

The Politics of When: Redistribution, Investment and Policy Making for the Long Term

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Why do some elected governments impose short-term costs to invest in solving long-term social problems while others delay or merely redistribute the pain? This article addresses that question by examining the politics of pension reform in Britain and the United States. It first reframes the conventional view of the outcomes – centred on cross-sectional distribution – demonstrating that the politicians who enacted the least radical redistribution enacted the most dramatic intertemporal tradeoffs. To explain this pattern, the article develops and tests a theory of policy choice in which organized interests struggle for long-term advantage under institutional constraints. The argument points to major analytical advantages to studying governments' policy choices in intertemporal terms, for both the identification of comparative puzzles and their explanation.

Harold Lasswell famously defined politics as 'who gets what, when and how'.¹ In recent decades, most of the study of public policy and political economy has been an investigation of three-quarters of this definition: who gets what, and how. In contrast, the analysis of government activity has devoted far less attention to the matter of *when* – to how governments allocate costs and benefits over time. The normative importance of choices about timing is striking. Policy goals as diverse as reducing public debt, conserving scarce natural resources, restructuring an economy and slowing global warming all require governments to arrange losses and gains in a particular temporal order: to impose social costs long before most of the benefits will arrive. Yet, on the whole, political analysts have characterized the policy tradeoffs that politicians face in largely distributive terms – as choices about the cross-sectional allocation of pain and gain. Far less frequently have scholars inquired systematically into the *intertemporal* dilemmas governments face in designing public policies: tradeoffs between short-term and long-term social consequences.

This article seeks to explain the choices politicians make both about the timing of policy costs and benefits and about their distribution across groups. Specifically, it asks: why do some governments impose short-term costs to mitigate long-term problems while others choose to delay the pain or merely to redistribute it? The article addresses this question by examining the politics of the long term within one of the largest spheres of state action: the field of public pensions. In recent decades, governments across the OECD (Organisation for Economic Co-operation and Development) have adopted reforms intended to ease the long-term financial strains that an ageing population is expected to impose on their state pension systems. While there exists a vast literature on the politics

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¹ Harold D. Lasswell, *Politics: Who Gets What, When, How* (New York: Peter Smith, 1950).

of pension reform, past analyses have conceptualized reform largely as a choice about the size and cross-sectional distribution of the losses to be imposed.² Even as *policy* analysts have regularly framed pension dilemmas in intertemporal terms, *political* analysts have devoted little attention to explaining the varying tradeoffs over time that politicians have made. As this article aims to demonstrate, taking timing into account can have profound implications both for the variation we seek to explain and for our strategies of causal explanation.

The article focuses on the pension politics of two countries that have taken widely divergent reform trajectories in recent decades: Britain and the United States. In existing accounts, Britain's reforms are typically considered much more radical than the US changes because of the far deeper cuts that they inflicted on pensioners. Viewed along a temporal axis, however, the puzzle of policy choice is *reversed*: while Britain mostly shifted long-run financial burdens across social groups, US politicians imposed major losses on constituents in the *near term*, minimizing the long-run financial impact of an ageing population. The article seeks to explain this two-dimensional pattern of variation: why were British politicians so radical in distributive terms but so cautious intertemporally, while their US counterparts left distributive bargains mostly intact but shifted burdens dramatically over time?

To the extent that existing theories have sought to explain intertemporal policy choices, they have tended to view the problem as one of electoral constraint: politicians seeking re-election avoid costly investment in the long run when they fear near-term punishment at the polls. As I will contend, however, theories of electoral constraint can provide only a partial explanation of intertemporal choice: they tell us when governments will enjoy policy leeway but not how they will choose to use it. As will be argued, a further constraint on governments' long-term policy choices is imposed by a set of actors far more attentive to distant outcomes than the average voter: organized interests. Many long-term social problems can be expected to have a major impact on the welfare of well-organized constituencies who hold scarce political resources highly valued by elected officials. The pressures on governments, I argue, depend substantially on how these influential actors optimize their own interests over the long run. As forward-looking decision makers, interest groups are in principle willing to accept short-run policy costs to avoid even larger long-run losses. They prefer, however, to address their long-term problems through redistributive, rather than intertemporal, means: to shift a problem's impact onto another segment of society rather than to invest in a solution. As I will demonstrate, the likelihood of investment is thus highest when groups face obstacles to redistribution and must internalize the costs of policy choices. The analysis focuses specifically on how political institutions structure the opportunities for organized groups to shift their long-term problems onto others and, in turn, their willingness to accept the costs of investment.

² For instance, see R. Kent Weaver, 'Cutting Old-Age Pensions', in Leslie A. Pal and R. Kent Weaver, eds, *The Government Taketh Away: The Politics of Pain in the United States and Canada* (Washington, D.C.: Georgetown University Press, 2003), pp. 41–70; Paul Pierson, *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment* (New York: Cambridge University Press, 1994); Paul Pierson and John Myles, 'The Comparative Political Economy of Pension Reform', in Paul Pierson, ed., *The New Politics of the Welfare State* (Oxford: Oxford University Press, 2001), pp. 305–33; Giuliano Bonoli, *The Politics of Pension Reform: Institutions and Policy Change in Western Europe* (Cambridge: Cambridge University Press, 2000); Martin Schludi, 'The Politics of Pensions in European Social Insurance Countries' (Cologne: Max-Planck-Institut für Gesellschaftsforschung, 2001); Martin Hering, 'Turning Ideas into Policies: Implementing Modern Social-democratic Thinking in Germany's Pension Policy', in Giuliano Bonoli and Martin Powell, eds, *Social Democratic Party Policies in Contemporary Europe* (London: Routledge, 2004), pp. 102–22.

Aside from forwarding this specific argument, the article suggests that bringing intertemporal policy choice to the centre of the study of democratic politics can yield enormous analytical gains. First, attention to temporality can more accurately capture the tradeoffs that governments confront and dramatically reframe the comparative puzzles demanding explanation. When we attend only to cross-sectional choices, we leave unexamined an equally striking and highly consequential dimension of variation: the willingness of some elected officials, but not others, to impose costs today for benefits tomorrow. Secondly, integrating temporal and distributive analysis can substantially improve our causal understanding of policy change – even of change along familiar cross-sectional lines. As I will argue, the two dimensions of policy choice must first be carefully *disaggregated* because the conditions conducive to intertemporal transfers will usually differ from those generating redistribution across groups. At the same time, the two axes of choice must be analysed *jointly*: getting our explanations of governments' distributive choices right requires us, in many situations, to explain the intertemporal tradeoffs they have made, and vice versa.

The article begins by identifying the outcomes to be explained, reframing the standard distributive account of the US and British reforms in both distributive and intertemporal terms. The next section considers a set of existing approaches to the politics of public policy, arguing that they cannot explain the variation observed. The two succeeding sections present the theoretical argument and test it against the cases, drawing additional leverage from a background comparison to pension reform in a third country, Canada. The final section concludes with a consideration of the argument's broader implications.

CASES AND OUTCOMES

Case Selection

The last three decades have seen a wave of pension reform wash across the advanced industrialized democracies. While some governments have enacted more dramatic changes than others, most have sought to respond in some way to the long-term fiscal strain that their retirement income programmes are expected to confront as a result of a common set of pressures: among them, reduced fertility rates, slowed productivity growth and accumulating pension entitlements. Britain and the United States both faced this basic choice situation. By the late 1970s, each country operated a similarly structured programme: a contribution-based, earnings-related public pension scheme covering most of the working population. Each faced large long-term increases in the costs of its programme. And, in response, each was confronted with decisions about whether and how to reshape this programme to reduce long-run financial strain. At the same time, these countries provide an ideal paired comparison because they span a broad spectrum of the observed responses, as measured by the conventional view of policy change. The British reforms are typically considered among the most radical in the OECD while the US changes have been viewed as modest by comparison.³ Capturing wide variation in outcomes, these cases thus present a striking empirical puzzle to be explained.

As the following discussion will demonstrate, however, the standard view of policy change obscures a critical dimension of variation. The puzzle as conventionally framed

³ Evelyn Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chicago: University of Chicago Press, 2001); Bonoli, *Politics of Pension Reform*; Pierson, *Dismantling*.

is distributive: why did Britain impose more dramatic losses on pensioners than did the United States? In *intertemporal* terms, these countries' reforms represent similarly wide variance in the extent of change and degree of loss-imposition – but the contrast is reversed. It was US politicians who enacted the far more costly investment in the long run and the British government that delayed the pain of adjustment. The following subsections set up the causal analysis to come by reframing the outcomes in both distributive and intertemporal terms.

The Distributive View

What I will term the *distributive* view – a focus on *cross-sectional* distribution – marks a wide range of public policy and political economy research. When studying policies with material consequences, analysts typically define the relevant variation in governments' choices in terms of the volume, kind and cross-sectional allocation of the costs and benefits that they generate. The characterization of consequences generally takes the form of a snapshot rather than a temporally structured relationship between costs and benefits.

The study of welfare-state reform has typically fitted this distributive mould. In Pierson's pioneering study, and prominent accounts published since, the outcome of interest has been *retrenchment*:⁴ the size and distribution of the losses that governments have imposed on programme beneficiaries. The reform of the welfare state has been understood as a project of controlling the stream of resources flowing from one set of individuals to another *at any given moment in time*. While the concept of retrenchment is suited to distinguishing among consequences that are cross-sectionally distinct – the 'who loses what' of policy choice – it is not suited to capturing differences in the tradeoffs that policies may make between the short term and the long. The notion of retrenchment, for instance, would not distinguish between an immediate benefit cut to finance current tax cuts and an immediate benefit cut to pay down public debt, reducing future interest payments.

The point is not that analysts have ignored long-term policy consequences. Scholars have indeed paid attention to distant outcomes, especially when studying policies such as pensions. But they have continued to characterize those distant consequences in *distributive* terms. Even when referring to future losses – such as delayed benefit cuts – the concept of retrenchment merely captures a future redistribution, from *tomorrow's* beneficiaries to *tomorrow's* taxpayers, rather than a tradeoff between today and tomorrow.

Turning specifically to pensions, a distributive definition of policy choice drives how analysts have ranked cases on the dependent variable: reforms that produce deeper benefit cuts are coded as cases of more radical change, while instances of benefit maintenance are interpreted as cases of relative stasis.⁵ In 1981 and 1986, Margaret Thatcher's government enacted what Pierson refers to as 'far-reaching and probably irreversible reforms in pension provision'.⁶ Benefit rates in the State Earnings-Related Pension Scheme (SERPS) and in

⁴ Pierson, *Dismantling*; Jacob S. Hacker, 'Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States', *American Political Science Review*, 98 (2004), 243–60; Duane Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*, *Cambridge Studies in Comparative Politics* (Cambridge and New York: Cambridge University Press, 2002); Huber and Stephens, *Development and Crisis*; Bonoli, *Politics of Pension Reform*; Paul Pierson, ed., *The New Politics of the Welfare State* (New York: Oxford University Press, 2001).

⁵ I focus my analysis largely on each country's contributory, earnings-related pension programme but also note major changes to non-contributory schemes financed out of general revenues.

⁶ Pierson, *Dismantling*, p. 53.

the flat-rate Basic Pension were slashed deeply for future retirees. In addition, the 1986 law allowed all workers to opt out of the public earnings-related scheme or their employer-sponsored plan and enter a third, individualized retirement vehicle – a private ‘personal pension’.

Reforms enacted under Presidents Jimmy Carter and Ronald Reagan in the United States are usually considered modest by comparison. On the benefit side, Carter’s 1977 Act merely fixed a flaw in Social Security’s inflation-indexing formula that would otherwise have led to large, unintended increases in benefit rates.⁷ And as Pierson explains, even President Reagan, who attempted a major rollback in Social Security, left the programme ‘essentially intact’.⁸ While he achieved ‘some significant reductions in future pension benefits’, these amounted to only modest change in the programme’s role in providing retirement security.⁹

The Intertemporal View

Viewed through an intertemporal lens, however, the outcomes compare very differently. While Britain’s radical achievements stand out as a redistribution of resource claims *across groups*, it was the United States that enacted the far more dramatic reallocation of resources *over time*. The US reform of 1977 imposed massive near-term losses on contributors to the system, enacting over a short period the largest single peacetime tax increase yet in US history.¹⁰ As pictured in Figure 1, this short-term pain – topping 0.4 per cent of gross domestic product (GDP) annually in the first four years – was expected to generate surpluses that would allow benefit levels to remain constant without any further increase in the contribution burden until 2029, even while the ratio of workers to retired persons took a dramatic turn for the worse.¹¹ It was, in effect, a massive bequest to future workers, employers and pensioners. The 1983 reform followed a similar intertemporal pattern, pictured in Figure 2. While the 1983 changes included some significant benefit cuts, including a delayed increase in the retirement age, this reform also wrought a massive investment in the programme’s long-term sustainability. The law inflicted quick tax increases and benefit reductions equal to over half a point of GDP in the years through 1989, followed by decades of far higher taxes than needed to pay benefits. In turn, the reform was projected to keep the system solvent until 2060, well beyond the baby boomers’ retirement.¹²

⁷ Martha Derthick, *Policymaking for Social Security* (Washington, D.C.: The Brookings Institution, 1979).

⁸ Pierson, *Dismantling*, p. 53.

⁹ Pierson, *Dismantling*, p. 53.

¹⁰ Congressional Quarterly, *Congressional Quarterly Almanac, 95th Congress, 1st Session, 1977*, vol. 33 (Washington, D.C.: Congressional Quarterly, Inc., 1978).

¹¹ Board of Trustees, ‘Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and Disability Insurance Trust Funds’ (Washington, D.C.: US Government Printing Office, 1978).

¹² Board of Trustees, ‘Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and Disability Insurance Trust Funds’ (Washington, D.C.: US Government Printing Office, 1983); Paul Light, *Still Artful Work: The Continuing Politics of Social Security Reform* (New York: McGraw Hill, 1995). Trustees’ II-B projections. This article focuses on explaining the policy choices that governments made, setting aside how *durable* those choices remained over time. The US surpluses have, in fact, accumulated largely as planned. Some critics of the US reforms have argued, however, that Social Security’s surpluses later allowed greater borrowing elsewhere in the budget. This counterfactual argument is contested and not addressed here. In any case, the point bears only on the *maintenance* of investments once made – an important dependent variable, but one requiring its own explanatory logic.

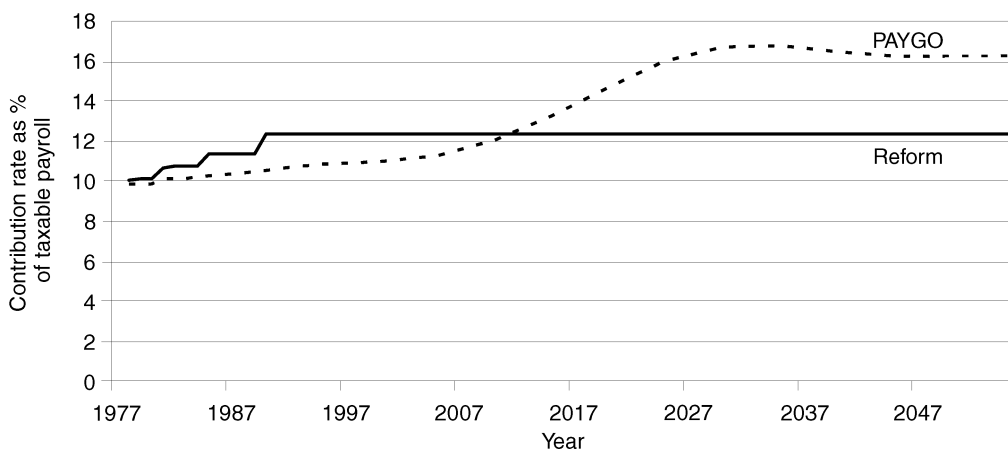


Fig. 1. Reform versus Pay-As-You-Go (PAYGO) tax rate, United States, 1977

Note: The difference between the two lines isolates the changes in the 1977 law that represent investment through short-term tax increases. The 'Reform' line is the tax schedule in the 1977 law. The 'PAYGO' line represents the tax schedule that would have been required to finance the benefits in the 1977 law without trust-fund accumulation, i.e., without investment. (The 'PAYGO' line is composed of the tax rates in the pre-reform law until 1981, when they would become insufficient to finance benefits, and thereafter of the rate required to keep pace with annual expenditures under the 1977 law's benefit formula.) The comparison thus controls for the technical fix to the benefit formula in the 1977 law. Data from intermediate scenario in Board of Trustees, *Annual Report 1978*; Board of Trustees, *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, D.C.: US Government Printing Office, 1977).

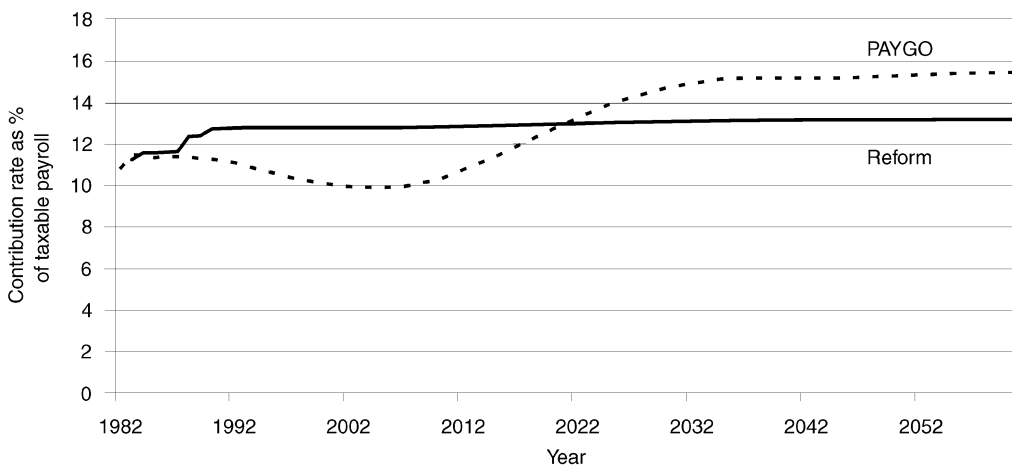


Fig. 2. Reform versus Pay-As-You-Go (PAYGO) tax rate, United States, 1983

Note: The difference between the two lines isolates the changes in the 1983 law that represent investment through short-term tax increases. The 'Reform' line is the tax schedule in the 1983 law. The 'PAYGO' line is the tax schedule that would have been required to finance benefits under the 1983 law if there were no trust-fund accumulation (i.e., no investment). The graph understates the total investment in 1983 since a third of the short-term pain took the form of immediate benefit cuts, not captured here. Data from II-B scenario in Board of Trustees, *Annual Report 1983*; Board of Trustees, *Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (Washington, D.C.: US Government Printing Office, 1982).

In contrast, Thatcher's reforms were largely a project of delayed pain. The benefit cuts themselves were mostly postponed and phased in slowly, with cuts in State Earnings-Related Pensions (SERPs) coming into full force only in 2010; overall, they would roughly halve government spending on earnings-related pensions by 2033, reducing National Insurance Contributions (taxes) by 4 percentage points. The less-generous indexation of the Basic Pension began immediately but its greatest impact was also long delayed.¹³ At the same time, the 1986 reform enacted a small intertemporal transfer in the form of the voluntary opt-out into personal pensions.¹⁴ This modest individual-account scheme was expected to cost a mere £1 billion over its first five years, requiring no increase in current contribution rates.¹⁵ In turn, this small investment was projected to relieve contributors forty years later of a mere 0.1 percentage point in payroll tax.¹⁶ The massive prospective savings to future employers, workers and taxpayers would be almost solely a consequence of a delayed *cross-sectional* shift of resource claims away from future beneficiaries – not of an investment at short-term cost.

The literature's focus on the size and distribution of benefit cuts thus captures only a piece of the potential variation in governments' policy choices. Even as a conceptualization of the *losses* imposed, the dependent variable of retrenchment excludes some of the hardest and most puzzling choices politicians made – decisions that imposed near-term costs on constituents for long-term benefits. Moreover, governments' intertemporal choices were just as consequential as their distributive decisions. As baby-boomers retire in coming years, Britain faces a looming crisis of inadequate pensions and old-age poverty;¹⁷ the US programme in contrast is expected to have resources on hand to deliver only modestly reduced benefits without the need for a politically explosive hike in payroll taxes for decades.¹⁸

Conceptualizing pension reform as an intertemporal *and* a distributive choice shifts the explanatory task in a critical way. The question is not, as typically framed, why Britain imposed greater losses than did the United States. The puzzle is why, faced with long-term financial pressures, the British government chose to respond mostly by imposing deferred losses on future pensioners while US politicians imposed massive short-term losses on constituents and relieved financial pressures on workers, employers and the retired decades hence.

THE LIMITS OF EXISTING EXPLANATIONS

What explains these distributive and intertemporal differences in policy response? Existing approaches to the study of the politics of public policy are severely limited in their

¹³ Pierson, *Dismantling*.

¹⁴ Secretary of State for Social Services, 'Reform of Social Security: Programme for Action' (London: HMSO, 1985).

¹⁵ Ministers miscalculated, and take-up was higher than planned, partly due to the 'misselling' of personal pensions (Lillian Liu, 'Retirement Income Security in the United Kingdom', *Social Security Bulletin*, 62 (1999), 23–46). I do not deal with this unexpected consequence here. Throughout, I define policy choices as the tradeoffs that actors demonstrably believed they were making at the time of decision.

¹⁶ Annual net new savings have been estimated at 0.1 per cent of GDP in 1989, rising to 0.2 per cent a decade later (Richard Disney, Carl Emmerson and Matthew Wakefield, 'Pension Reform and Saving in Britain', *Oxford Review of Economic Policy*, 17 (2001), 70–94).

¹⁷ Pensions Commission, 'Pensions: Challenges and Choices' (London: The Stationery Office, 2004).

¹⁸ Board of Trustees, 'Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and Disability Insurance Trust Funds' (Washington, D.C.: US Government Printing Office, 2006).

capacity to help unravel this puzzle. The most important limitation is one of omission: as mentioned above, political analysts have rarely conceptualized governments' policy choices – or variation in such choices – in intertemporal terms, focusing instead on the size and cross-sectional distribution of policies' costs and benefits. With their dependent variable typically framed in non-temporal terms, studies of the politics of public policy have thus produced few clear propositions about how governments make policy tradeoffs over time.

This is not to say that political scientists have ignored issues of time and timing in politics. Indeed, temporality has played a variety of roles in political analysis. Time is central, for instance, to large and growing literatures on problems of political uncertainty, time inconsistency and credible commitment. In models of these phenomena, the passage of time threatens existing preferences or allocations of power, sometimes leading actors to make intertemporal tradeoffs in *political* goods – for example, sacrificing discretion in the short run in order to entrench policy goals over the long term.¹⁹ Historical institutionalists have also developed increasingly elaborate arguments about social developments that unfold in patterned ways over time, such as those characterized by path dependence or sequencing effects.²⁰ Such arguments reflect a concern with time, timing and temporal ordering as properties of causal *processes* and causal *explanations* rather than as dimensions of the choices that political actors make. Moreover, works of *policy* analysis – those concerned with assessing social problems and policy options – routinely frame policy dilemmas in temporal terms.²¹ Amongst these diverse treatments of time, however, an important gap stands out: political scientists have rarely analysed and sought systematically to explain how governments allocate policies' social costs and benefits over time.

Nonetheless, while explicitly intertemporal analysis of the politics of policy making is uncommon, we can mine the existing literature for insight in at least two ways. First, we can consider arguments about the politics of public policy that, while non-temporal, address one important component of any distributive or intertemporal tradeoff: the imposition of costs. Secondly, we can consider the small number of arguments about policy making that do conceive of it as an intertemporal tradeoff. Broadly speaking, existing perspectives tend to rely on one of two lines of reasoning: they focus either on the institutional constraints on politicians' choices or on the electoral pressures they face. I consider each in turn.

Institutional Constraint

Probably the most common institutionalist line of argument points to the effect of veto points on loss-imposition. In the literature on costly policy reform – welfare-state

¹⁹ For instance, Murray J. Horn, *The Political Economy of Public Administration* (New York: Cambridge University Press, 1995); McNollgast, 'The Political Origins of the Administrative Procedure Act', *Journal of Law, Economics, and Organization*, 15 (1999), 180–217. Alternatively, in arguments about credible commitment, actors may bind their own hands over the long run in order to induce certain behaviour from others (e.g., lending) in the short run. See Douglass C. North and Barry R. Weingast, 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England', *Journal of Economic History*, 49 (1989), 803–32.

²⁰ See, for instance, Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis* (Princeton, N.J.: Princeton University Press, 2004); Tim Büthe, 'Taking Temporality Seriously: Modeling History and the Use of Narratives as Evidence' *American Political Science Review*, 96 (2002), 481–93.

²¹ For example, Peter S. Heller, *Who Will Pay? Coping with Aging Societies, Climate Change, and Other Long-Term Fiscal Challenges* (Washington, D.C.: International Monetary Fund, 2003).

retrenchment, deficit-reduction, labour-market liberalization – dispersed policy-making authority is usually held to make painful policy change more difficult by empowering potential losers.²² A veto-point explanation, however, fares poorly as an explanation of intertemporal choices in our cases. It was Thatcher who enjoyed the advantages of one of the most centralized institutional arrangements in the democratic world, as well as a large and disciplined parliamentary majority. By contrast, decision making about the US Social Security programme was widely dispersed – across branches of government, between the two houses of Congress and within the decentralized environment of each chamber. These cases confront standard institutionalist arguments with a striking puzzle: those who would pay the costs of investment in the United States enjoyed far greater institutional opportunities to block it than did their counterparts in Britain.

Electoral Constraint

Several strands of argument conceive of the politics of loss-imposition as driven by the imperative for politicians seeking re-election to avoid electoral punishment. The literature on political business cycles (PBC) puts forward perhaps the best-known theoretical argument about intertemporal policy choice.²³ Based on the assumption that voters judge incumbents on past performance, the PBC logic delivers a crisp intertemporal prediction: in Nordhaus's original formulation, '[A] perfect democracy with retrospective evaluation of parties will make decisions biased against future generations'.²⁴ Despite its sharp focus on the intertemporal structure of policy dilemmas, however, such models are not equipped to explain *variation*. In a PBC framework, politicians should *never* be willing to impose short-term costs for future gain. Prospective models of voting face the same limitation, in reverse. By positing voters with rational expectations of future consequences, they imply that governments have real electoral incentives to invest.²⁵ Yet these models do not offer predictions about how such incentives will vary: why vote-seeking governments will sometimes sacrifice the short term for the long, but at other times will not.

A second temporally oriented line of electoral argument – one that does predict variation – focuses on the role of political competition in modulating politicians' temporal incentives. According to this logic, governments should be more likely to invest in the long run when they face weak competition in the electoral arena. Studying projects of large-scale social transformation, for instance, Garrett argues that politicians facing substantial competitive slack are more willing to adopt policies that are not electorally

²² Huber and Stephens, *Development and Crisis*; Swank, *Global Capital*; Bonoli, *Politics of Pension Reform*; Leslie A. Pal and R. Kent Weaver, 'The Politics of Pain', in Pal and Weaver, eds, *The Government Taketh Away*, pp. 1–40.

²³ James E. Alt and K. Alec Chrystal, *Political Economics* (Berkeley: University of California Press, 1983); Alberto Alesina and Nouriel Roubini, 'Political Cycles in OECD Economies', *Review of Economic Studies*, 59 (1992), 663–88; William D. Nordhaus, 'The Political Business Cycle', *Review of Economic Studies*, 42 (1975), 169–90.

²⁴ Nordhaus, 'The Political Business Cycle'.

²⁵ For instance, see Robert S. Erikson, Michael B. MacKuen and James A. Stimson, 'Bankers or Peasants Revisited: Economic Expectations and Presidential Approval', *Electoral Studies*, 19 (2000), 295–312; Henry W. Chappell Jr and William R. Keech, 'A New View of Political Accountability for Economic Performance', *American Political Science Review*, 79 (1985), 10–27.

optimal in the short run in order to achieve longer-term political advantage and social change.²⁶

While arguments about competitive slack usefully predict variation, however, electoral vulnerability cannot account for the observed variation across our cases. Quite simply, it would be hard to argue that the Thatcher administration in the mid-1980s faced a stronger opposition than US politicians during their reform efforts. In addition to a massive parliamentary majority, the British Conservatives faced a divided left that would, predictably, be punished brutally by Britain's first-past-the-post electoral system.²⁷ With low-to-modest poll numbers, first-term presidents Carter and Reagan could not have viewed re-election as anything close to assured.²⁸ While the data on the competitiveness of congressional elections in this period are mixed,²⁹ studies of congressional behaviour covering this period also overwhelmingly indicate that legislators' policy choices were heavily influenced by electoral imperatives.³⁰ It was, however, US politicians who enacted a large investment while the British premier took an intertemporally cautious route.

A third electoral line of argument – though not explicitly intertemporal – focuses on governments' capacities to avoid blame for losses they impose. Pierson, building on Weaver's work on blame-avoidance, argues that the structure of inherited policies and of political institutions lend politicians differential opportunities to impose losses without penalty: by hiding costs from voters, for instance, or dividing the potential opposition.³¹ Did US politicians enjoy greater opportunities to extract resources by stealth?

The most striking structural fact about the financing of the two countries' pension schemes is a basic similarity: both relied on a contributory payroll tax for most or all of their funding. This financing structure lent reform similar risks and opportunities in both cases. On the one hand, cutting benefits would mean breaking the promises implied by past contributions, while increasing the flow of resources to such schemes would likely require raising a highly visible tax paid by workers and employers. On the other hand, such a tax increase could in both cases be directly linked to a popular public programme. Moreover, as Pierson's own comparative analysis indicates, it was the British scheme that conferred greater opportunities for blame avoidance.³² Because Britain's SERPS had been in operation for less than a decade at the time of reform, its accrued benefit promises were modest, making a transition to pre-funding relatively cheap. By comparison, any shift to

²⁶ Geoffrey Garrett, 'The Politics of Structural Change: Swedish Social Democracy and Thatcherism in Comparative Perspective', *Comparative Political Studies*, 25 (1993), 521–47. For a parallel argument about the role of political threat in shortening time horizons in the less-democratic context of Latin America, see Barbara Geddes, *Politician's Dilemma: Building State Capacity in Latin America* (Berkeley: University of California Press, 1994).

²⁷ Garrett, 'The Politics of Structural Change'.

²⁸ Howell Raines, 'Poll finds Reagan gains on economy', *New York Times*, 17 April 1983, p. A1; George Gallup, 'President receives 66 pct. approval after seven months', *Washington Post*, 11 September 1977, p. A16.

²⁹ Gary C. Jacobson, 'The Marginals Never Vanished: Incumbency and Competition in Elections to the U.S. House of Representatives, 1952–82', *American Journal of Political Science*, 31 (1987), 126–41; Benjamin Highton, 'Senate Elections in the United States, 1920–94' *British Journal of Political Science*, 30 (2000), 483–506.

³⁰ Morris P. Fiorina, *Congress: Keystone of the Washington Establishment* (New Haven, Conn.: Yale University Press, 1989); R. Douglas Arnold, *The Logic of Congressional Action* (New Haven, Conn.: Yale University Press, 1990).

³¹ Pierson, *Dismantling*; R. Kent Weaver, 'The Politics of Blame Avoidance', *Journal of Public Policy*, 6 (1986), 371–98.

³² Pierson, *Dismantling*.

pre-funding the forty-year old US programme would have to contend with decades' worth of accrued liabilities. As Pierson further points out, British institutions, by centralizing authority, also allowed Thatcher far more latitude to fine-tune policy changes in ways calculated to obscure their costs. If blame-avoidance prospects differed across the cases, it is in fact the government that enjoyed the greater opportunities for stealth that invested least in the long term.

There is thus little correlation in our cases between the electoral pressures on governments and their intertemporal choices. This is not, of course, because politicians were unconstrained by electoral forces: no government committed near-term electoral suicide in order to take care of the long run. The electoral view is, in fact, partly right: politicians must enjoy some form of protection against punishment by voters before they will invest in distant outcomes at short-term expense. Moreover, existing approaches tell us a good deal about the conditions that allow politicians a measure of policy leeway from voters' preferences, whether competitive slack or programme structures that make it easier to obscure or blur responsibility for losses. Drawing on the agenda-setting literature, we might also add that the electoral risks of investment should fall as its future benefits gain public salience. When dramatic events (for example, policy failures or natural disasters) raise the visibility of a long-term threat, it should become far easier for politicians to justify to voters the costs of a solution.³³

As we will see, *both* US and British politicians enjoyed an important form of insulation from electoral punishment. The limitation of the electoral view is that protection from electoral retribution does not itself dictate a particular policy response: it merely provides governments with room for manoeuvre. Electoral insulation can thus be only half of the story of intertemporal policy choice – a necessary but not sufficient condition for investment-oriented policies. To explain investment we thus need a theory of what motivates governments' policy decisions when they have scope for choice within the bounds of electoral constraint.

A THEORY OF DISTRIBUTIVE-INTERTEMPORAL POLICY CHOICE

This section outlines, at a general level, a logic of distributive and intertemporal policy choice over the long term. Its starting point is the well-established insight of the electoral view that, in general, governments will impose short-term costs only when the risks of electoral punishment for doing so are low.³⁴ This insulation may be generated by a number of forces: legitimating crises, competitive conditions, public inattention or inherited programme structures. The central question occupying us here is how governments choose within such a zone of electoral leeway: what logic shapes governments' intertemporal choices when policy is not fully determined by voters' preferences? As I will argue, when governments have electoral scope for choice, their policy decisions about the long run are likely to be driven in part by actors who are far more attentive to distant consequences than is the median voter: organized groups. Only by taking into account the distinctive time horizons, policy preferences and influence of powerful interest groups can we explain governments' varying responses to long-term social problems.

³³ John W. Kingdon, *Agendas, Alternatives, and Public Policies* (New York: Harper/Collins, 1984).

³⁴ Or, at least, when they are lower than the risks of not imposing these costs.

In its core logic, the argument below builds on an insight into interest-group preferences proposed by Mancur Olson.³⁵ As Olson argued, a group's policy preferences depend critically on the extent to which that group must *internalize the costs* of policy choices, as opposed to shifting those costs onto other sectors of society. In Olson's model, the key determinant of internalization is the encompassingness of group organization: when an interest group includes a sufficiently large segment of society, he argued, that group cannot advance its welfare through redistribution because its own membership will capture a large share of the resulting economic inefficiencies. Groups that must internalize such costs, Olson argues, are more likely to seek policies that expand the societal pie rather than reallocate pieces of it. The argument below extends Olson's logic in two respects. First, it explicitly frames the tradeoffs that groups face in *intertemporal* terms. Secondly, it focuses on a distinct and pervasive constraint on groups' capacities to externalize policy costs: the structure of political institutions.

The Influence of Organised Interests

Even if their sole concern is re-election, politicians have many reasons to consider interest groups' policy preferences, alongside those of ordinary voters. Organization allows interest groups to generate many kinds of co-ordinated political behaviour that can weigh heavily on politicians' re-election prospects, including the mobilization of voters, the financing of election campaigns and the disruption of policy implementation or economic activity. In some party organizations, moreover, large interest groups such as trade unions are granted a prominent role in candidate or leadership selection or in the writing of platforms. Ministers and legislators thus face strong electoral incentives to pay at least as much attention to the preferences of interest-group leaders as to those of the electorate. Moreover, any given politician's or party's ties to the world of interest groups will typically bind them more closely to some groups than to others – producing, for instance, greater reliance on business (or, conversely, on trade-union) support.³⁶

Where politicians tailor their policy choices to the demands of interest groups, this can have significant implications for the political calculus of the long term. The key reason is the difference in *attention* that organized interests devote to policy consequences. Unlike ordinary voters, interest-group leaders possess both the motivation and the analytical resources to track closely social and policy developments that impinge on their members' welfare.³⁷ As focused and informed stakeholders in the policy process, organized interests are likely to pay routine attention not merely to those social conditions and policy consequences that have already emerged but also to those that might affect them

³⁵ Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, Conn.: Yale University Press, 1982).

³⁶ In addition to creating incentives for politicians to respond to groups' demands, these linkages also create a bias towards the selection of candidates and leaders who hold ideological worldviews that are compatible with allied groups' interests. Thus, for instance, politicians from a conservative party will not only be constrained by business's policy preferences but will also tend themselves to hold views close to those preferences. Either effect can generate the process theorized below.

³⁷ Cathie Jo Martin, 'Nature or Nurture: Sources of Firm Preference for National-Health Reform', *American Political Science Review*, 89 (1995), 898–913; Arnold, *The Logic of Congressional Action*, pp. 65–7; Thomas Schwartz and Mathew D. McCubbins, 'Congressional Oversight Overlooked: Police Patrols versus Fire Alarms', *American Journal of Political Science*, 2 (1984), 165–79; Andrea Louise Campbell and Julia Lynch, 'Whose "Gray Power"? Elderly Voters, Elderly Lobbies, and Welfare Reform in Italy and the United States', *Italian Politics and Society*, 53 (2000), 11–39.

prospectively. To groups interested in future policy costs and benefits, moreover, the next election is a purely arbitrary point in time, and their attention to outcomes will regularly extend well beyond it.

Two implications follow. First, through the vital political resources at their disposal, organized interests lend short-term political significance to longer-term social outcomes. As powerful actors attentive to future policy effects, they provide a reason for politicians focused on winning the next election to attend to post-election social problems and policy benefits. Secondly, such coalitions constrain politicians to promote the *particular* future interests of their own group support base. In sum, elected politicians face incentives to craft policy to appeal to *prospective distributive coalitions* of social interests.

Coalitions' Policy Preferences

What do such coalitions want? Imagine that an organized social group – let us call it Group A – faces a problem that will deliver its impact over the long term. Group A might be a manufacturers' association facing crumbling transport infrastructure, a trade union facing declining earnings prospects, or an employers' federation facing rising pension costs over time. In principle, a prospectively oriented group should be willing to accept a solution that imposes costs on it in the near term but avoids even greater losses over the long term: a choice that I will term a *policy investment*. Many policy dilemmas take a form that makes profitable policy investment possible. Some partake of a logic of compound growth, whereby early gains or losses accumulate and enlarge the 'principal' upon which later gains or losses will be based. Such a logic characterizes not just policies of financial investment (such as those in debt reduction or pension sustainability) but also investments in self-reproducing natural resources, such as fisheries. Other policy benefits are generated through mechanisms that are inalterably slow-moving, such as the gradual processes that produce a skilled workforce or the moderation of climate change. The price for such goods must be paid long before their enjoyment, but their long-run value will often be expected to far exceed their shorter-term costs.

Where policy is subject to either kind of positive-return dynamic, Group A should be open to an intertemporal bargain. As with any investment, the returns must exceed the actors' discount rates and be more profitable than alternative available uses of the resources. But in principle, where these conditions are met, Group A should be willing to accept the short-term costs of a policy investment that will direct greater benefits to it over the long run. To give but one example, trade unions have under certain conditions accepted tax and other policies that burden labour more than business in the near term in order to maximize capital investment and the long-term availability of jobs.³⁸

At the same time, the conditions under which farsighted groups will accept such tradeoffs over time ought to be circumscribed. Even where the self-interested long-term calculus is favourable, paying for a policy investment will not always be Group A's most attractive policy option. In particular, in some cases it will be possible for the group to achieve the same long-term aims through *redistributive* rather than intertemporal means. Specifically, it is often possible for governments to craft a policy response that protects a group's future welfare simply by reallocating the problem's long-term impact. Rather

³⁸ Adam Przeworski and Michael Wallerstein, 'The Structure of Class Conflict in Democratic Capitalist Societies', *American Political Science Review*, 76 (1982), 215–38; Ronald F. King, *Money, Time, and Politics: Investment Tax Subsidies and American Democracy* (New Haven, Conn.: Yale University Press, 1993).

than investing in a solution, Group A may be able to externalize its future problem, shifting it onto a Group B. An industry organization facing a particular skill shortage might seek immigration laws that allow skilled foreign workers to enter the country – a move costly to domestic workers – rather than investment at home in training or education. A taxpayers' association might seek to protect its members against the future impact of public debt through budgetary rules that make it difficult to raise taxes (thus forcing future spending cuts), rather than through investment in near-term deficit-reduction measures. In each case, the response is redistributive rather than intertemporal, the movement of costs cross-sectional rather than over time. I term these strategies of long-run burden-shifting *delayed redistribution*.

A prospectively oriented Group A should thus prefer a profitable policy investment over a *status quo* in which it bears the full brunt of the long-run problem. Delayed redistribution, however, offers a clear advantage over policy investment: it allows Group A to externalize the long-term losses associated with a social problem without paying the short-term costs of investment. Thus, farsighted interest groups facing a long-run problem should, in fact, not be natural advocates of policy investment: delayed redistribution should be their solution of choice.³⁹

Institutional Constraint

Organized interests, of course, cannot always get their first choice. A critical factor shaping the outcome is whether it is *feasible* for a group to shift its long-term problem onto others – or whether the group must internalize those prospective losses itself. Many factors can affect the feasibility of burden shifting. As noted, Olson points to the encompassingness of group organization as a constraint on redistribution. A further obstacle can be technical: the impact of some social problems, such as many forms of pollution, cannot easily be redirected through state action. I focus here, however, on the *institutional* constraints on groups' efforts to externalize their long-term burdens.

Suppose that Group B – the potential loser from delayed redistribution – is also organized. Group B's leadership will also be highly attentive to the long-term consequences of policy choices for its members. As a result, the political feasibility of delayed-redistributive strategies will depend on the *distribution of political influence* among those organized groups that have a stake in the outcome. Where Group A enjoys disproportionate sway over the policy process, it may find the path to delayed redistribution wide open. Through its allies in office, Group A will be able to win a policy reform that diverts the impact of a long-term social problem onto another group, without imposing any costs in the short term. However, where the prospective losers can block policy change, delayed redistribution may be effectively removed from the policy menu, and Group A will be forced to internalize the costs of its own long-term problem.

All else equal, the broader the coalition required for policy change in a given context, the harder it will be for one social group to shift its own long-term problem onto another. Formal political institutions that widely disperse veto power – across branches or levels of government or within legislatures – expand the range of social interests that must be

³⁹ A third option is policy investment that benefits Group A but is paid for by Group B. I set this hybrid option – investment with redistribution – aside here because the conditions under which it is politically possible are the narrowest: it requires both that politicians be willing to impose short-run costs on a segment of the electorate that will see no corresponding benefits and that any organized Group B be unable to influence policy.

accommodated to change policy.⁴⁰ In addition to formal institutions, the internal structure of party organizations also shapes the number of effective veto points. Where parties in the legislature are minimally disciplined, internal factions can often exercise their own blocking power over policy change. The more widely political authority is dispersed, in turn, the easier it is for Group B to defend its long-run interests against Group A's manœuvres by appealing to its own allies in office. Where veto points are multiplied, then, Group B will have greater capacity to block Group A's efforts to redistribute long-term burdens.

In contrast, institutional settings that highly centralize political power – for example, in the hands of a single-party cabinet commanding a disciplined parliamentary majority – will tend systematically to generate asymmetries in power among organized interests. Those groups that enjoy close alliances with the party in power will have direct access to top decision makers, while opposing groups will be likely to be locked out of key venues of policy deliberation and choice. In other words, centralized authority will be more likely to allow policy-making coalitions that contain Group A but exclude a Group B onto whom costs can be shifted. Institutional settings with few veto points thus facilitate delayed redistribution in favour of those groups with strong ties to the most powerful officeholders.

Our group facing a long-term problem thus confronts the task of optimizing under institutional constraints. Where Group A's allies are in office and wield unfettered policy-making authority – i.e., the number of veto points is low – Group A will have little reason to accept the costs of policy investment: the likeliest outcome is its favoured option of delayed redistribution to a relatively powerless Group B. When veto power is widely dispersed, however, Group A's first choice will be far less feasible: it now has to internalize the costs of its own long-run problem. As long as policy investment would make Group A better off in the long run than the status quo, Group A should be more willing to accept its short-run costs. The likelihood of policy investment, in turn, should be far higher.

It is important to note that the argument should not be read to imply that dispersed political authority is *sufficient* for policy investment to emerge. Even when pressed by organized groups, governments may fail to act. As stated at the outset, politicians must also enjoy some form of protection against electoral punishment for investment's short-term costs – which, directly or indirectly, will usually fall on some group of ordinary voters. If governments do not enjoy electoral room for manœuvre, and if the institutions prevent delayed redistribution, then the outcome should be no policy change at all. The reasoning above is intended to tell us how governments will choose when electoral opportunities for investment do emerge. Under these conditions, I am arguing, the likelihood of an intertemporal solution will depend heavily on the political feasibility of a redistributive one.

This argument suggests two reasons why standard veto-point theories of policy change cannot simply be applied 'as is' to understanding intertemporal choice. First, the common veto-point logic applies best to policies of redistribution because such measures have outright *losers*. With an intertemporal tradeoff, however, today's losers may stand to gain in the long run: the cost-bearers of investment may not want to use available veto opportunities to block an investment that will serve their own long-run interests. Secondly, as analysts of distributive politics have noted, concentrated power makes the

⁴⁰ Ellen M. Immergut, *Health Politics: Interests and Institutions in Western Europe* (New York: Cambridge University Press, 1992); George Tsebelis, *Veto Players: How Political Institutions Work* (Princeton, N.J.: Princeton University Press, 1995).

cross-sectional redistribution of burdens easier. And it is precisely for this reason that it makes groups allied with the governing party less likely to accept short-term pain for long-term gain. For policy investment to occur, powerful organized groups must be constrained from achieving their long-range goals through purely redistributive means. Only when they must internalize their long-run problems do they – and their allies in government – have reason to invest in a solution.

EMPIRICAL ANALYSIS: INTERTEMPORAL AND DISTRIBUTIVE CHOICE IN PENSION REFORM

Method

The empirical analysis below will test this institutional argument against multiple cases of pension reform. As will be detailed below, the cases examined are all episodes in which politicians enjoyed a significant form of protection from electoral punishment for imposing short-term costs. The comparison is thus configured specifically to isolate the forces driving governments' choices under conditions that make it electorally feasible to invest. The primary cases analysed are the 1986 British reform (outcome of delayed redistribution) and the 1977 (policy investment) and 1983 US pension reforms (mostly policy investment).

Though the analysis focuses on two countries, it is important to underline two key respects in which the logic of inference goes well beyond an ' $n = 2$ ' comparison. First, the analysis expands the effective number of cases in ways that strengthen the test for alternative explanations. Within the US case, analysis of two episodes allows us to observe dynamics under varying partisan conditions (one alternative explanation) while holding institutional arrangements constant. To provide further leverage, the section concludes with a condensed analysis of pension reform in a third country, Canada. The Canadian case provides a useful 'most different' shadow comparison with the United States, sharing a high number of veto points but displaying wide variation in other, potentially influential, conditions. I assess the Canadian case, in particular, to test a potential rival explanation centred on the presence or absence of short-term crisis.

Secondly, the empirical test relies for its inferential leverage only partly on the Millian analysis of covariation across cases. In addition to cross-case comparison, the analysis examines whether specific features of the reform processes are consistent with the theoretical logic.⁴¹ Attention to causal processes *within* each case allows us to probe for a set of observable implications of the theory that are distinct from the correlations of variables across cases. The investigation focuses on three kinds of process-based implications of the theory:

1. *Preferences*: Organized interests should (a) place a substantial value on long-term resource flows, while (b) preferring redistributive over investment-oriented solutions to their own long-term problems. It would falsify the above argument if social interests' first choice were investment.
2. *Institutional dynamics*: Decentralized institutions should grant veto power to the prospective losers from redistributive proposals; centralized institutions should

⁴¹ David Collier, Henry E. Brady and Jason Seawright, 'Toward an Alternative View of Methodology: Sources of Leverage in Causal Inference', in Henry E. Brady and David Collier, eds, *Rethinking Social Inquiry: Diverse Tools, Shared Standards* (Lanham, Md.: Rowman and Littlefield, 2004), pp. 229–66.

generate narrow governing coalitions that minimise the influence of potential losers from redistribution.

3. *Strategic adjustment:* We should observe groups and politicians accepting a less-preferred alternative under conditions specified by the theory. The theory predicts that social interests should be willing to accept costly policy investments if, and only if, efforts to solve their long-term problems redistributively are politically infeasible. It also predicts that politicians should be constrained in their policy choices by the preferences of their interest-group allies.

Britain

Why did pension reform in Britain consist mostly of delayed benefit cuts? Margaret Thatcher's Conservatives came to power in 1979 ideologically committed to controlling the growth of public expenditure and scaling back the role of the state. Her ministers sought not only to restrain public budgets in the near term but also to moderate the long-term trajectory of government spending. With public pension outlays scheduled to grow steeply and automatically over the next several decades – as a result of both an ageing population and a maturing contributory programme – pensions were a key target of government efforts to restrain the state's long-term spending commitments.

At the same time, however, Thatcher did not seek a reduction in future pensioners' *overall* incomes or redistribution away from the retired. If state pensions were to be cut back, a proposed new vehicle for individualized private savings was to provide an alternative and, in her view, superior form of retirement security. Unlike either employer-provided or state pensions, the accumulation of assets in personal, invested accounts would give individuals an ownership stake in the market economy, the freedom to change jobs without losing pension rights and responsibility for their own future welfare.⁴²

In a public 'green paper', the government proposed a massive investment in this new personalized pillar of retirement provision. SERPS was to be completely phased out, eliminating its benefits for those retiring after 2010. All individuals would be required to start contributing now either to an employer scheme or to a personal pension to replace their public coverage. Those currently in employer-operated arrangements would be free to exit those schemes and take out their own individual plans.⁴³

This dramatic, long-term shift from public to private provision would impose a major short-term burden across society – on workers, employers and taxpayers at large. One of its more significant costs took the form of the 'double-payment' problem inherent in a switch from public financing to private. It would have been politically reckless simply to end the state programme without honouring claims already earned. Yet, the government would have to find resources to cover those existing entitlements even as current state pension contributions were re-channelled into private schemes. A substantial share of this transition burden was to be borne by firms that currently operated their own occupational pension plans: the shift would immediately add 3 percentage points to their payroll tax burden.⁴⁴ In addition to these direct social costs, the state would have to subsidize the

⁴² Norman Fowler, *Ministers Decide: A Personal Memoir of the Thatcher Years* (London: Chapman, 1991), p. 203.

⁴³ Steven Nesbitt, *British Pensions Policy Making in the 1980s* (Aldershot, Hants: Avebury, 1995).

⁴⁴ Nesbitt, *British Pensions*.

transition costs, both as an employer itself and through the tax-exemption of additional private pension contributions. In just the first year of implementation, the cost to the Exchequer would be £1 billion.⁴⁵ At the same time, eliminating earnings-related state pensions would generate stunning long-term savings, amounting to £26 billion a year – at 1985 prices – by 2033.⁴⁶

This proposal for policy investment did not survive long. The problem was not that it would impose costs on voters. The Conservatives in Thatcher's second term – in addition to holding an overwhelming majority – faced one of the most permissive competitive environments of the post-war period: with the left fractured into two political parties, the unified right had an enormous built-in advantage under first-past-the-post electoral rules.⁴⁷ The economy, moreover, was robust in the lead-up to reform.⁴⁸ Labour's leadership promised to make the costs of reform a theme of the next campaign, but its capacity to threaten the Tories' grip on power was limited.⁴⁹ While the Thatcher administration was not freed from all electoral moorings, it enjoyed a rare degree of electoral insulation and was unusually well placed to impose near-term costs on the median voter.

Nor was protest from organized groups on the left a significant obstacle. Trade unions and welfare advocates predictably criticized the long-term dismantling of solidaristic public provision. Yet, the centralized institutional landscape allowed them little influence over policy decisions when a hard-line Conservative government held a massive majority.

Far more consequential was opposition from employers, who balked specifically at the short-term costs that the plan would impose on *them*.⁵⁰ It was not that the policy investment did not offer employers major gains over the long term. Without investment, the public pension programme's contribution burden, shared equally by workers and employers, was expected to multiply over the next few decades as the programme matured and the population aged, rising from only 2 per cent of earnings in 1991 to 6.2 per cent by 2011 and 10.6 per cent in 2033.⁵¹ By paying 3 per cent more now, British firms could escape much larger rises in coming decades.

British employers, however, faced an environment favourable to an even more advantageous alternative: a long-term redistribution of the costs of retirement.⁵² Rather than *investing* now in the creation of a private system, employers could reap enormous long-term gains if future state benefit levels were simply reduced, shifting the burden of adjustment onto tomorrow's retired persons. British political institutions made this strategy

⁴⁵ Nigel Lawson, *The View from No. 11: Memoirs of a Tory Radical* (London: Bantam Press, 1992), pp. 588–91.

⁴⁶ Secretary of State for Social Services, 'Reform of Social Security: Programme for Action'.

⁴⁷ Garrett, 'The Politics of Structural Change'.

⁴⁸ National Science Board, 'Science and Engineering Indicators, 2000' (Arlington, Va.: National Science Foundation, 2000).

⁴⁹ Moreover, other secondary accounts of the reform episode make little or no mention of voters' preferences as a factor shaping subsequent retreat from the green paper (Nesbitt, *British Pensions*; Pierson, *Dismantling*; Bonoli, *Politics of Pension Reform*).

⁵⁰ Eric Short, 'Employers reject pensions reform', *Financial Times*, 19 September 1985, p. 6; Michael Prowse, 'CBI president criticises pensions phase-out plan', *Financial Times*, 22 June 1985, p. 20. The powerful Confederation of British Industry led the attack. An internal discussion document confirms that its main objection was the double-payment burden. See Eric Short, 'CBI chiefs oppose pensions reform plans', *Financial Times*, 3 August 1985, p. 4.

⁵¹ Calculation by Institute for Fiscal Studies, cited in Michael Prowse, 'Why 11m pensions are in the balance', *Financial Times*, 2 May 1985, p. 24.

⁵² Eric Short, 'CBI condemns plan for pension switch bonus', *Financial Times*, 21 April 1986, p. 11; Nesbitt, *British Pensions*.

eminently feasible. With political authority almost completely centralized in its own hands, Thatcher's cabinet had little need to accommodate the concerns of the labour and welfare groups who would oppose such a distribution of losses. In other words, British employers knew that they could probably achieve substantial reductions in their future tax bill by externalizing the burden rather than by paying higher costs in the short term.

If the government enjoyed some insulation from public opinion and could safely ignore welfarist lobbies, Conservative leaders could less afford to dismiss the objections of party allies in the business community. Employers' demands, in fact, tipped the scales in an internal Cabinet struggle over the shape of reform. The Treasury had always opposed the investment proposal because of its high short-term costs to the Exchequer, but had lost out to Thatcher and Social Services Secretary Norman Fowler in crafting the green paper.⁵³ Now, business opposition greatly strengthened the chancellor's hand: as reports from participants indicate, employers' demands were critical in settling the inter-ministerial conflict over the final shape of reform.⁵⁴

When Cabinet convened to reconsider the green-paper proposal, the chancellor won fundamental revisions that would impose far less short-term pain but still sharply reduce future outlays. Consistent with business preferences, the state contributory programme would be deeply slashed rather than eliminated, with most of the cutbacks long delayed. At the same time, personal-pension coverage would become a *voluntary* option, rather than compulsory, a change that was expected to greatly limit take-up. The short-term costs of the new plan were far lower than those of the old – expected over five years to reach only £750 million, as compared with £1 billion in the first year alone – and were projected to require no increase in contribution rates.⁵⁵

Despite its low cost in the near term, the reform's delayed redistributive changes would cut pension costs for employers and other taxpayers by over 50 per cent within twenty-five years.⁵⁶ This policy choice effectively reallocated the costs of demographic change from future contributors – including employers – onto the backs of future recipients of state pensions, who would receive much lower payouts. Since the reform would make only a modest investment in additional private accounts, its net long-term effect would be a reduction in future pensioners' incomes. Crucially, this redistributive outcome was *not* Thatcher's first choice: she had preferred a large policy investment that would have reduced state costs while maintaining pensioners' incomes. The final outcome reflected not her ideological vision but strategic adjustment to the demands of her interest-group allies within a centralized institutional context. Employers could not be persuaded to accept the costs of investment in an institutional setting that made it so easy to shift long-term burdens onto groups outside the governing coalition.

The United States

Why did US politicians enact two major investments but comparatively limited redistribution across groups? I consider each episode – 1977 and 1983 – in turn.

⁵³ Norman Glass, former senior Treasury economist, interview with author, London, 16 August 2001.

⁵⁴ Fowler, *Ministers Decide*. Confirmed by a senior civil servant closely involved with the reform in interview with author, London, 3 August 2001.

⁵⁵ Secretary of State for Social Services, 'Reform of Social Security: Programme for Action'.

⁵⁶ Pierson, *Dismantling*.

1977 reform. In the mid-1970s, high unemployment and high inflation strained the US Social Security system's finances to the brink of imminent collapse. At the same time, the programme's actuaries were projecting an enormous gap in the system's long-term finances. Driven by a combination of demographic change and a faulty formula for inflation-indexing, this deficit was equivalent to 8 percentage points of the payroll tax averaged over the next seventy-five years.⁵⁷

Like the Thatcher government, US incumbents enjoyed a form of electoral insulation in choosing a response. While in Britain this cushion took the form of competitive slack, in the United States it took the form of a legitimating crisis. Signalled by dire actuarial reports and front-page headlines, a highly visible emergency in an enormously popular programme lent politicians unusual scope for justifying painful adjustment.⁵⁸ In fact, a default on the system's obligations, representing decades of contributions by tens of millions of workers, would have been by far the riskier option. This electoral *opportunity*, however, in no way dictated that the outcome would be a policy investment.

On both left and right, groups' and politicians' favoured response to the crisis was to shift the burden outside their respective coalitions, not to invest in the long term at short-term expense. Business groups' preferred solution was based entirely on gradual cuts in benefits that would, over the long run, transfer resource claims from future beneficiaries towards future taxpayers.⁵⁹ Meanwhile, left-of-centre Democrats' favoured option placed most of its burden on the affluent and business.⁶⁰ For instance, the president proposed increasing the tax burden on employers and higher earners. More significantly, Carter and the House Democratic leadership each called for measures that would – for the first time ever – use revenues from the general budget to help pay Social Security benefits.⁶¹ Since general revenues came from sources more progressive than the payroll tax, these proposals would have placed the costs of the programme's rescue squarely on the shoulders of business and the affluent, while protecting the material interests of key members of the Democratic party's organizational base – labour unions and senior citizens' groups. The critical feature of these contending proposals was that each implied a *cross-sectional* shift, but no significant transfer of resources from the short term to the long term.

What channelled the outcome away from redistribution, and towards investment, was institutional constraint. The structure of US political institutions, especially the dispersion of legislative authority, left each coalition with only modest ability to shape the reform outcome. Even with unified Democratic control of the executive and legislature, Carter's authority was sharply limited. Each chamber of Congress – as well as powerful committees within them – wielded a potential veto over new legislation. Just as importantly, weak party discipline, combined with deep regional fissures within the Democratic party, left the president with weak claims on the loyalty of his nominal co-partisans in the legislature. Unlike Westminster's concentration of authority, US institutions offered numerous access points to those who stood to lose from policy change.

⁵⁷ Board of Trustees, 'Annual Report of the Board of Trustees of the Federal Old-age and Survivors Insurance and Disability Insurance Trust Funds' (Washington, D.C.: US Government Printing Office, 1976).

⁵⁸ W. Andrew Achenbaum, *Social Security: Visions and Revisions* (New York: Cambridge University Press, 1986).

⁵⁹ David Koitz (Controller's office of the Department of Health, Education, and Welfare during reform), telephone interview with author, 16 July 2002.

⁶⁰ This is aside from an uncontroversial proposal to fix the technical flaw in the indexation formula.

⁶¹ Edward Cowan, 'Carter asks tax rises, funding shift to ease Social Security drain', *New York Times*, 10 May 1977, pp. 1, 55.

Indeed, Carter's plan drew a howl of protest from those who would pay its costs. Organized business objected, in part, to the proposed one-sided increase in the employer's portion of the payroll tax. With equal vehemence, they opposed introducing any element of general-revenue financing into the programme. Their concern was less with the immediate effects of such a mechanism than with its longer-term implications for the politics of redistribution. Business leaders viewed strict payroll tax financing of Social Security as a crucial constraint on the growth of this popular social programme: every time Congress wanted to raise benefits, it also had to raise taxes on workers. Employers were worried that a break with the self-supporting principle would open the doors to easy finance, generating a dangerous political dynamic of expansion. As one business executive framed the danger, 'I've got some real reservations about using general funds to pay part of Social Security costs ... It's a precedent that would be too easy for future Administrations to follow'.⁶² In Congress, a powerful alliance of fiscally conservative Democrats and Republicans on the tax-writing committees echoed business concerns, warning of the precedent that general-revenue infusions would set.⁶³ If they could draw on the general budget, conservative lawmakers argued, future majorities would find it all too tempting to enact costly benefit increases.⁶⁴ For both business leaders and their powerful allies in Congress, pure contributory financing provided a check on the redistributive scope of the American welfare state.

Thus, with opponents positioned at multiple veto points, the left's redistributive strategy had no hope of enactment. At the same time, labour and senior citizens' organizations had sufficient backing from Democrats in Congress and the White House to block attempts to redistribute future resources away from them. Dispersion of veto power thus created a distributive stalemate in which neither business nor the programme's clientele groups could solve its long-run problem by getting the other to pay.

Yet for all social groups the status quo was the worst possible outcome. Even for business, a failure to act now would – by leaving the system with insufficient funds – ultimately risk precisely the kind of general-revenue bail-out that it most wanted to avoid. Facing an imperative to act, but with benefit cuts and general revenues off the table, Congress's finance committees adopted the only remaining option for balancing the programme's books: a quick, sharp hike in the payroll taxes paid by workers and employers, to take effect starting in 1979.⁶⁵ It was the largest peacetime tax increase in the country's history. Together with the fix to the indexation formula, this near-term tax hike was projected to resolve both the short-term and long-term financing troubles that the system faced, eliminating the deficit for the next fifty years. Because it imposed so much pain so early, the reform generated a massive policy investment: an intertemporal transfer from current workers and employers to future retired persons and contributors. As the economy revived and the immediate cash crunch subsided, the system was expected to take in more in revenues than it needed to pay benefits, generating a large fund that would later help finance a growing pension burden without further tax hikes.

⁶² Michael C. Jensen, 'Carter payroll tax plan is opposed by business', *New York Times*, 11 May 1977, pp. D1 and D7.

⁶³ Derthick, *Policymaking*, 239; Mary Eisner Eccles, 'Carter social security plan greeted coolly', *Congressional Quarterly Weekly Report*, 14 May 1977; Mary Eisner Eccles, 'Social security crisis: Committees to weigh financing alternatives', *Congressional Quarterly Weekly Report*, 3 September 1977; James W. Singer, 'Carter is trying to make social security more secure', *National Journal*, 11 June 1977.

⁶⁴ Edward Cowan, 'One way or the other, social security will need help', *New York Times*, 7 March 1976, p. E3.

⁶⁵ Congressional Quarterly, *Almanac* 1977.

In line with our theory, labour along with major business groups and many fiscal conservatives ultimately accepted this solution rather than exploiting veto opportunities to try to block it, though it was the first choice of none.⁶⁶ While it imposed sharp pain in the near term, it protected both coalitions from a worse long-run outcome: as it rescued the system's capacity to pay benefits, it also preserved a strict separation from the general budget, limiting the scope for easy future expansion.

1983 reform. By 1982, a renewed insolvency crisis placed Social Security reform back at the top of the political agenda. Unexpectedly grim economic conditions threatened near-term bankruptcy while also worsening the programme's long-term financial outlook. Once again, the policy response included a large policy investment. And, again, decision makers backed into a dramatic intertemporal transfer only as their distributive efforts hit the walls of institutional constraint.

Had either liberals or conservatives been able to act alone in 1983, pursuing their own allies' distributive interests, each would have devised a solution that relied solely on burden-shifting, without recourse to investment. Shortly after taking office, President Reagan had already made a major distributive push away from Social Security's beneficiaries, proposing significant cuts in pension outlays to be followed by a freeze in payroll tax rates.⁶⁷ And, as they had in 1977, labour groups and liberals in Congress responded to the new crisis by pushing *their* favoured redistributive solution of revenue transfers from outside the programme, with modest payroll tax increases scheduled only as needed in future years.⁶⁸ Neither coalition's preferred solution would have entailed an additional accumulation of resources in the trust fund or an intertemporal transfer.

In the US institutional context, however, neither distributive coalition could entirely get its way. Business groups and fiscal conservatives had sufficient leverage in the Republican-controlled Senate and White House and on congressional finance committees to block liberals' distributive first choice. At the same time, Reagan faced Democratic control of the lower chamber and could not rely on loyalty from all congressional Republicans; his initiatives, too, were blocked. Unable simply to shift burdens outside its own coalition, each side was forced to internalize the long-term costs of inaction: for labour and the left, the possible collapse of the system; for business and the right, the ultimate erosion of the wall between Social Security and the general budget.

As in 1977, a policy investment – a quick hike in payroll taxes, combined this time with short-term benefit cuts – was the only politically feasible way to avoid both coalitions' worst long-term outcome. The package's short-term pain included the taxation of benefits for higher-income retired persons; a one-off six-month delay in inflation adjustment; the acceleration of the 1977 schedule of tax hikes; and an increase in the contribution rate paid by the self-employed.⁶⁹ These near-term measures not only resolved the immediate cash crunch but also began generating massive surpluses that would reduce the system's seventy-five-year deficit by two-thirds.⁷⁰ The package was not pure investment: among the major elements of delayed redistribution was a gradual increase in the retirement age scheduled to begin in 2000. The urgency of repairing the trust fund, combined with a set

⁶⁶ Singer, 'Carter Is Trying'; Jensen, 'Carter Payroll Tax Plan'.

⁶⁷ Paul Light, *Still Artful Work: The Continuing Politics of Social Security Reform* (New York: McGraw Hill, 1995); Pierson, *Dismantling*.

⁶⁸ Light, *Still Artful Work*.

⁶⁹ Light, *Still Artful Work*.

⁷⁰ Board of Trustees, 'Annual Report 1983'.

of restrictive rules adopted by congressional leaders, gave business groups and their legislative allies just enough leverage to push some long-run benefit-reductions through potential veto points.⁷¹ Even under emergency conditions, however, the scope for distributive change in the United States was sharply limited by the dispersal of political authority, forcing a resort to major investment to solve the bulk of the problem. The distributive shift in 1983 paled in comparison to Thatcher's, while the scale of policy investment, as in 1977, was without parallel in the British reform.

Alternative Explanations: Ideology and Short-Term Crisis

Before concluding, I consider two alternative explanations that the particulars of these cases might, at first glance, seem to suggest. First, we could ask whether governments' decisions were simply dictated by their partisan or ideological complexion.⁷² Did Thatcher's assault on public pensions reflect her party's ideological suspicion of state welfare, while investment in the US programme reflected the greater influence of left-of-centre politicians over policy making? Though politicians pursued distinct partisan aims, partisanship or ideology cannot explain the outcomes without taking into account institutional context. First, even on its face, the correlation is only modest: despite a large partisan shift in power, the 1983 US reform looks much like the 1977 reform in intertemporal terms. More importantly, as we saw, the outcomes represented strategic adjustments by political leaders, not their unalloyed ideological instincts. Carter's first choice was not to raise Social Security taxes but to shift the financing burden to affluent taxpayers; Thatcher's was to invest in a massive expansion of private pensions, not to cut pensioners' incomes. Each was forced into the final outcome by the logic of long-run optimization within institutional constraints. Only by taking institutional structure and groups' calculations into account can we understand why, for instance, Carter was willing to impose large short-term costs on blue-collar workers by hiking a regressive payroll tax.

To put the point differently, the outcomes – especially in the Carter and Thatcher episodes – were ultimately *compatible* with leaders' ideological commitments, but were not *determined* by them. In the British case, for instance, it was not hard to justify cutting state benefits by reference to conservative beliefs, and those beliefs both animated the overall reform project and shaped its broad thrust towards reduced state responsibility. But conservative ideology itself would not have directed ministers to the choice that they made *between* anti-statist alternatives – favouring a reduction in the future incomes of the retired over a policy investment in private pensions.

Turning to a second alternative explanation, we might note that both of the US reforms were triggered by short-term trust fund crises, a condition absent in Britain. We might thus speculate that this short-run trigger *itself* explains the cross-national variation in outcomes – that the institutions were thus irrelevant. Indeed, other scholars of Social Security politics have laid emphasis on these crises as motivators of the two US reforms.⁷³ We have already considered evidence, in the process analysis above, that the short-term crisis produced policy action in the United States but was not sufficient to generate the *specific* outcome

⁷¹ Light, *Still Artful Work*.

⁷² James P. Allan and Lyle A. Scruggs, 'Political Partisanship and Welfare State Reform in Advanced Industrial Societies', *American Journal of Political Science*, 48 (2004), 496–512; Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, N.J.: Princeton University Press, 1990).

⁷³ Light, *Still Artful Work*; Derthick, *Policymaking*.

of policy investment. As we saw, contending coalitions preferred delayed-redistributive over investment-based solutions. Thus, had either set of interests wielded centralized authority, the outcome would most likely have redistributed long-run burdens in favour of those governing interests, without significant investment. Moreover, the crises would have provided electoral cover for delayed redistributive moves (such as future programme cuts) as easily as they did for investment. In both US episodes, it was the fragmentation of authority that prevented either set of interests from imposing its preferred redistributive solution, making policy investment far more likely.

Brief examination of an additional comparative case provides even greater leverage on the issue. The landmark Canadian pension reform of 1998 took place within decentralized institutions but in the absence of a short-term solvency crisis. In the mid-1990s, the actuaries overseeing the Canada Pension Plan (CPP) projected that, because of demographic pressures, the programme's contribution rate would have to triple – from 5.6 to 14.2 per cent – by 2030 or the system would go bankrupt.⁷⁴ Alarmed by these long-range projections, the federal Finance Department initiated a process aimed at reforming the programme. This process had to take place within a decentralized intergovernmental context: both the CPP's amendment rules and the need to keep the federal programme parallel with Québec's gave an effective veto to each of the two largest provinces.⁷⁵

In struggling over a solution, contending social groups exercised particular influence through the two veto-wielding provinces: each province took a position in defence of the long-run distributive interests of its governing party's allies. Business interests enjoyed especially close ties to Ontario's ruling right-wing Progressive Conservatives.⁷⁶ The Ontario government called for benefit cuts and a long-term cap of 10 per cent on the CPP tax rate – effectively, a delayed redistribution away from state pensioners.⁷⁷ In Québec, on the other hand, the governing Parti Québécois had important historical links to the labour movement, traditionally addressing its social-policy appeals to blue-collar workers, who depended heavily on the programme.⁷⁸ The Québec government flatly rejected most proposals to cut benefits, arguing instead for a solution that relied almost solely on raising contribution rates over time – delayed redistribution in the opposite direction.⁷⁹

With veto power widely dispersed, neither coalition could impose its preferred solution of externalizing the problem. An intertemporal solution, however, could still leave both sides far better off than the status quo. In 1998, Ottawa and the provinces agreed to nearly double the payroll tax in the space of six years – to 9.9 per cent, just shy of Ontario's limit – and to modestly reduce benefits. This short-term pain would allow the programme to build up a fund that would be invested and used to help pay benefits for several decades

⁷⁴ Office of the Chief Actuary, 'Canada Pension Plan: Fifteenth Actuarial Report as at 31 December 1993' (Ottawa: 1995).

⁷⁵ Keith G. Banting, 'Institutional Conservatism: Federalism and Pension Reform', in Jacqueline S. Ismael, ed., *Canadian Social Welfare Policy: Federal and Provincial Dimensions* (Kingston and Montreal: McGill-Queen's University Press, 1985), pp. 48–74.

⁷⁶ Leslie Papp, 'Harris gets 'revolution' rolling: Ontario Tories launch \$600,000 recruiting drive', *Toronto Star*, 9 May 1994, p. A1.

⁷⁷ Edward Greenspon, 'Discord over GST on agenda for talks: Finance ministers not in harmony', *Globe and Mail*, 17 June 1996, p. A1; Alan Freeman, 'Canadians to get say on pensions: Federal, provincial ministers agree to cross-country consultations on plan's future', *Globe and Mail*, 9 February 1996, p. A1.

⁷⁸ Banting, 'Institutional Conservatism'.

⁷⁹ Alan Freeman, 'Quebec opposes CPP age rise to 67: Ministers to meet on future of plan', *Globe and Mail*, 12 December 1995, p. A1; Freeman, 'Canadians to get say on pensions'.

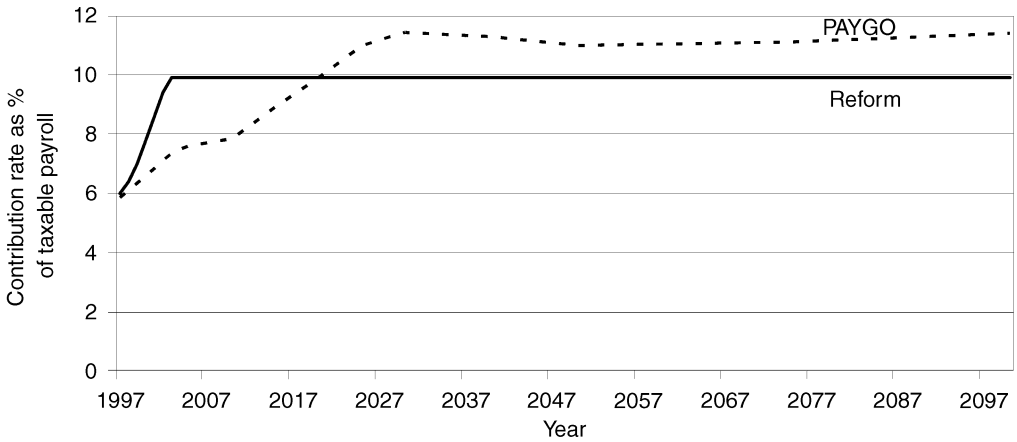


Fig. 3. Reform versus Pay-As-You-Go (PAYGO) tax rate, Canada, 1998

Note: Data from Office of the Chief Actuary, 'Canada Pension Plan: Sixteenth Actuarial Report' (1997). PAYGO line represents tax schedule in pre-reform law through its expiration in 2015, followed by the rate required to finance the system on a PAYGO basis, after taking into account the benefit cuts in the 1998 law.

without raising the contribution rate above 9.9 per cent.⁸⁰ As illustrated in Figure 3, the package thus imposed costs on both workers and employers in the near term but insured each against far greater disaster over the long run.

Investment emerged without any near-term crisis: the CPP was in no danger of being unable to pay benefits anytime soon. Short-term crisis, providing electoral cover for painful choices, is but one potential form of electoral protection. Canada's federal Liberals, however, enjoyed other forms of insulation. Much as in Britain, this cushion largely took the form of a divided opposition – in Canada, a fractured right – under first-past-the-post electoral rules.⁸¹ At the same time, insulation alone did not generate the investment. The critical difference between Canada and Britain was that no group in Canada enjoyed the institutional opportunity to enact the kind of long-term cross-sectional burden-shifting that Thatcher wrought. As in the United States, the most powerful Canadian social groups had to internalize future consequences, and investment looked better over the long run than did the status quo.

CONCLUSION

More than scholars have explicitly recognized, the politics of public policy is at once a struggle over who gets what and a struggle over when. In arenas ranging from fiscal policy to economic reform to the management of natural resources, governments and social groups routinely make choices both about how to distribute benefits and burdens across groups and about how to allocate them over time. Moreover, the impact of a policy choice on citizens may depend as much on when costs and benefits arrive as on their incidence

⁸⁰ Office of the Chief Actuary, 'Canada Pension Plan: Sixteenth Actuarial Report' (Ottawa: 1997).

⁸¹ Andrew Coyne, 'Right stays divided due to Quebec', *Toronto Star*, 29 May 1997, p. A30.

across groups. For those seeking to characterize and explain state action, this article suggests important analytical gains both from clearly distinguishing between these two dimensions of choice and from thinking about them simultaneously.

Most straightforwardly, the analysis points to the importance of disaggregating policies of loss-imposition in temporal terms. There is an enormous difference between imposing costs now to invest in the long run and transferring resources between groups at a given point in time. Like their social consequences, the politics of these two forms of loss-imposition are likely to differ in fundamental ways: where the logic of internalization holds, those conditions most conducive to redistribution will be those least conducive to investment. Likewise, we need to distinguish carefully between the *time horizon* of state action and its *intertemporal* character. Policy investment – a policy that trades pain today for gain tomorrow – is only one way in which politicians can respond with foresight to a long-term social problem. A great deal of far-sighted government action may take redistributive rather than intertemporal form: a reallocation of future benefits and burdens that promotes the long-term welfare of a specific social group but makes no investment in greater aggregate social welfare. In analysing the politics of the long run, we thus need to ask both what affects the time horizons over which politicians weigh policy consequences and, when their time horizons are extended, what determines their choices between redistributive and intertemporal means of shaping distant outcomes.

At the same time, even as we distinguish between them conceptually, intertemporal and distributive dilemmas need to be analysed *jointly*. As I have argued, we cannot understand why politicians choose investment over short-run maximizing without examining the opportunities for, and constraints on, redistributive solutions. Equally, the analysis above indicates that a temporal lens can help us explain many of the purely distributive choices governments make. When long-range problems are on the agenda, we gain substantial leverage in explaining distributive change by identifying the factors that make intertemporal solutions more difficult. In the British case, for instance, the dramatic losses that Thatcher imposed on future pensioners make sense only by reference to the conditions that impeded the investment that she had hoped to achieve in the first place.

The analysis here also suggests two more specific implications for theories of intertemporal politics, as well as one broader lesson for the study of the politics of public policy. First, attempts to explain governments' intertemporal policy choices need to move beyond a narrow focus on electoral pressures and to place mobilized and attentive groups at the centre of analysis. The few existing approaches to the study of intertemporal policy choice have tended to emphasize unmediated interactions between politicians and voters. While voters can impose a powerful constraint on governments' choices, electoral forces alone cannot fully explain how governments address distant problems. Interest groups have long been a focus of political analysis and recognized as highly influential constituencies that demand distributive prizes. Yet their contribution to the *temporal* orientation of state action has been largely ignored. Not all long-term social problems affect well-organized interests, of course, and those that do not will not be subject to the logic outlined above. But a great many long-run dilemmas – from infrastructural investment to the management of natural and human resources to the sustainability of the welfare state – do affect highly mobilized groups. On such issues, organized interests, attentive to prospective policy consequences, can have a profound effect on politicians' temporal incentives just as they shape their distributive choices. Interest-group pressures will not always push towards investment, but in a democratic system they represent one of the few mechanisms forcing

governments to take long-run outcomes seriously. Explaining governments' intertemporal choices will often require an analysis of the preferences of, and constraints facing, these influential and highly attentive actors.

Secondly, the logic of internalization pursued here suggests additional hypotheses about intertemporal politics that merit further inquiry. According to this general logic, the likelihood of policy investment should rise as it becomes more difficult for social groups to redistribute their long-run burdens. I have focused here on one particular constraint on externalization – formal political institutions. A further implication of the argument, however, is that other kinds of constraints on burden-shifting should similarly affect the likelihood of investment. One such constraint ought to be organizational: while the argument above assumes that the relevant social groups are organized, the level of organization of the potential 'losers' from redistribution (Group B) will in fact vary across policy issues and national contexts, and should have a major effect on the prospects for redistribution. All else equal, the better-organized a potential Group B, the greater its capacity ought to be to block redistributive solutions, and the more likely that Group A will accept the costs of investing in its own long-term welfare.

Similarly, the *technical* feasibility of shifting a long-term problem across groups should matter. In purely practical terms, it is easier to craft policy mechanisms that can redirect the costs of some social problems than of others. For instance, problems that impose localized physical damage (such as natural disasters) or that diminish the availability of scarce, non-substitutable resources (for example, clean air) may be less amenable to redistribution than are problems involving highly fungible (for instance, financial) resources. The likelihood of policy investment should increase to the extent that delayed redistribution is technically, as well as politically, harder to achieve for a given kind of long-term social problem. Testing this further implication of the logic of internalization may help us unpack the politics of the long term by issue area, uncovering whether – and, if so, why – governments are better at generating some *kinds* of long-term social goods than others.

Thirdly – and of broadest relevance to the study of public policy – the analysis suggests that we need to frame our arguments about institutional effects in complex, rather than simple and linear, terms. Standard arguments about institutional veto points tend to focus overwhelmingly on the number of veto points in a political system, associating a higher number of veto points with greater difficulty in achieving policy change. Yet there are two ways in which this kind of argument will often require adjustment. First, the change-impeding effect of veto points depends critically on the *preferences* of the actors positioned at them.⁸² A decision-making context riddled with veto points may be able to generate large policy change of a kind that veto-wielding actors support. The supply of veto points has no effect without a demand for veto. Secondly, institutions not only provide actors with points of access but also shape their strategic calculations about what can be achieved in a given context and – in doing so – the range of options they are willing to accept. From the perspective of a given group, the existence of veto points does not simply represent opportunities for *that* group to prevent unwanted policy change; those same veto points may also enhance the leverage of *competing* interests, thus

⁸² This point is central to Tsebelis's veto players framework but tends to be overlooked in most institutionalist arguments about public policy, which tend to assume the existence of actors who will use available veto points to block change (Tsebelis, *Veto Players*).

removing certain options from the policy menu. In a context with decentralized authority, groups adjusting strategically may thus be willing to accept second-best options that they would reject in a context in which their political allies held centralized authority and their menu of options was less constrained. Our claims about institutional effects on policy thus need to take into account not only what actors want but also how institutional context itself conditions what actors are willing to accept.

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