Small States in Big Trouble: State Reorganization in Australia, Denmark, New Zealand, and Sweden in the 1980s

Herman Schwartz

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By HERMAN SCHWARTZ*

INCREASED internationalization of production, especially financial flows since 1973, has created pressures to change relations between state, society, and economy in advanced industrial countries. This has been most evident in the erosion of the ability of states to manage their economies, an erosion accelerated by the states themselves through market liberalization.1 At the same time liberalization also partly freed the states from political responsibility for some market outcomes. But aside from a few analyses of Britain—which is usually seen as “exceptional”—few have argued that international market pressures are causing not simply a shift toward “less state” but also a shift toward a different kind of state or regime.2 Rather, most analyses argue that changes in the global economy have affected only the ability to govern the (domestic) economy; few have made “second image reversed” arguments that these external changes are leading to changes in regime.3

This more profound shift toward a new kind of regime was most visible in the 1980s in Britain, where it was associated with Prime Minister

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Margaret Thatcher and "Thatcherism." Thatcher embarked on an ambitious project to restructure British politics permanently by restructuring the institutional fabric of the state. Whereas Thatcherism is usually seen as an "exceptional" case, in fact equally—or even more—sweeping changes occurred in the 1980s in four small market economies governed or influenced by parties of the Left: Australia, Denmark, New Zealand, and Sweden. Where such "fellow traveling" by right-dominated states would not have been surprising in the 1980s, it is surprising to find it by these left-dominated governments. Indeed, they went farther in many cases than right-wing governments; moreover, the very states thought to exemplify social democratic political hegemony, Sweden and Denmark, were the locus of far-reaching changes. The scale and significance of ongoing change makes these four worthy of study.

First, change has occurred in the welfare state—precisely that part of the state in which institutional reorganization is thought to be difficult, if not impossible. Public choice and collective action theories suggest that the dense networks of interest groups built up in and around discrete parts of the welfare state, along with the broad public support generated by the universal provision of welfare, would make reorganization of the welfare state impossible. Analysts like Esping-Andersen advocated universal welfare provision precisely because of its seeming irreversibility. And indeed, other analysts of changes in the 1980s found the welfare state to be the least affected. Events in these four countries suggest to the contrary that welfare state institutions can be reorganized in fundamental ways.

Second, the kind of change occurring in these four countries has interesting theoretical and practical implications. While reorganizers in all four states encountered varying degrees of resistance and have had varying degrees of success, they all sought the same kinds of change. In each country, they decentralized operational authority and responsibility for outcomes by putting it in the hands of line agencies while centralizing control over the volume of spending. They brought market and market-like pressures to bear on the administrators and personnel of state agen-


5 For example, in proportion to average 1988–92 GDP, New Zealand's privatization receipts are over three times larger than Britain's. New Zealand's receipts were 3.55 percent of GDP versus about 1 percent for Britain, 0.5 percent for Sweden and Australia, and less than 0.1 percent for Denmark. Economist, June 19, 1993, p. 112.


7 Pierson and Smith (fn. 1), 489, 513.
cies to foster competition and hence greater efficiency. In other words, rather than privatizing in the sense of selling off national industries, reorganizers privatized the welfare state itself by creating markets for the provision of welfare state goods and services.

Complementing this, reorganizers have tried to engage consumers of state services in the production of those services by offering them more freedom in the choice of services and service providers; they have also imposed user fees. Rather than using direct spending cuts and unwieldy regulation to control the behavior of state personnel and consumers, reorganizers are trying to control behavior by reconfiguring the structure of incentives confronting both employees and managers inside agencies and consumers outside them. These organizational changes mirror the kind of reorganization that occurred in the private sector during the 1980s and that are continuing in the 1990s. This uniformity of intention and to some extent of outcome suggests that these changes are part of a more general trend in the advanced industrial countries.

As yet another interesting aspect of these changes, reorganizers are engaged in a strategic politics that attempts to change the rules of the game rather than just seeking their preferred outcome in the context of extant rules. This is part of a broader effort to create more autonomy for the central state by breaking up the broad social base of support for the welfare state that characterized, for example, Scandinavian politics during the period of social democratic dominance.8 Pace Woodrow Wilson’s distinction between politics and administration, administrative changes are political exercises; in this case administrative changes have far-reaching consequences.

Analysts as diverse as Poulantzas, Moe, and March and Olson argue that politics at its highest level is about building one’s own interests into institutions while precluding institutional behaviors and structures that favor one’s opponents.9 Although these analysts come from profoundly different theoretical perspectives, all of them attack the (Mancur) Olsonian reduction of politics to autonomous individual utility calculations. Instead, they see institutional rules, norms, and structures as binding individuals into groups and groups into coalitions, helping to overcome the barriers to collective action. Conversely, institutions can fragment groups by exacerbating barriers to collective action.

8 Esping-Andersen (fn. 6, 1985 and 1990).
In the cases under consideration here reorganizers pushed institutional changes that enhance central state autonomy. Decentralizing operational authority forces local agencies and localities to use their new operational autonomy to prioritize activities within global budgetary constraints. This disperses political conflict away from central government and to the localities, where small groups will fight over their particular interests.\textsuperscript{10} It increases central state autonomy by removing pressures to increase spending on broad problems with broad constituencies, and by shifting responsibility for failure onto local government and specific service providers. Put crudely, if the former system of quasi-monopoly provision of state services encouraged the use of voice by making exit difficult, the new system is intended to encourage consumers to exit from specific providers in order to prevent them from using voice on the central state.

Finally, these political consequences are interesting because the small size and relative vulnerability to world markets of these four countries makes them a kind of "leading indicator" of changes likely to occur later in relatively more sheltered economies.\textsuperscript{11} During the 1970s all four experienced declining international competitiveness and rising fiscal deficits, which by the early 1980s had cumulated into substantial foreign and public debts. As in Britain—the weakest of the major economies—reorganization of the state began in the 1980s. The size of the larger economies cushioned them from the stresses of the 1980s, but even there trade ratios are growing and the structural component of fiscal deficits has increased significantly in the last five years. As their situation comes more and more to resemble that of the smaller countries, the same kind of political pressures for change are likely to emerge.\textsuperscript{12}

This paper is divided into four sections. The first discusses the motives of those seeking reorganization by looking at the origins and scale of the crises that brought governments set on reorganization to power. The second section briefly treats the content of reorganization, focusing on the introduction of market mechanisms in the respective (welfare) states. The third section explains differences in the relative success reorganizers had and, related to this, the emergence of conflicts inside the parties pushing


\textsuperscript{12} OECD, \textit{Economic Outlook June 1993} (Paris: OECD, 1993); the unweighted average structural fiscal deficit of the G7 countries in 1993 is 3.2 percent of GDP. Even in the U.S., the world's largest and least vulnerable economy, the (re)organization of government and welfare spending understood broadly has become a political and competitiveness issue—vide Vice President Albert Gore's recent campaign, referenda on school choice, and such popular books as David Osborne and Ted Gaebler, \textit{Reinventing Government} (Reading, Mass.: Addison-Wesley, 1992).
reorganization. The conclusion advances some arguments about the intertwining of international and domestic politics, the potential for welfare-state reorganization, and the implications of reorganization for state autonomy and collective action in these countries. In other words: why, what, how, and so what?

I. Crises and Change

In these four countries coalitions of politicians, fiscal bureaucrats, and capital and labor in sectors exposed to international competition allied to transform what they saw as a major factor contributing to declining international competitiveness: the state. The state, particularly the welfare state, was the largest single part of the nontradables sector in their societies. Rising costs for nontradable inputs and rising wages in the nontraded sector decreased the competitive position of tradables firms on the world market. The cost of nontradable inputs had to be bundled into prices for export goods; the Australian Bureau of Industry Economics estimates, for example, that nontradables comprise 30 percent of the final cost of Australian exports. Given existing collective bargaining structures, increased wages in one sector tended to lead to increases in the other. As the state in the late 1970s was not subject to competitive pressures, public sector workers could make wage demands without fear of decreasing their employment prospects. Finally, rising state spending translated into rising tax pressure on the tradables sector.

Although their efforts to transform the state were not uniformly successful and although reorganizers had different motivations, they did share a reasonably common picture of a “new model” state as a means to their somewhat diverse ends. Fiscal bureaucrats, seeking to control fiscal deficits, sought more autonomy for the core state—the state of the fisc, courts, and military. They identified the welfare state and its associated client groups as the source of rising deficits and feared the fisc would be crippled by interest payments and become dependent on foreign creditors. Those politicians entering government after a generation in opposition everywhere except Sweden sought to consolidate their majority by attacking an inefficient and unresponsive public sector; in Sweden they hoped to reconstitute their majority. Firms in the tradables sector were alarmed at how public sector wage demands and rising public debt each boosted taxes and their direct costs, making them less competitive. Finally, unions in the tradables sector sought to restore differentials between themselves and unskilled workers and public sector workers that had been compressed during the 1960s and 1970s. So reorganizers all sought to control costs in
the public sector with competition, while also delinking public sector wages from private sector wages.\textsuperscript{13}

The proximate political motives for change came from the failure of policy responses to the 1970s international economic shocks. Those failures manifested themselves in rising current account deficits and hence rising foreign debt. All four countries opted to ride out the 1970s with Keynesian bridging strategies and income policies to control inflation.\textsuperscript{14} These policies tried to decrease the impact of volatile international markets on the domestic economy and particularly to keep unemployment from growing. Although the specific policy mix differed, these bridging strategies fostered fiscal and current account deficits in each country, which by the early 1980s had cumulated into unsustainable levels of public and foreign debt. Tables 1, 2, and 3 provide comparative data on foreign debt, current account deficit, and fiscal deficit levels; Table 4 provides a snapshot for the year in which government changed.

Each country expanded employment in the nontradables sector to sop up the growing number of unemployed. This was often done by expanding the public sector; indeed, in Denmark and Sweden social service employment grew so rapidly that it not only absorbed labor market entrants but also actually offset some private sector job losses. By the early 1980s public sector employment (excluding state-owned commercial enterprises) peaked in each country, at 32.9 percent in Sweden, 30.2 percent in Denmark, 24.9 percent in New Zealand, and 17.4 percent in Australia, versus an OECD average of 18 percent.\textsuperscript{15} To the extent that public sector expansion did not sop up private sector job losses, unemployment compensation payments rapidly grew, further straining fiscal resources.

\textsuperscript{13} The complement to this—efforts to change private sector collective bargaining—is obviously important but beyond the scope of this paper. For instructive analyses, see Jonas Pontusson and Peter Swenson, “Markets, Production, Institutions and Politics” (Paper presented at the Eighth International Conference of Europeanists, Chicago, March 1992); Torben Iversen, “Trends away from Corporatist Intermediation and the Logics of Consensual Wage Regulation” (Paper presented at the annual meeting of the American Political Science Association, Chicago, September 1992); and John Niland, “The Light on the Horizon: Essentials of an Enterprise Focus” (Sydney: University of New South Wales School of Industrial Relations and Organizational Behavior Working Paper no. 80, June 1990).


\textsuperscript{15} Peter Saunders, “Recent Trends in the Size and Growth of Government in OECD Countries” (Sydney: University of New South Wales, Public Sector Research Centre Discussion Paper no. 20, September 1991), 5. Including state-owned commercial enterprises would increase the share of public employment in Australia to about 26 percent. These peak levels reflected rapid expansion of the public sector’s share of total employment. Between 1970 and 1979 this share grew in Sweden by 43 percent, in Denmark by 56 percent, in Australia by 37 percent, and in New Zealand by 31 percent.
### Table 1
**Current Account Deficits, 1950–89**  
*(average percentage of GDP)*

<table>
<thead>
<tr>
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<tr>
<td>Australia</td>
<td>2.3</td>
<td>3.0</td>
<td>1.9</td>
<td>3.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>0</td>
<td>1.6</td>
<td>3.0</td>
<td>2.5</td>
<td>2.8</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.6</td>
<td>1.8</td>
<td>3.5</td>
<td>4.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.3</td>
<td>1.0</td>
<td>0.7</td>
<td>2.9</td>
<td>0.3</td>
</tr>
</tbody>
</table>


### Table 2
**Net Foreign Debt**  
*(percentage of GDP)*

<table>
<thead>
<tr>
<th></th>
<th>1973</th>
<th>1982&lt;sup&gt;a&lt;/sup&gt;</th>
<th>1989</th>
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<tr>
<td>Australia</td>
<td>3.3</td>
<td>15.6</td>
<td>31.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>10.8</td>
<td>33.0</td>
<td>38.0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>7.3</td>
<td>57.0</td>
<td>42.7</td>
</tr>
<tr>
<td>Sweden</td>
<td>(6.8)&lt;sup&gt;b&lt;/sup&gt;</td>
<td>21.8</td>
<td>25.0</td>
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</tbody>
</table>


<sup>a</sup>1983–84 for Australia and New Zealand.

<sup>b</sup>This indicates a surplus.

### Table 3
**Fiscal Deficit, General Government**  
*(average percentage of GDP)*

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
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<td>Australia</td>
<td>2.3</td>
<td>1.8</td>
<td>1.6</td>
<td>0</td>
</tr>
<tr>
<td>Denmark</td>
<td>(1.0)&lt;sup&gt;a&lt;/sup&gt;</td>
<td>5.9</td>
<td>1.0</td>
<td>3.1</td>
</tr>
<tr>
<td>New Zealand</td>
<td>5.1</td>
<td>7.8</td>
<td>2.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.8</td>
<td>9.3</td>
<td>1.4</td>
<td>2.4</td>
</tr>
</tbody>
</table>


<sup>a</sup>This indicates a surplus.
### Table 4
**Economic Indicators in Year Government Changed**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of GDP</td>
<td>Current</td>
<td>Fiscal</td>
<td>General</td>
<td>Public</td>
</tr>
<tr>
<td>except 4</td>
<td>Account</td>
<td>Deficit</td>
<td>Government</td>
<td>Sector</td>
</tr>
<tr>
<td></td>
<td>Deficit</td>
<td></td>
<td>Spending</td>
<td>Employment</td>
</tr>
<tr>
<td>Australia</td>
<td>3.9</td>
<td>4.2</td>
<td>38.6</td>
<td>17.4</td>
</tr>
<tr>
<td>Denmark</td>
<td>4.0</td>
<td>9.2</td>
<td>61.2</td>
<td>30.2</td>
</tr>
<tr>
<td>New Zealand</td>
<td>6.0</td>
<td>8.9</td>
<td>35.3</td>
<td>24.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.3</td>
<td>7.1</td>
<td>66.3</td>
<td>32.9</td>
</tr>
<tr>
<td>OECD average</td>
<td>0.3</td>
<td>4.2</td>
<td>45.8</td>
<td>18.0</td>
</tr>
</tbody>
</table>

**Sources:** For columns 1 and 2, see Table 1; for columns 3 and 4, see Peter Saunders, “Recent Trends in the Size and Growth of Government in OECD Countries” (Sydney: University of New South Wales Public Sector Research Centre Discussion Paper no. 20, September 1991).

*1982 for Denmark and Sweden; 1983 for Australia; 1984 for New Zealand, except for public sector employment, which is 1984 for all countries.

bAustralia's public sector borrowing requirement was 6.7 percent of GDP though, reflecting heavy borrowing by state enterprises.

In all four countries these sheltering strategies also abetted wage explosions that directly worsened relative unit labor costs and thence current account deficits. Brief Labor governments in Australia and New Zealand (1973 to 1975) abetted significant rises in real wages—in Australia 12 percent in 1974–75; in New Zealand 5 percent in 1974–75; 9 percent in Denmark in 1975; and 12 percent in Sweden in 1975–76. These wage hikes originated in the raw materials export sector of these countries, which benefited briefly from the 1970s commodity boom. But tightly centralized systems of collective bargaining spread those increases to other sectors, and in the three economies with small manufacturing sectors it meant that the expansion of nontradables employment and wages in the public sector rapidly flowed through into increased imports. After the 1980–82 recession unions in tradables began shifting toward wage restraint strategies in order to protect employment. But sheltered public sector unions, whose membership and organizational strength had grown during the 1970s, continued to press for increased wages.

By the early 1980s both fiscal and current account deficits had reached unsustainable levels and had cumulated into dangerously high levels of...
public and foreign debt. Incumbent governments made late and limited efforts to attack these problems. From 1982 on, the opposition took power. Each of these incoming parties, with explicit or implicit backing from fiscal bureaucrats and from capital and labor in tradables, continued and expanded earlier hesitant efforts at liberalization of their economies. They also introduced market mechanisms into the welfare state. While the objective indicators of fiscal and current account deficits indicated a problem existed, it was not clear what the sources of that problem were. The problem and its relevant policy solutions were defined politically by the coalitions that emerged in the early 1980s.

The Swedish Social Democrats (SAP) emerged from the 1982 elections as the dominant party and replaced the governing bourgeois coalition. In September 1982 the Danish Social Democratic Party resigned in favor of a four-party, but minority, bourgeois coalition. In 1983 the Australian Labor Party (ALP) won a narrow majority. In 1984, because a new right-wing party stole urban votes from the National Party, the New Zealand Labour Party won an unusually large majority on the basis of a fairly small increase in its own vote. The last three parties saw their accession to government as a chance finally to institutionalize themselves as the natural party of government; the SAP saw a chance to retain that role. In Australia and Sweden, the ALP and SAP both explicitly campaigned on a platform of public sector reform. In New Zealand the Labour Party did so implicitly by attacking the interventionist policies of the incumbent government. And in Denmark the coalition prime minister's first parliamentary address made public sector reorganization the centerpiece of its policy initiatives, reiterating calls for deregulation made earlier by the incoming finance minister.

While, as we will see, fiscal bureaucrats and the two private sector actors may have proposed changes, politicians ultimately enacted change. Two factors constrained politicians, pushing them toward a more marketized welfare state rather than an American-style rollback. First, the general public in each country for the most part supported the existing welfare state, even if they were ambivalent about its cost and antagonized by its bureaucracy. Much as Esping-Andersen expects, welfare-state institutions generated substantial and entrenched constituencies. So a rhetoric stress-

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17 The four-leaf clover coalition was comprised of the Conservative Peoples Party (14.5 percent of seats), Venstre (Agrarian) Party (11.3 percent), the Christian Peoples Party (2.6 percent), and the Center Democrats (3.2 percent). The two larger parties ejected the smaller parties in 1988 in favor of the midsize Det radikal Venstre (the Radical Left, which despite its name is rather like the German Free Democrats, and held 5.6 percent of seats in 1988), but from December 1990 until March 1993 those two parties governed as a minority coalition.

18 See, for example, Bob Hawke and Gareth Evans, Labor and the Quality of Government (Canberra: ALP, 1983); and John Dawkins, Reforming the Australian Public Service (Canberra: Australian Government Publishing Service, 1983).
ing the same and better services at a reduced cost was politically more viable than direct cuts. Furthermore, emphasizing efficiency was a way to preempt right-wing demands to shrink the state. Second, the electoral base of the left-wing parties governing everywhere but Denmark combined both private and public sector workers, and these parties were hesitant to alienate the latter. Reorganization cum marketization seemed a way around these difficulties, because unlike direct cuts, its consequences for individuals could not be calculated easily. Some workers stood to benefit, while others might lose, and this made it difficult for unions to organize opposition to the creation of markets for public sector goods.

Politicians sought reorganization as a means of tightening their parties’ grip on power. In their efforts to create a new social base for their parties, politicians exploited citizen dissatisfaction with public services and weakening voter identification brought on by the new social movements of the 1970s. To the extent that public sector workers served themselves and were in turn bound by tight and rigid webs of bureaucratic oversight, their inability to respond to public demands for better service stirred up enormous dissatisfaction with those public services and the state. The Swedish Social Democrats similarly feared the consequences of long-term shifts in the voters’ partisan identification and of their discontent with public services. In their case they sought to shore up an eroding base of support for both their party and its achievements since World War II. Their more defensive orientation delayed a full-fledged effort at change until 1985–86. Although public sector reform sat at or near the center of party programs, fiscal bureaucrats largely supplied the content of this reorganization.

By the early 1980s fiscal bureaucrats in these four countries—administrators of finance ministries and central banks—were alarmed by the cumulation of fiscal and current account deficits into potentially unsustainable levels of public and foreign debt. For example, in a speech echoed in New Zealand, Australia’s treasurer expressed the fear that Australia would end up a “banana republic.” Rightly or wrongly, fiscal bureaucrats located the source of the deficits in the rapid public sector expansion of the 1970s. Viewing welfare-state expansion through the lens of rent-seeking activity, they saw no end to either growth or deficits. First, public sector employees themselves had become a potent rent-seeking force pushing for the further expansion of the public sector. Second, well-organized social groups pressured politicians to expand those parts of the


public sector and those state regulations that favored them. If both continued, public debt would become uncontrollable and foreign creditors might impose discipline from the outside.

This expansion of welfare spending and debt service threatened the state in two ways. First, it reduced the ability of the fiscal bureaus to control spending along what they considered rational lines and subjected local macroeconomic policy to even more external constraints than before. Second, the fiscal bureaus feared a loss of state autonomy to incessant demands from society; they feared, in the parlance of the time, overload. From the perspective of the fiscal bureaus, the only way to restore autonomy to the old state (the state of the fisc, the courts, and the military) was to subject the new state (the state of health, education, and welfare) to market pressures. This would contain rent-seeking groups. Like-minded finance ministers such as John Dawkins, Henning Christophersen, Roger Douglas, and Kjell-Olaf Feldt played a crucial mediating role, linking bureaucrats to the new cabinets.

Employers in export-oriented and/or internationally exposed sectors—tradables, in short—feared the consequences of apparently uncontrollable growth in the largest nontradable sector in their economies: the state. Their fear had several aspects. In general larger public sectors and cumulation of public debt meant larger tax burdens. The rising cost of public sector employment and the cumulation of fiscal deficits into growing public debts caused a growing tax wedge in each country. (The tax wedge is the difference between an employee’s net after-tax wages, including fringe benefits, and what it actually costs an employer to deliver that wage, including wage-based social security or social insurance taxes that go directly to the state and the income taxes that indirectly go to the state through the employee.) As direct and income-based taxes rise, the difference between the employee’s after-tax wage and the employer’s gross wage payout increases. The employer’s total wage cost is built into the price of the goods being sold. When these goods are not subject to international competition, the tax wedge does not affect competition, because all producers are affected equally by the tax wedge—it is simply part of the cost of doing business. But for employers in tradables, a rising and/or large tax wedge hurts competitiveness by raising relative unit labor costs. In economists’ terms, wage increases in excess of world price trends make exporting unprofitable at a given level of world prices, causing a shift of resources from the tradable sector to the nontradable sector domestically.

Employers in the tradables sectors also found that disciplined skilled labor was a prerequisite for success in the changed international economic environment of the 1980s. But centralized systems for collective bargaining prevented them from attracting or developing a pool of skilled
labor without simultaneously stimulating wage increases in the public sector.\textsuperscript{21} The reverse was also true: as public sector workers sheltered from international market forces demanded increased wages, so too did unions in the tradables sector, undoing income policies designed to restrain wages across the board.\textsuperscript{22} So these employers sought to dismantle corporatist, centralized bargaining by delinking public and private sector wages. Simultaneously, they sought to expose nontradables and the public sector to more market pressures as a way of increasing the sector's competitiveness and restraining wage growth. Reorganization was a means to greater competitiveness.

Higher taxes and tightly linked systems for public and private wage determination also threatened labor peace.\textsuperscript{23} Unions representing skilled workers and workers in the tradables sector were dismayed by the erosion of wage differentials between themselves and unskilled and public sector workers and by the long-term consequences of public sector growth for their own employment prospects. They sought to restore differentials by escaping from highly centralized, corporatist systems for collective bargaining linking private and public sector wages and skilled and unskilled workers' wages. The shift in the international economy toward skill-driven production gave them more market power. At the same time the fear of uncompetitiveness in world markets reinforced their desire to change bargaining systems in order to preserve competitiveness and thus employment levels. Along with changes in collective bargaining arrangements, unions in tradables sought reorganization to protect themselves from other workers.

All four groups sought state reorganization as one means to their different ends. All four sought to embed new rules of conduct in extant agencies via new organizational structures, in hopes of putting downward pressure on public sector wages or at least slowing the growth of spending. What did they actually do?


\textsuperscript{23} The best theoretical description of this process can be found in Peter Swanson, \textit{Fair Shares: Unions, Pay and Politics} (Ithaca, N.Y.: Cornell University Press, 1989). Swanson structures it as two "trilemmas" confronting individual unions. In the first unions try to balance full employment, maximization of the wage share, and internal wage leveling in pursuit of intraunion solidarity. In the second unions try to balance full employment, internal wage leveling, and external wage leveling (leveling across unions to preserve their own union's institutional existence). For individual discussions, see the sources cited in fn. 22; Gwyneth Singleton, \textit{The Accord and the Australian Labor Movement} (Melbourne: Melbourne University Press, 1990), 142–46; and Kristina Ahlen, "Swedish Collective Bargaining under Pressure: Inter-union Rivalry and Incomes Policy," \textit{British Journal of Industrial Relations} 27 (November 1989).
II. Private Sector Models, Public Sector Subjects

Reorganizers, particularly fiscal bureaucrats in these four countries, consciously drew on private sector models. Both bureaucrats and actors in the tradables sector saw markets as a way to discipline the public sector. The adaptation of private sector models is unsurprising. First, intellectually, the ideological supremacy of monetarism during the 1980s made it a short step from the idea that the private sector was more efficient to the idea that private sector models for change must also be best. Private and semiprivate think tanks in the U.S. and Britain propagated these ideas, helping to establish similar think tanks in the Australasian pair and influencing the debate in the Scandinavian pair. In Australasia private sector executives were imported into the public sector to direct and manage change. Finally the OECD published a number of studies calling for reorganization of social service delivery and public administration.

Reorganization efforts centered on three essential features drawn from private sector models. The following discussion imposes a common language on these efforts, so that differences in rhetoric do not obscure substantive similarities. All tried to change the way managers supervised employees, that is, by “letting managers manage.” They introduced more flexible work practices, allowed more variation in individual wages, and decreased the number of job classifications to break the very rigid use of personnel that characterized the public sector. They also tried to break the link between private sector and public sector wage increases. All tried to change the way that fiscal bureaucrats supervised managers, to achieve “managing for results.” They freed managers from line-item budgets and input-oriented controls and granted them operational discretion.

All tried simultaneously to change the way tasks were allocated to agencies and to centralize control over global budgets and prevent overruns along the lines of “the holding company model.” They tried to flat-

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ten hierarchies and to separate the planning of state activities from its execution by centralizing strategic planning into a tight circle of fiscal bureaucrats. Finally, all of the reorganizers tried to introduce competitive pressures to force managers to use their newfound freedom to seek productivity-enhancing changes in work practices and to prevent the reemergence of old bureaucratic norms.

All these changes aimed at creating a market for public services. This required distributing the roles of consumer, arranger, financier, and provider of services to different individuals and organizations, rather than keeping them combined within monolithic, monopolistic agencies. Separating out these roles created discrete buyers and sellers of services.\textsuperscript{26} As "god is in the details," I will treat each briefly.\textsuperscript{27}

\textbf{Letting Managers Manage}

Reorganizers sought to change the way managers controlled employees. Decentralized or enterprise-based systems for wage determination replaced centralized bargaining. Fewer broad classifications replaced a plethora of minutely classified jobs. The ultimate control over public sector personnel generally shifted from dedicated public service boards to the finance ministries, which favored more flexibility and decentralization. These changes made it possible to reward or punish individuals on the basis of their productivity and to force workers to be more responsive to customer or client needs. These changes extended to managers, too. Their own career prospects were tied to the productivity and efficiency of their newly autonomous units, just as the fate of entrepreneurs is tied to that of their company.

New Zealand's Labour Party passed three acts in the late 1980s that brought the legal regime governing public sector labor relations into conformity with the private sector regime established in 1987. This expanded opportunities for enterprise bargaining at the expense of central wage determination. The old State Service Commission evolved from a neutral supervisor of public sector work conditions into management's bargaining agent.

Australia's Labor Party decentralized control over internal personnel for the Commonwealth (that is, federal) state with two acts of the mid-1980s that reduced the number of job classifications and gave managers the power to redeploy, hire, and fire labor at will. Control over staffing levels shifted from the Public Service Board to the Finance Ministry.\textsuperscript{28}


\textsuperscript{27} Schwartz (fn. 20) has a more detailed discussion.

Sweden's Social Democrats first centralized control over public sector workers into a new ministry, the Civil Department, but did so to undercut a set of powerful and particularist sector-based boards blocking reorganization. The new ministry promised unions training and upgrading to get decentralized pay setting and more flexible personnel practices. The Finance Ministry limited public sector wages, delinked them from private sector wage talks, and devolved wage setting onto local government. Local managers were also given more autonomy to manage their agencies (selvforvaltning).

The Danish bourgeois coalition failed to introduce meaningful changes at this level. Initial efforts to permit a degree of subcontracting and a more flexible use of public sector labor (selvforvaltning) ran into united and well-orchestrated opposition led by some public sector unions. Unlike the other countries, many public servants retain tenure, homogenous pay scales, and easy access to grievance procedures, while collective bargaining remains substantially unchanged. Reorganization largely occurred within the central state apparatus and not within the local governments that deliver most services.

MANAGING FOR RESULTS

In a complementary step, reorganizers also wanted to change the constraints imposed on managers by central bureaucrats. Financial supervision of line agencies shifted away from detailed control over inputs (for example, line-item budgeting) to a focus on outputs and outcomes. Managers were freer to use resources as they pleased in pursuit of their assigned outputs, but they now faced hard budget constraints. In New Zealand a series of administrative changes capped by the 1990 Public Finance Act accomplished this. In Australia it was done through the 1984 Financial Management Improvement Program and its associated Running Costs System. Sweden expanded its existing system of block budgeting and turned them into multiyear budgets. Denmark shifted from simple rebates for services provided by local government to block


30 Jørgen Grønnegård Christensen, “Growth by Exception: Or the Vain Attempt to Impose Resource Scarcity on the Danish Public Sector,” Journal of Public Policy 2 (Summer 1982); idem, “Interest Groups and Public Bureaucracy in Danish Regulatory Policy Making” (Manuscript, University of Århus, April 1990); Ole P. Kristensen, Væksten i den offentlige sektor: Institutioner og politik (Growth in the public sector: Institutions and politics) (Copenhagen: Jurist og økonomforbundets Forlag, 1987).

31 In Danish, målstyring; Swedish, målstyrning.
grants and also introduced budget "framing" (rammestyring or rammebudget) and net budgeting.\textsuperscript{32}

All four budgets shifted from a cash basis to an accrual basis. Accrual-based budgets make it easier to account for agencies' future liabilities and thus head off overruns. New budgeting systems set global limits—blocks or frames—within which managers could freely spend, sometimes with separate frames for capital investment, personnel, and nonpersonnel expenses. Managers could spend money within the frame as they pleased but could not exceed it. In all four, managers were forced to pay market rates for new capital investment. So managers could now make rational trade-offs in their mix of capital and labor, as well as reward productive employees with productivity-based wages. User-pays (brugerbetaling or brukerbetalning) regimes supplemented this new managerial freedom/pressure. In Sweden and New Zealand agencies were moved to full cost recovery, while in Australia and Denmark user fees were broadened. Managers everywhere were permitted to retain user fee revenues, which they could either use to supplement their current budget or allocate to future spending.

**Holding Company Model**

Fiscal ministries also tried to separate the planning and execution of state activities by changing the relationship between themselves and line agencies, public enterprises, and local government. In effect, finance ministries tried to turn line agencies into black boxes; they no longer cared how the job was done—or indeed sometimes who did it—so long as it got done. These budgeting changes allowed finance ministries to devolve operational authority and thus responsibility onto line managers, while retaining control over total spending. Finance ministries supplemented this new medicine with more traditional across-the-board cuts: in Denmark by annual 2 percent reductions in the personnel frame after 1988 and through limits on local government taxes; in Australia by annual 1.25 percent reductions in agency personnel budgets after 1987; in New Zealand

by refusing to compensate agencies for a 2.5 percentage point increase in the VAT; in Sweden by freezing local government taxes and central government grants to localities.

The devolution of operational authority allowed fiscal bureaus to pit agencies against each other for budget resources. This again mirrored similar changes in the private sector. There, highly vertically integrated companies had begun to divest themselves of subsidiaries in order to act as central nervous systems controlling activities owned by other firms and temporarily hired by the corporation. Subsidiaries meanwhile were allowed to pursue their own corporate trajectories.

In both New Zealand and Australia a key committee took over the budget process. In New Zealand clear organizational lines were drawn between small planning agencies, which set output targets for contracts, and the larger departments that actually contract to perform these tasks. Finance ministries in New Zealand and Australia began “contracting” with ministries and agencies for outputs. Agency heads “bid” for the right to produce outputs, competing against each other in Australia and against alternative public and private providers in New Zealand.

In Sweden and Denmark the clear division of responsibilities between central and local government made formal committees less necessary but exacerbated conflict between central and local government. Despite the failure to concentrate control over spending into one body in Denmark, the central government eventually managed to control local government spending through a series of bruising battles with local government. The Swedish central state started to specify the outputs it wanted localities to generate while freeing them for rules in a series of “framework laws” passed in the 1980s. Both states initiated an experiment that freed localities from all input-oriented control. These “free cities” experiments in Scandinavia are a clear example of the process of operational decentralization and fiscal centralization. Towns are freed from regulation, given a block grant, and in return held to output targets set by central government planners. The new conservative government in Sweden and the new Social Democrat–led coalition in Denmark are both committed to more decentralization.\footnote{Bent Schou, “Udgiftsstyring eller fornelyse,” in Bentzon (fn. 32); Ingemar Elander and Stig Montin, “Decentralisation and Control: Central-Local Government Relations in Sweden,” Politics and Policy 18, no. 3 (1990); Pierre (fn. 19).}

\textbf{Competition}

All these changes aimed at creating the preconditions for a market: self-interested producers facing hard budget constraints but with the freedom
to structure production and respond to demand as they pleased. Leaving these reorganized agencies with product or territorial monopolies would have nullified the intended changes. So some degree of competition lay at the heart of all these efforts to replace bureaucratic controls for running the welfare state with self-motivated and market-disciplined controls. Again, with greatest effect in New Zealand and least in Denmark, finance ministries are trying to have public providers compete with each other and with private providers for business. Vouchers, user fees, and private providers have appeared even in core welfare-state areas like health and (especially tertiary) education. All of these resemble the "internal market" created in Britain for the National Health Service. The budgetary and legal changes listed above will only generate more efficiency if agencies, managers, and workers are motivated and/or pressured by competition to take advantage of the new opportunities.

Results

Despite large fiscal deficits at the beginning of the 1980s—9 percent of GDP for Denmark and New Zealand, 13 percent for Sweden, 4 percent for Australia—all four countries experienced significant deficit reduction during the 1980s, as the share of government and welfare spending in GDP fell. The current recession has pushed them all back into deficit again, but in New Zealand and Australia these are mostly cyclical deficits. Sweden aside, they now have large primary (that is, net of interest payments) surpluses. So the reduction in the public sector's share of GDP is probably sustainable in the medium run, implying that public debt levels, interest payments, and thus tax pressure will fall. However, the importance of reorganization is clearly demonstrated by Denmark's fiscal balance, which swung from a large surplus in 1988 to a large deficit by 1992. Unsuccessful at reorganizing, the central state's control over spending eroded as its ability to bludgeon spending cuts from local government eroded. This in turn allowed spending to start rising again.

Aside from Denmark, they also saw a reduction in public sector employment, and public sector pay has lagged behind private sector pay growth. New Zealand had the sharpest drop in public sector employment—about 29 percent of its personnel. Federal public employment in Australia fell 10 percent. In both cases this partly reflected the effects of privatization. This is not surprising, however, as the point of reorganization is to make the public sector more like the private.

34 Schwartz (fn. 20) has a more detailed discussion.
III. Explaining Differences

Two things demand explanation at this point. First, to the extent that reorganizers succeeded, how were they able to alter the workings of a whole range of state institutions, including the supposedly untouchable welfare state? Success here is not just reversible budget reductions; it means institutional transformation that builds in long-term spending restraints by changing behavior. Second, the overly concise discussion above conceals reorganizers' different degrees of success in implementing change. In fact, these changes were implemented most thoroughly in New Zealand, less so in Australia and Sweden, and least in Denmark. What explains differences in successful implementation and the slight differences in content? These discussions can be combined.

Consistent with analyses of Britain and elsewhere, the greater the degree of autonomy or insulation that reorganization-minded governments enjoyed, the greater the chances of success.\(^{35}\) The autonomy derives from three mutually reinforcing factors related to the electoral and constitutional system: the degree to which the electoral system and constitution created governing majorities; the willingness of fiscal bureaus to articulate market-based reorganization as a policy option and enact it administratively; and the degree to which politicians were sheltered from short-term political pressures. Put crudely, did they have the votes? Did they have a plan? And did they have the time to carry out the plan? First past the post systems tended to create solid and durable majorities for parties that had opted to push reorganization. By creating two-party systems, they limited the exit options for disaffected public sector workers, making it relatively easier for governing left-wing parties to reorganize without high political costs. In turn, the more unitary the state, the larger the majority, and the more certain the tenure of government, the more fiscal bureaucrats were willing to help politicians craft preemptive, comprehensive proposals for change that were difficult to oppose. And finally the more electoral breathing room politicians had, the easier it was for them to implement relatively comprehensive policies that would solidify their party's social base of support, albeit only in the medium or long term.

The degree of autonomy was crucial because three of the four governing parties received significant electoral and financial support from public sector workers and unions threatened by reorganization, and in Denmark the Social Democratic opposition passively supported reorganization. All four parties of the Left experienced growing internal tensions along a fault

line separating unions representing workers in the tradables sector from those in the nontradables sector (with the public sector being the largest nontradables producer), and sometimes skilled from nonskilled workers.\textsuperscript{36}

These tensions arose for obvious reasons. Reorganization was intended to reduce the bargaining power and thus the wages of workers in the public sector. Second, and related, the three left-wing governments all were trying to create cross-class alliances with employers in the tradables sector at the expense of unskilled and public sector workers. Slight differences in emphasis in the content of reorganization can be explained by the efforts of politicians to retain the support of specific social groups in their electoral coalition and party organizations while they waited for medium-term effects to generate a new or stronger base of support. I will present the cases according to the relative degree of change, from greatest to least. Note first that while Denmark is treated as a case of least change, that is true relative to the other three but not to the mass of OECD countries.

**NEW ZEALAND**

In New Zealand state structures gave the Labour Party considerable autonomy, which facilitated change. New Zealand has a unitary state in which a single-house parliament is elected from single-member districts, usually yielding real majorities in parliament.\textsuperscript{37} The absence of a written constitution also gives great discretionary power to the governing party; New Zealand, like Britain, has an "elected dictatorship."\textsuperscript{38} Labour enjoyed an unqualified majority from 1984 through 1990 and consequently was able to ram legislation down the throats of the opposition both inside parliament and outside it.

Certain of Labour's tenure and majority, fiscal bureaucrats aggressively promoted the introduction of markets for public goods. The Treasury (that is, the finance ministry) used its briefing papers to the Labour government in 1984 and 1987 to lay out specific steps for deregulating the economy and introducing market mechanisms into the public sector.\textsuperscript{39}

\textsuperscript{36} See Iversen (fn. 13) for a systematic analysis of Scandinavian unions.

\textsuperscript{37} Referenda in 1992 and 1993 mandated a change to a German-style mixed-member proportional system beginning with the next general election.


The Reserve (that is, central) Bank was as aggressive with regard to exchange rate and fiscal policy; it eventually gained a new organic statute making it the OECD's most independent central bank. External events provided both motive and opportunity for fiscal bureaucrats to press their views on the new Labour government. Rating agencies downgraded New Zealand's public debt in early 1984 and the international financial community refused support during a run on the New Zealand dollar in July 1984. Roger Douglas, finance minister from 1984 to 1989, aggressively promoted Treasury's policy line.

With comprehensive if not always coherent plans in hand, Labour politicians proved adept at dividing up potential opposition to reorganization. Internally they used symbolic payoffs to their core constituencies in labor and the intelligentsia to distract them from fundamental changes to economic and administrative structures. Polls show that Labour's antinuclear and similar policies kept the public sector intelligentsia loyal despite changes in the collective bargaining law that worsened their economic position. Labour also increased wages in the health and education sector at the same time that job security was undermined, which diluted opposition. Significant internal opposition emerged only after unemployment doubled, between 1987 and 1989, and it centered among those worst hit, mainly unskilled and public sector workers. They and their unions eventually hived off the Labour Party in 1989 and formed the New Labour Party.

Externally Labour crippled the opposition party by splitting it along its own internal fault line between tradable and nontradable businesses. The 1984 election revealed that a considerable block of tradables firms and yuppie employees had become disaffected because of the National Party's heavy-handed economic intervention. This block was open to something new, and Labour's aggressive economic liberalization and state reorganization policy was designed to capture it. In 1987 it worked. In 1990, after three years of falling stock market values and recession, it did not. Nonetheless, the National Party remains seriously divided. In continuing Labour's reorganization policy, it has caused some of its own M.P.s to defect to minor parties, and it too suffered a serious loss of vote share in 1993. In New Zealand, Labour had the votes, received a plan from the fiscal bureaucracy, and enjoyed six years in which to implement that plan.

**Australia**

Australia has a complex electoral system, with single-member districts for the lower federal chamber and quasi-proportional representation in the

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upper house. It is also a federal system. Labor has controlled the federal government since 1983, but major state governments have been controlled by the opposition for part of this time. Unlike in New Zealand, the ALP could not simply legislate change everywhere. Instead, it used its control over the federal government to lead by example and by using block grants to the states as bribes or threats. The ALP moved more cautiously than New Zealand Labor, co-opting opponents of reorganization, but it moved just as systematically.

As in New Zealand, the fiscal bureaus played a crucial enabling role, despite being somewhat divided against themselves. The head of the Reserve Bank in 1983 was a cautious Keynesian who favored fixed exchange rates, and his successor was equally pragmatic. But both the Treasury, responsible for economic policy advice and exchange rate issues, and a separate Finance Department, responsible for the budget and, ultimately, public service personnel issues, had a reasonable consensus favoring marketization. Both were also led by ministers committed to economic liberalism and reorganization, respectively, Paul Keating and (at first) John Dawkins. The Finance Ministry and the Department of Prime Minister and Cabinet, largely staffed with ex-Treasury and Finance personnel, originated plans for public sector reorganization only slightly less comprehensive than those drawn up by the New Zealand Treasury.\footnote{41 Campbell and Halligan (fn. 28); Pusey (fn. 24).}

The ALP also had to balance the competing interests of public sector/unskilled workers and private sector/skilled workers. The series of so-called accords between the Australian Council of Trade Unions and the ALP held basic pay hikes below inflation during the 1980s. But they contained provisions for second-tier wage hikes based on productivity increases. These were more likely in manufacturing and particularly for skilled workers. So while the accords meant that everyone acquiesced in the erosion of real wages during the 1980s, they also meant that public sector workers lost the most ground. But this process was somewhat opaque, smoothing over the potential split between the different groups of unions. At the same time, to the extent that public sector unions/workers cooperated with productivity-enhancing reorganization plans emanating from the fiscal bureaus, they could also take advantage of second-tier bargaining. The ALP also avoided a sharp New Zealand–style rise in unemployment by moving more slowly in its reorganization of the state and the liberalization of the economy. So while the ALP avoided a New Zealand–style split, it did so partly by achieving less reorganization. In Australia, Labor had the votes at the federal level, a less extreme plan leveraged by more willing acceptance from the line bureaucracies, and as
it turned out its less confrontational style bought it more time than New Zealand Labour had.

**Sweden**

Sweden has a unitary government and proportional representation with a rough 4 percent threshold. This produces minority governments, but at least when the SAP (the Social Democratic Party) governs, it is a single-party minority government. So Sweden's SAP should have been better positioned than the ALP in terms of its ability to reorganize. But unlike both Australasian left parties, which suppressed internal conflicts through open political or covert economic side payments, the SAP remained divided. This division was replicated in interministerial conflicts for control of the reorganization program. Consequently, the fiscal bureaus were unable to offer a counterweight to antireorganization or antimarket groups inside the SAP. The central bank is subordinated to the government and remained staffed by Keynesians. The Finance Ministry, under Kjell-Olaf Feldt, followed a typical neoliberal line, but the newly created Civildepartment, which actually controlled reorganization until 1988, was oriented toward user participation (*brukermedverkan*) rather than user payments and markets.

Tensions about reorganization and liberalization of the economy thus led to conflicts between bureaus over control of reorganization, within the SAP, between the SAP and the union confederation LO, and between unions within LO. Initially, the new Civildepartment was run by a minister more attuned to the interests of local government and the public sector unions. He stressed decentralization and participation at the expense of centralized fiscal control and efficiency. A set of bills—not all of which passed—presented in 1985 and 1986 reflected this orientation.

By the mid-1980s, though, the private sector (mostly tradables) unions were in open conflict with the public sector unions, and some temporarily opted out of centralized bargaining. After the 1988 election a deputy finance minister known for his hard line with public sector employees took over the Civildepartment. Efficiency replaced participation and consensus building, and decentralization was limited to operational responsibility and not financial resources. But by 1990 antireorganization elements of the SAP were again ascendant, and they forced Feldt's resignation.

As in Australia, reorganization came via a mix of legislative and administrative changes. Unlike Australia and even more New Zealand, the fis-

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42 Swenson (fn. 29), 383; see also Swenson and Pontusson (fn. 13); and Gudmund Hernes, "Dilemmas of Social Democracies: The Case of Norway and Sweden," *Acta Sociologica* 34 (Winter 1991).
cal bureaus initially had only a weak voice in reorganization. So while the SAP had the votes, its factions pulled in different directions according to their own plans. As in New Zealand, the SAP suffered electoral disaster when its base split, because unlike the ALP the SAP could not bridge the differences between public and private unions.

DENMARK

In Denmark, in contrast to the other three, hardly anything facilitated change. Denmark’s system of proportional representation with a 2 percent threshold creates a highly fragmented parliament with minority governments—more than any other OECD nation. The strong functional division between central and local government, added to long-standing historical antagonism between the two, creates a quasi-federal system. The bourgeois coalition governing in the 1980s inherited power when the Social Democrats resigned and despite (or perhaps because of) four elections never accumulated an absolute majority. The coalition’s weakness was clearly visible, particularly as the nongovernment parties had a habit of constituting themselves as an “alternative majority” to pass legislation over the coalition’s head.43

In this context while fiscal bureaucrats had fairly well defined visions for change, they were quite cautious about providing politicians with blueprints. The central bank bowed out of fights, having already attained price stability through EMS membership, and emerging European Community public procurement guidelines foreshadowed more competition in public sector activities.44 Meanwhile the possibility of a quick return to a Social Democratic government inhibited bureaucrats in the Finance Ministry. They offered relatively invisible administrative measures like the change to frame budgeting, rather than the blueprint worked up by New Zealand’s Treasury. Without a comprehensive plan provided by bureaucrats, the parties in the bourgeois coalition each advanced mutually inconsistent and often incoherent proposals. Lacking the votes and a plan, and with elections occurring on average every two years in the 1980s, the bourgeois coalition achieved very little institutional change. Instead they bludgeoned welfare state producers located in local government to lower costs.

Denmark’s Social Democratic Party faced the same tensions as the other left parties, but being in opposition made it easier to handle them. The Social Democrats hid behind the bourgeois coalition, throwing sup-


44 See, for example, Christine Ingebritsen, “Scandinavia in Europe: Markets and Security” (Ph.d. diss., Cornell University, 1993).
port to Conservative Party proposals for more businesslike management of the public sector while containing more right-wing proposals by Venstre. The fact that many public sector workers already voted for the Socialist People’s Party externalized much of the dissent which the left parties in the other three countries internalized. Passivity enabled the Danish Social Democrats to survive the 1980s more or less intact with their historical vote share, but it also kept them out of government for a decade.

Despite this, the conflicts dividing Sweden’s SAP were latent in the Danish Social Democratic Party. Its right wing, oriented more toward skilled workers, argued that public sector inefficiency was the problem, suggesting competition among public sector service providers as the solution. Its left wing, oriented more toward unskilled and particularly unskilled public sector workers, argued that unresponsiveness and overbureaucratization was the problem, suggesting self-management by public service employees as the solution. In 1992 the centrist head of the Social Democratic Party was replaced by the more market-oriented Poul Nyrup Rasmussen; when the Social Democrats regained power in 1993, they signalled that they would continue the old bourgeois government’s policies. They are now exposed to the same tensions that affected the other left parties, and to the same lack of votes and plans that hindered the bourgeois coalition.

Events in all four countries suggest that at the extreme reorganization is self-limiting. While greater autonomy gave New Zealand Labour more opportunities to impose institutional change, it also permitted that party to undermine its own electoral base. In contrast, while the structural restraints imposed by federalism on the ALP dictated a more incremental and cooperative approach, this allowed the ALP to keep its electoral base intact. In Sweden, the SAP’s internal disunity prevented it from taking advantage of the opportunities available to it. Nonetheless even if negotiation can attain fiscal restraint, some autonomy is necessary in order to achieve institutional change, as events in Denmark show. Institutional change threatens people’s and agencies’ long-term interests in a way that fiscal restraint does not.

IV. Conclusion

Most of these changes are comparatively recent, and it is difficult to assess their long-term consequences. As the coalitions pushing for reorganization had different aims, it is perhaps best to sort out the consequences in terms of those aims. Doing so will make it clear that the international economic pressures that motivated coalition members to seek reorganization
have caused changes in the political regime and not just in bits and pieces of administrative practice. The effort to transform the institutional nature of the welfare state distinguishes these four countries. The changes described tend above all to increase state autonomy by changing the boundaries between state and society or by changing they way actors calculate their interests. In this sense, the general pattern of change in these four countries mirrors that occurring in indebted developing countries under the auspices of the International Monetary Fund.\footnote{See Miles Kahler, "Orthodoxy and Its Alternatives," in Joan Nelson, ed., \textit{Economic Crisis and Policy Choice} (Princeton: Princeton University Press, 1990); and Herman Schwartz, "Can Orthodox Stabilization and Adjustment Work?" \textit{International Organization} 45 (Spring 1991).}

From the point of view of the unions and capital in the tradables sector, reorganization has successfully removed part of the threat to their interests posed by the insulation of public sector unions and of the public sector in general from market pressures. Incentive pay, greater wage differentiation, managerial freedom, and competition in service provision have all helped check public sector growth and weakened the bargaining position of public sector workers. Cumulatively, these changes have transformed nontradables into tradables. For example, an American multinational successfully bid when Brisbane (Australia) contracted out garbage collection, just as French firms now manage several British public utilities. The internationalization of the management of services means that the providers of (publicly funded) services are no longer sheltered from international competition. International competition exists in this sector once a market exists and once management can be contracted out.\footnote{This is particularly true in the post-1992 European Community, as public procurement must be open to firms from all EC members.} Letting relative costs get too far out of line invites a tender for the business. This makes it difficult for the interests of workers and (where present) capital in the public sector and other former nontradables to diverge much from those of capital and labor in tradables when it comes to the macroeconomic consequences of firms’ or unions’ pay demands. Conversely, it makes it easier for the state to resist these wage demands.

The politicians who promoted reorganization can be less sanguine. If general elections have tended to confirm the general policy line taken by the governments of the 1980s, they have not confirmed their hold on power. New governments elected in 1990 in New Zealand, 1992 in Sweden, and 1993 in Denmark have maintained or accelerated the pace of change. Only in Australia did the original party favoring reorganization retain power. This is not to suggest that these administrative changes have had no political consequences. Rather, it suggests (1) that these changes are creating a social base supporting reorganization and a reorganized
state, much as the institutionalization of the old welfare state once helped maintain a broad cross-class alliance, and (2) that no party can win without appealing to that alliance. Only this kind of calculation can explain why in both Denmark and New Zealand new governing parties have suppressed and in one case expelled internal antireorganization dissenters. The debate no longer pits the status quo against reorganization—it pits reorganization with a human face against reorganization with a harsh face.

On the whole, though, politicians in central government are all losers. As Alan Wolfe and others have noted, over time all problems in society became problems of the welfare state, and thus all welfare state failures became political failures. This created opportunities for politicians to meddle in agencies on behalf of individual constituents and articulate demands on behalf of any organized group. Service failure in marketized states signals only the failure of a particular service producer who can be replaced via consumer exit in the short run and via competitive bidding in the long run. Competitive bidding also forces politicians to consider the visible costs of demanding additional services on behalf of particular groups. So politicians have lost part of their ability to meddle on behalf of constituents.

In contrast, fiscal bureaucrats—and the core bureaucracies of the state—thus appear to be the biggest winners. They have gained control over the total budget without having to bear responsibility for the problems that will inevitably occur in service provision.

These reorganizations have all increased the autonomy of the state in ways that are very similar to the kind of autonomy created by economic liberalization. Economic deregulation and liberalization during the 1980s freed the state from the political costs of policy failure in the economic arena and from the obligation to make microeconomic interventions that contradicted their macroeconomic policies. The effort to introduce market pressures into the welfare state parallels economic deregulation in this regard, aiming to extricate the state from the management of social problems. Decentralization and the introduction of market mechanisms creates two “circuit breakers” that increase autonomy: one between consumers and producers, as consumers can opt to change their producer; and one between producers and the state, for producers have no legitimate excuses for not producing “competitively.”

These circuit breakers remedy two problems commonly noted in the literature on the welfare state. These were the tendency toward agency

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48 Loriaux (fn. 1); Ikenberry (fn. 1).
49 For general but diverging discussions of agency capture, see Buchanan, Tollison, and Tullock (fn. 6); and Claus Offe, “The Divergent Rationalities of Administrative Action,” in *Disorganized*
capture by clients and its related overproduction of services; and the unresponsiveness of bureaucratic service producers to specific "consumer" demands. The first made the welfare state expensive and expansive; the second decreased state autonomy and legitimacy.

The decentralization of service provision and the "sale" of services constructs services as discrete demands provided to individual customers, rather than as diffuse benefits available to classes of people. This tends to limit societal demands for services. To the extent that individuals are capable of purchasing services from state agencies under the new user-pays regime, they have no need to join collective actors in order to press for services. Consequently, as individuals opt out in search of individual satisfactions, the demand for collective actors diminishes. At the same time it makes agency capture more difficult, since agencies have no incentive to use services to create clients and support groups. Agencies (and firms) contractually bound to produce certain outputs at a bid cost have an incentive to create customers. Customers typically use exit, not voice, to signal dissatisfaction; and to the extent that they use voice to influence local public service providers, political confrontations will occur outside the central state.

So finance ministries have shifted the border between state and society. They have shifted the welfare state out into society by subjecting state agencies and local government to market disciplines. At the same time the separation between contracting agencies and service producers reinstates a border between the fisc and the welfare state. The decentralization of service provision shifts conflicts over (declining) resources out of the central state and into local governments.

All of the countries examined here are small economies and, Sweden aside, vulnerable to price swings in the commodities they export. The very extremity of their situation might suggest that the kind of state reorganization occurring here would be limited. That certainly was Peter Katzenstein's argument about small countries in the 1970s, where he suggested that political rigidity enabled a surprising degree of economic flexibility. But in this case international pressures seem to have had a different effect: declining international competitiveness generated a coalition determined to change political arrangements and the state. The greater


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50 Katzenstein (fn. 11).
vulnerability of the economies of these states has caused change to occur earlier than in other countries, but competition in international markets is increasing, putting more pressure on the tradables sector everywhere to cut costs. Services related to the reproduction of the labor force remain the single largest nontradable everywhere. Most of these services are handled by the welfare state and financed through taxes, making it difficult to contain costs and produce services efficiently. The analysis in Section III suggests that relatively autonomous states are more likely sites of successful efforts to further increase autonomy through the kinds of reorganization described above. But whether or not the terrain is suited to reorganization, the pressure to try it will be felt everywhere. Thermidor in Britain and Clinton's election in the United States give a misleading impression about the future. Thatcher may be gone, but where constructed the institutions of Thatcherism live on and will inspire imitation.