interpreted as attempts to assure the viability of welfare statism.

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## NOTES

- 1 The social democratic parties included are: Austria: SPÖ, Belgium: PSB-PS, Denmark: Soc, Finland: SSDP, France: PS, West Germany: SPD, Ireland: LP, Italy: PSI, The Netherlands: PvdA, Norway: DNA, Sweden: SSA, Switzerland: SP, UK: LP. The Belgian social democratic party was the Belgian Socialist Party (BSP-PSB) until 1977. After 1977 the mean scores of the BSP (Flemish Socialist Party) and the PS (Francophone Socialist Party) are taken.
- 2 These programmatic emphases held constant between the subsequent election years.
- 3 Dataset CMP94 (Author A. Volkens), Comparative Manifestos Project, Science Centre Berlin, Research Unit Institutions and Social Change (Director H.-D. Klingemann) in co-operation with the Manifesto Research Group (Chairman I. Budge).
- 4 The reliability of the resulting scale is rather weak (Cronbach's  $\alpha = 0.52$ :  $n = 250$  party manifestos, 1980–92), probably owing to the fact that most parties in *mixed* economies tend to emphasize both planning and market issues. Most parties are therefore not fixed on either the planning or the market side of the scale.
- 5 Switzerland is lacking in the Laver and Hunt scale.
- 6 This left–right scale is constructed by summing up thirteen left issues and then subtracting thirteen right issues from it (Klingemann *et al.* 1994: 40). The range of the left–right scale is  $-100$  (all emphases on right issues) to  $+100$  (all emphases on left issues).
- 7 The programmatic data on retrenchment cover the period from the beginning of the 1950s to the end of the 1980s or the beginning of the 1990s. The most recent data are for Austria 1990; Belgium 1988; Denmark 1991; Finland 1991; France 1988; FRG 1991; Ireland 1989; Italy 1992; The Netherlands 1994; Norway 1992; Sweden 1992; Switzerland 1988; UK 1992.
- 8 The beta weight for the left–right scale is 0.52 ( $T = 2.0$ ) whereas the beta weight for size is  $-0.36$  ( $T = -1.4$ ). The tolerance for both independent variables is 0.99.
- 9 All variables are percentages of GDP (source: OECD, historical statistics, 1965–95). The factor analysis is repeated for all the separate years in order to avoid serial correlation. These factor scores should be interpreted as relative scores.

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