

Title of the project: ***The trade-off between growth and equality: the role and influence of a changing idea on the political strategy of the Social Democracy.***

ABSTRACT:

The general aim of this project is to treat the widespread idea of the existence of a trade-off between economic growth (or efficiency) and equality as a political concept. That is to say, the aim is to re-politicise a concept that appears both in political and academic discourses as a “given”, stemming from the economic structure and thus devoid of any political connotation.

This re-politicisation of the concept will be directed at shedding some light to the current interpretations of the political strategies adopted by socialdemocratic parties since their inception, throughout the golden years of the Keynesian consensus, and particularly ,after the oil crisis of the 70’s.

O. THE PUZZLE

The recent literature on economic policy making is plagued with the concept of the trade-off between equality and growth, or between justice and efficiency, and the many other ways of naming what supposedly is one of the characterising dilemmas of contemporary political debate. However, this widespread use of the trade-off concept both in political discourse and in social scientific accounts of politics is not accompanied by a parallel effort directed towards a conceptual development aimed at discerning the very diverse meanings that different actors confer to the trade-off, nor by an acknowledgement of the trade-off as an idea, meaning an element of current political discourse that deserves attention as such. This is even more striking if we take into account that in the specialised economic literature there is an open debate plagued with controversy around the existence of the trade-off. There seems to be no concluding evidence of an inverse relation between equality of income and economic growth.

Given this divergence between the dubious ontological status of the trade-off reflected in the economic literature attempting to measure it, and the all-pervasive presence of the idea of a trade-off in political and academic discourse, this project constitutes an attempt at providing an explanation of what appears as a paradox: How can a concept that seems weakly established be so entrenched in political and social scientific discourse? More specifically the research question refers to socialdemocratic parties and their choices in face of what looks as an apparent contradiction:

- a) There seems not to be concluding evidence of the real existence of a trade-off between efficiency and equality.
 - b) The trade-off is viewed by all social actors and scientists as a particularly constraining dilemma for left parties, given their political objectives.
- Then, given a) and b) why do socialdemocratic leaders often assume in their discourse the existence of the trade-off? Does this incorporation of the idea to their discourse reflect a true belief on the existence of the trade-off? Or alternatively, does the reference to the trade-off merely constitute a justification of certain political choices? What are the conditions under which socialdemocratic parties resort to this idea? What are the political functions that the idea of a trade-off between efficiency and equality can perform?

Part I. The trade-off: uses, debates and evidence

i. The confused nature and widespread use of the trade-off concept

First, an introduction emphasising the current status of the idea of a trade-off between efficiency and equality in both the academic and the political discourses will be offered. Together with this, a taxonomy of the different ways in which the trade-off has been presented will follow, so as to acknowledge the very plural nature of all the ideas that are often included under the umbrella of the concept of a trade-off between efficiency and equality.

Among those who make extensive use of the idea of the trade-off between efficiency and equality, the works of those scholars attempting to provide an encompassing view of the

long-term trajectories of Western socialdemocratic parties deserve particular attention. Indeed, the fate of these parties has been usually understood in terms of their ability to form stable coalitions of voters given the existence of the trade-off (see for example, Esping-Andersen, 1985; Przeworski, 1985; Przeworski and Sprague, 1986; Boix, 1996, 1998; Maravall, 1997). That is, a successful socialdemocratic project has been portrayed as one displaying the ability to choose an electorally maximising mixture of both efficiency and equality, assuming that there is an inverse relation between these two outcomes. However such setting suffers from a number of difficulties when confronted to the evidence. The most important of these is probably the following: Even if the trade-off starts taking a real and concrete form for some policies (which is, as an idea, questionable), parties seem to be able to avoid it by adopting other policies not subject to it. In any event, observing the trajectories of western nations, one must admit that the trade-off between efficiency and equality has *not* impeded these countries to both grow and redistribute. If this is the case, those who analyse the trajectories of left wing parties should not interpret these in the light of a dilemma whose existence is doubtful.

In sum, the works reviewed do not have a satisfactory characterisation of the role played by the trade-off between efficiency and equality. They have failed to acknowledge its political role, and they fail to offer an alternative view of it, a view that differs from the one that political actors (political parties) in this case, have of it. As different as all these approaches are, in a sense, they all take the trade-off between efficiency and equality for granted, or rather, ignore the role it may have as a useful political idea.

ii. The empirical evidence on the existence of a trade-off between efficiency and equality

In this second section, a review of the economic literature attempting to assess the existence of a trade-off between efficiency and equality will be presented. The goal of this section is to stress the fact that the controversy in this kind of literature is not accompanied by a similar debate on the political discourse. Both by politicians and political scientists, the trade-off between efficiency and equality is too often asserted as the starting point from which all parties need to establish their economic policy strategies. Therefore, the main function of this section is thus to provide a few examples of influential works in the area so as to show how the question on the existence of a trade-off between efficiency and equality is, *at least, controversial*.

In general, the majority of recent works devoted to the issue seem to imply that the belief in a trade-off between efficiency and equality is not well grounded by empirical evidence (Browning and Johnson, 1984; Kenworthy, 1995; Persson and Tabellini, 1994; Benabou, 1995; Aghion et al 1999). We draw several conclusions in the light of this debate.

First, it is interesting to point at the fact that even though the idea of a trade-off between efficiency and equality does not imply any particular direction on the causality line, most works assume that redistribution is a cause of lack of growth, and never that growth can be seen as a source of inequality. Indeed, those politicians that justify a more inegalitarian distribution today, in order to provide more economic growth, also argue that only in that way will redistributive policies be possible in the future¹. However, no reflection is usually

¹ See Meseguer 1999 on the political discourses of the PSOE during its first legislature. For a similar account in Costa Rica, see Wilson, 1999.

made, in the political arena, about the inverse causal relation also implied by a trade-off between efficiency and equality.

Second, the debate on the empirical evidence of a trade-off between efficiency and equality can hardly be characterised as such. The issue at stake is not fully clear. Only Browning and Johnson (1984) deal with equalisation of income and not with equality. Saying that there exists a trade-off between *equality* and efficiency, and saying that the trade-off is between *equalisation* and efficiency, however related, is not the same thing. Only the latter refers specifically to the redistributive action of the state. True, as Aghion et al. (1999) show, the idea of a trade-off between equality and efficiency is closely related to the study of the implications of redistributive policies. Nevertheless, equalisation and equality remains distinct notions and the fact that this difference is normally overlooked reflects how underdeveloped this debate is.

Maybe the question on the relationship between income distribution and growth is too vast to be subject to convincing empirical assessment, indeed the literature reviewed points in that direction. But this does not but make even more puzzling the fact that such a relation, in the form of an idea of a trade-off, is so widely used in both political and academic discourse.

Part II. Repoliticising the trade-off

In the second part of the thesis I will attempt at providing an understanding of the trade-off between efficiency and equality as a constitutive part of contemporary political culture, and to highlight the political functions it fulfils.

First, I will include a critique of some theses implicit in the existing literature on policy change that could in principle be portrayed as an answer to the question on the pervasiveness of the trade-off concept. These are the theses related to the literature of the independent role of ideas and epistemic communities (Hall, 1989; Hall, 1990, Haas, 1992; Goldstein and Kehoane, 1993)

Generally, the critiques directed to the theoretical designs aimed at emphasising cognitive factors in political processes often are directed to the fact that the defenders of the role of ideas have not been able to show, empirically, that ideas have an independent impact in the policy-making processes. The authors that we review here, all of which are ready to re-launch this research program, have failed, nevertheless, to provide convincing answers to the critiques they themselves pose to this ideational literature (Woods, 1995; Blyth, 1997; Campbell, 1998; Jacobsen, 1995; Yee, 1996).

After rejecting these frameworks as an answer to the puzzle proposed, I attempt to provide an alternative explanation that vindicates the political functions of the idea of a trade-off between efficiency and equality. I propose an understanding of the idea of the trade-off as a *convention* enabling the cohabitation of the main electorally hegemonic political parties, in the sense that it disinflates political conflict among them and among their constituencies. Thus, I will argue that some insight can be drawn from the analogy between the idea of the trade-off and a (language) convention around which the main electoral parties co-ordinate to fulfil their organisational and political goals.

By convention, in the social sciences, we normally mean some arbitrary procedure or rule that is elected against alternatives by the actors involved in some common pursuit of their

goals². Here, and for the purposes of this project, such a restrictive notion of convention will not yet be used literally. Indeed, at this point, the purpose of using the term convention is more heuristic than anything else: the use of the idea of a trade-off between efficiency and equality can indeed be seen as an accepted notion in contemporary political debate.

By the use of this analogy, I attempt to analytically develop the following hypotheses regarding the political functions that the trade-off can fulfil:

- disinflate conflict among political parties by transforming political considerations into technical questions.
- partially pre-empt the political space to the left of the social-democrat parties.
- allow conservative parties to present arguments against redistribution without reference to the interests of its constituency.

METHODOLOGY: How to explain?

The way to prove my main theoretical argument and its attached hypotheses is the following:

I will develop a series of formal models trying to include my main hypotheses. These will draw on the theory of spatial competition of parties.

Then, the empirical backing of the main theoretical thesis associated to this project will be provided by the analysis of several case studies, through the examining of the discourse of the leaders of socialdemocratic parties.

The main case study of this thesis is Spain. Then, a contrast will be performed with two other countries: France and Great Britain.

² This notion, in order to constitute a convention rather than a “formula” of collective problem solving must be characterised by the fact that its particular content does not have any impact on the deciders capacity to pursuit their objectives, just in the same sense in which driving on the right side of the road does not have any intrinsic advantage over its alternative (the left side). The only important thing is that everybody drives on the same side of the road. What is important is that the agreement on the terms of the convention is beneficial for all, or at least, the collective necessity of the convention is such that the fact of it being institutionalised is beneficial for all relative to the alternative of working in the absence of such device. David **Lewis defines convention** in the following way (42:1986):

A regularity R in the behavior of members of a population P when they are agents in a recurrent situation S is a convention if and only if, in any instance of S among members of P,

1. everyone conforms to R
2. everyone expects everyone else to conform to R
3. everyone prefers to conform to R on condition that the others do, since S is a coordination problem and uniform conformity to R is a proper coordination equilibrium in S.

To conclude, the concept of a trade-off deserves attention as such, and its political content must be acknowledged by scholars trying to account for the trajectories of socialdemocratic parties. The history of the concept of the trade-off between efficiency and equality is one of success, as it is shown by the fact that its use is widespread both between scholars and political actors. Therefore, deepening into the study of such concept can shed light into the factors that make certain economic ideas prevail. Not only, as Yee (1996) proposed, by studying the cognitive capacities of those ideas, but also, their political capacities and underpinnings, and their capability to provide representations that can serve as glue to social actors.

The question, nevertheless, is not so much to defend that the ideas that actors have of themselves have an impact in what they do (which seems to be the theoretical claim of ideational approaches). In my view, this is not so much a novel thesis as a starting point for all social research. The question, rather, is to defend that concepts used in political and social discourse may matter beyond their accuracy, and that social scientists must go beyond the interpretations that social actors have of those concepts. This project aims at providing a complement to existing understandings of the trajectories of socialdemocratic parties, to the extent that they have taken for granted the correspondence between the representations of the trade-off that socialist leaders´ put forward and reality.

We have tried to show how some categories used by political actors fulfil political functions. Not acknowledging this fact might lead one to say that socialdemocratic parties chose to abandon the keynesian consensus because they were faced by a trade-off between efficiency and equality. It is hard to know what we exactly mean by this, but it is harder to see how such an account can be enabling or enlightening in any way other than a superficial one.

The democratic class struggle -or the class compromise arrived at by the socialdemocratic parties- needs, in order to sustain itself, a political language of its own. The idea of a trade-off between efficiency and equality is part of such language, and political scientists should restrain from its use if they are to illuminate us in our understanding of that process.

BIBLIOGRAPHY AND REFERENCES

Aghion, P. Caroli, E. y García Peñalosa, C. 1999. "Inequality and Economic Growth: the Perspective of the New Growth Theories". *Journal of Economic Literature*. Vol.XXXVII- December 1999.

Benabou, R. 1996. "Inequality and Growth. National Bureau of Economic Research". Working paper 56/58.

Blyth, M. 1997. "Any More Bright Ideas? The Ideational Turn of Comparative Political Economy". *Comparative Politics*, 29, 2, 229-250.

Boix, C. 1996. *Partidos políticos, crecimiento e igualdad. Estrategias económicas conservadoras y socialdemócratas en la economía mundial*. Madrid: Alianza Universidad.

Boix, C. 1998 *Political parties, growth and equality : conservative and social democratic economic strategies in the world economy / Cambridge ; New York, N.Y : Cambridge University Press*

Boix, C. 1999. "Setting the rules of the game: The Choice in Electoral Systems in Advanced Democracies". *American Journal of Political Science*.

Browning, E. y Johnson, W. 1984. "The trade-off between equality and efficiency", *Journal of Political Economy* 92: 175-203.

Campbell, J.L. 1998. "Institutional Analysis and the Role of Ideas in Political Economy". In *Theory and Society*. 27: 377-409.

Esping-Andersen. 1985. *Politics versus Markets*. NJ: Princeton University Press.

Goldstein, J. y Keohane, R. 1993. *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca, NY: Cornell University Press.

Haas, P. 1992. "Introduction: Epistemic communities and international policy coordination". *International Organization* 46:1-35.

Hall, P. 1989. *Keynesianism across nations. The political power of economic ideas*. Princeton, NJ: Princeton University Press.

Hall, P. 1990. "Policy paradigms social learning and the state". *Comparative Politics*.

Jacobsen, J. 1995. "Much Ado about Ideas. The Cognitive Factor in Economic Policy" *World Politics*. 47, January, 283-310.

Kenworthy, L. 1995. "Equality and Efficiency: the illusory tradeoff". *European Journal of Political Research*. 27.

Lewis, D. 1969. *Convention : a philosophical study / David Lewis*. Cambridge, Mass : Harvard University Press.

Maravall, J.M. 1997. *Regimes, Politics, and Markets*. Oxford: Oxford University Press

Messeguer, C. 1999. "Virajes: Causas y Excusas. La macroeconomía en la primera legislatura socialista". (1982-1986). Juan March Institute. *Unpublished manuscript*.

Okun, A.1975. *Equality and efficiency: The big trade-off*. Washington, DC: Brookings Institution.

Persson, T. and Tabellini, G. 1994. "Is equality harmful for growth?" *American Economic Review*. 84: 600-21.

- Przeworski, A. 1985. *Capitalism and social democracy*. Cambridge ; New York ; Paris : Cambridge University Press : Editions de la Maison des Sciences de l'Homme.
- Przeworski, A. and Sprague, J. 1986. *Paper Stones. A History of Electoral Socialism*. Chicago: Chicago University Press.
- Przeworski, A. 1999. "How many ways can be third?" In Andrew Glyn, ed. *Economic Policy and Social Democracy*. Oxford University Press. *Forthcoming*.
- Stallings, B. 1990. "International Influence in Economic Policy: Debt Stabilisation and Structural Reform". In Haggard, S y Kaufman, R. (eds.). *The Politics of Economic Adjustment*. Princeton: Princeton University Press.
- Stokes, S. 1991. "Hegemony, Consciousness, and Political Change", in *Politics and Society*. Volume 19. Number 3.
- Stokes, S. 1996. "Economic reform and public opinion in Peru, 1990-1995" in *Comparative Political Studies* 29 (5), Oct. 96: 544-565.
- Stokes, S. 1997. "Democratic accountability and policy change: economic policy in Fujimori's Peru". *Comparative Politics* 29 (2), January 97: 209-226.
- Wilson, B. 1999. "Leftist Parties, Neoliberal Policies, and Reelection Strategies: The case of the PLN in Costa Rica". *Comparative Political Studies*. Volume 32, September 1999.
- Woods, N. 1995. "Economic Ideas and International Relations: Beyond Rational Neglect". *International Studies Quarterly* 39: 161-180.
- Yee, A.S. 1996. "The causal effects of ideas on policies". In *International Organization* 50, 1, Winter, pp. 69-108.