PART I

PROBLEM AND THEORY

CHAPTER 1

The Politics of When

Over seven decades ago, Harold Lasswell (1936) defined politics as "who gets what, when, how." Lasswell's now-classic formulation is an invitation to study political life as a fundamental process of distribution, a struggle over the production and allocation of valued goods. It is striking how much of political analysis, especially of public policymaking, has centered on conflicts over who will gain – or lose – what, and by what means. Why and through what processes, political scientists have so often inquired, do governments take actions that benefit some groups in society while disadvantaging others? The problem of policy choice has, in large part, been understood as a problem of distribution.

This massive and varied research agenda, however, has almost completely ignored a critical part of Lasswell's oft-cited definition. The matter of *when* – when the costs and benefits of public policies arrive – has been the focus of remarkably little systematic inquiry. Just as distributive choice is an unavoidable challenge of governing, politicians also routinely confront *intertemporal* dilemmas in making policy choices – trade-offs between the short-term impact and the long-run consequences of state action. Indeed, for elected governments the problem of timing may be among the thorniest of policy predicaments: while the electoral calendar forces politicians to court voters in the near term, many of the most important social problems and policy ramifications lie in the distant future. Students of the politics of public policy, however, have seldom conceptualized policymaking as a choice about timing. While we have developed an array of tools for explaining how governments distribute across groups, we have devoted little attention to illuminating how they allocate benefits and burdens between present and future.

This book brings trade-offs over time to the center of the study of public policymaking. The study seeks to understand how governments in the democratic world choose between the short run and the long run in their policy choices. In empirical terms, the book examines how elected politicians in industrialized societies have made intertemporal trade-offs in a policy sphere with massive consequences for the welfare of citizens: the field of public pensions. In both the short term and the long, governments' choices about pension policies have far-reaching social and economic effects – on the retirement incomes of the elderly, on the financial burdens borne by younger generations, on the availability of jobs, and on levels of savings and investment in the economy. Pension programs also routinely confront governments with a basic dilemma of timing: a choice between minimizing tax burdens and maximizing payouts in the short run, on the one hand, and enhancing long-run fiscal sustainability, social protection, and economic growth, on the other. Beyond its inherent importance, pension politics serves this book as a laboratory for investigating the politics of intertemporal choice. The study's core aim is to understand in general terms how elected politicians choose between maximizing social welfare today and investing for tomorrow. In particular, the book asks: *Under what conditions do democratic governments enact policies that impose costs on constituents in the short run in order to produce long-run social gains?*

In answering this question, the study seeks to illuminate how politicians manage a central challenge of democratic governance: promoting society's long-run welfare in the face of short-run political imperatives. The book also seeks to demonstrate the enormous analytical advantages of studying politics as a battle over timing as well as over distribution. When we view policymaking through a temporal lens, previously obscured features of the political world snap into focus: puzzling differences in the intertemporal choices that elected governments make, powerful effects of time on policymaking, and the profound consequences of timing for the lives of citizens.

Indeed – to take up this last point first – to those living with governments' policy choices, the timing of policy outcomes may matter just as much as their cross-sectional incidence. Today's citizens will often care as much about *when* costs and benefits will arrive as about *where* they will fall. Consider, for instance, a foundational moment in the development of the modern American welfare state: the creation of the United States' largest social program, Social Security, in 1935. As has been widely recognized, President Franklin Roosevelt and Congress's decision to establish a contributory public pension program was of enormous *distributive* significance – setting in motion a substantial reallocation of resources from America's active producers to those of retirement age, with especially important consequences for less-affluent seniors. To older Americans living in 1935, however, the construction of this massive engine of redistribution was a material nonevent. It mattered little to Depression-era seniors that the government was undertaking to insure people like them against poverty. A far more important fact was a matter of timing: although the collection of payroll taxes began in 1937, the program would closely tie individuals' benefits to their contribution records and would thus take decades to begin paying full pensions. Enacted amidst economic crisis and widespread poverty, public retirement insurance would do nothing for the needy elderly at the moment of its creation. To examine Social Security's origins in purely distributive terms would thus be to overlook what is probably the most normatively striking and intellectually perplexing feature of the program's design.

Time is also of the essence because many valued policy outcomes depend on it. There is a vast range of social goods that governments simply cannot provide without getting the timing of costs and benefits right. The very *slowness* of many social, economic, and physical processes imposes a temporal stricture on the logic of government action. Some policy goods can arrive swiftly: modern administrative states can boost subsidies to farmers or cut taxes virtually at the stroke of a pen. But no government can produce a skilled workforce quickly; the sluggish pace of human development and learning forbid it. Similarly, the slowness of large-scale economic processes places an effective speed limit on governments' efforts to undertake tasks such as promoting industrial development or paying down public debt. And physical and biological chains of cause and effect impose their own temporal constraints on states' attempts to clean the air and water, to slow climate change, or to replenish stocks of natural resources. In these spheres of activity, if governments want to produce goods widely valued by citizens, they will usually have to arrange policy consequences in a particular temporal order – starting to pay costs today for benefits that may not arrive for years or decades.

Beyond these social implications, few features of a policy can have such profound *political* consequences as the timing of its effects. As scholarship on the politics of policymaking has made clear, a policy's distribution of costs and benefits across groups will fundamentally shape the politics that surround it. At the same time, to a politician on an electoral schedule, little could be more important than *when* these losses and gains will emerge. A policy might promise to deliver large gains to important constituencies: reducing taxes on business, providing cleaner air to city residents, or expanding public transit to suburban voters. If the policy's costs must be imposed long before those benefits will arrive, however, then the politician faces a dilemma of timing just as brutal as any distributive trade-off. If she chooses to invest in valued social outcomes, the costs that she must impose today may be more salient to voters at the next election than payoffs that still lie in the temporal distance. But if she seeks solely to maximize net gains for her constituents today, she will do little to enhance – indeed, will likely diminish – their welfare over the long run.

A PUZZLE: VARIATION IN GOVERNMENTS' WILLINGNESS TO INVEST

Most political analysts (and most citizens, for that matter) probably have a strong intuition about how the typical elected official responds to such dilemmas. Democratic politics, characterized by regular elections at short intervals, is usually thought to suffer from a bad case of policy myopia: determined to remain in office, incumbents routinely bribe shortsighted voters with immediate benefits, ignore the future consequences, and put off any sacrifice for as long as possible. While the myopic pressures of electoral politics are indeed formidable, the actual record of policymaking in the democratic world suggests a far more complicated pattern. Even a casual glance at the cross-national policy landscape suggests that democratic governments have, in a range of spheres, made widely differing intertemporal policy choices.

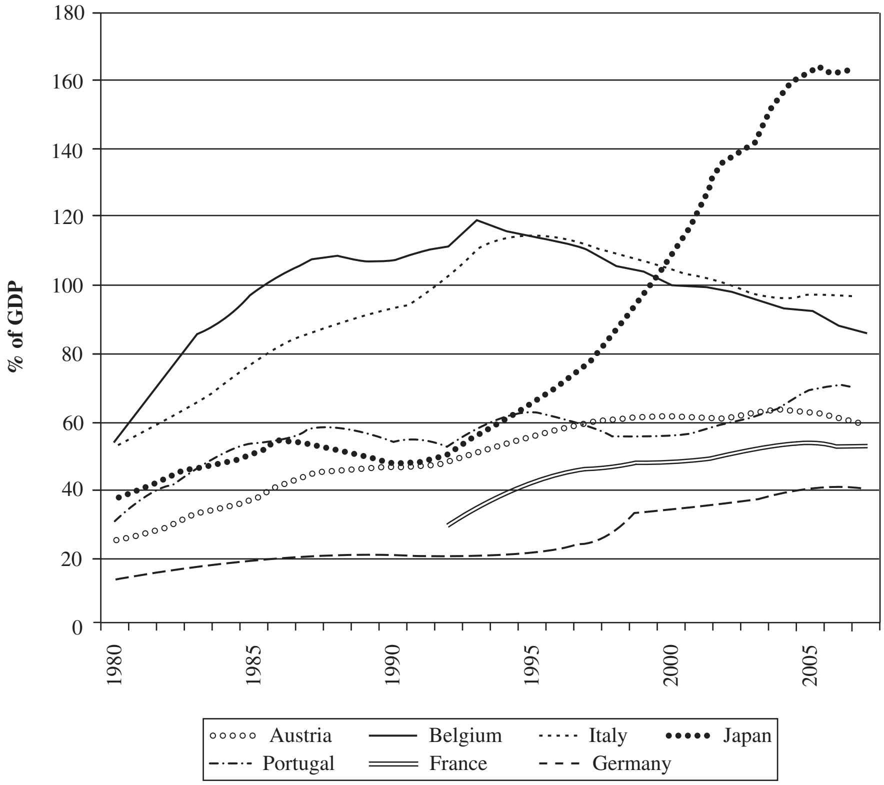

FIGURE 1.1 Debt-to-GDP Ratios in Seven Worst-Performing Advanced Industrialized Democracies, 1980–2007. Country performance defined as difference between debt-to-GDP ratio at beginning of period and debt-to-GDP ratio at end of period for which comparable data are available.

Consider, for instance, how governments have made broad trade-offs over time in state fiscal capacities. One measure of intertemporal choice in fiscal policy is the rate at which governments accumulate or pay down levels of public debt. Although the net macroeconomic effects of public debt are disputed, levels of debt have rather clear intertemporal implications for the public budget. All else equal, governments that reduce public debt levels are imposing higher burdens of taxation or distributing fewer programmatic goods *today* than they otherwise could, while reducing the interest payments that will have to be carved out of *future* budgets, whether through higher tax burdens or lower program expenditures tomorrow.

As Figures 1.1 and 1.2 demonstrate, advanced industrialized countries displayed impressive variation in debt trends from 1980 to 2007. At the extremes, as Japan's debt-to-GDP ratio skyrocketed from 37 percent to 164 percent, Ireland's fell from a peak of 107 percent to less than 20 percent. Statistical analyses suggest that only a fraction of such variation is the result of

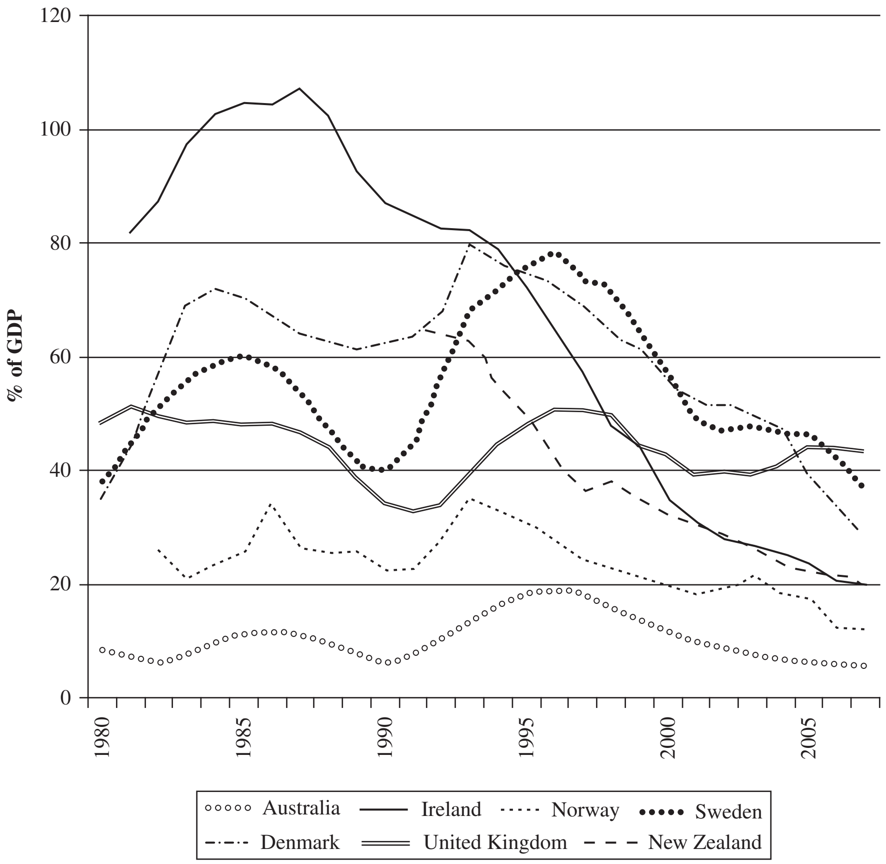

FIGURE 1.2 Debt-to-GDP Ratios in Seven Best-Performing Advanced Industrialized Democracies, 1980–2007. Country performance defined as difference between debt-to-GDP ratio at beginning of period and debt-to-GDP ratio at end of period for which comparable data are available.

economic forces beyond governments' control, such as rates of economic growth or unemployment (Franzese 2002): a great deal of the spread in debt trends represents politicians' own choices about levels of taxation and public expenditure. These divergent fiscal trajectories thus represent widely differing policy trade-offs between today's tax burdens and spending capacities and tomorrow's.

Governments have made similarly divergent intertemporal choices in specific spheres of government activity. In the field of education, for instance, spending on school construction and teachers' salaries diverts resources away from production for current consumption in order to invest in a long-term expansion of social and economic capacities. As Figure 1.3 suggests, democratic governments' willingness to invest currently available resources in the skills of future workforces varies tremendously. If we take public spending alone as a measure

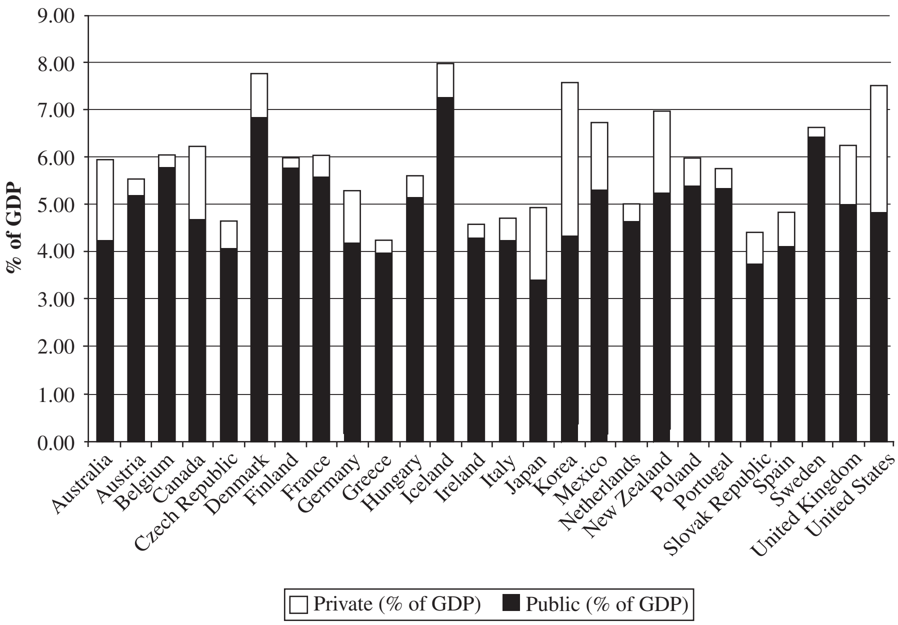

FIGURE 1.3 Expenditures on Educational Institutions in OECD Countries as a Percentage of GDP (2008)

of policy choice, OECD governments' allocation of national income to schooling at the end of the last decade ranged from Japan's 3.4 percent of GDP to Iceland's 7.2 percent; total (public plus private) and per-student spending levels vary nearly as widely. These resource allocations, moreover, are not a simple function of countries' levels of economic development, as comparisons of similar spenders – the United States and Hungary, New Zealand and Poland, Germany and Greece – make clear.

Elected governments also make widely varying intertemporal trade-offs when managing scarce natural resources. To illustrate, Figure 1.4 presents a cross-national portrait of forest conservation. At odds with common intuitions, all rich democracies effectively invested in future forest resources during the late 2000s by letting forests grow more quickly than they harvested them. The sizes of their investments, however, varied enormously. Whereas South Korea harvested less than 10 percent of its forest growth, Belgium and Switzerland consumed more than three-quarters of what they planted. In many cases, these figures also represent a dramatic shift over time. While Denmark, Finland, Belgium, Switzerland, and Portugal were depleting their timber resources in the 1970s and 1980s, all had shifted into conservation mode by the 1990s.

As we will observe in the course of the present study, a similar range of intertemporal variation marks governments' choices in the field of pensions. In developed democracies, few public policies shape society's use of resources as dramatically as do state retirement programs, which are typically the single

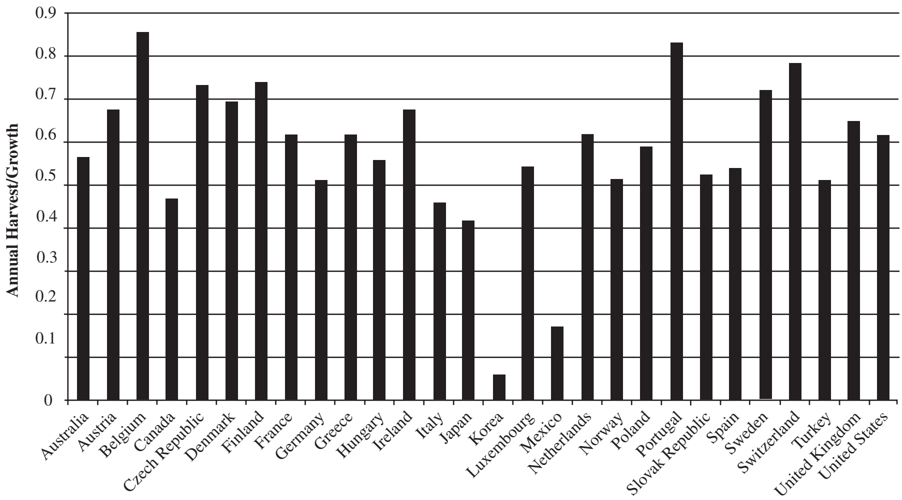

FIGURE 1.4 Intensity of Forest Use in OECD Countries (2008)

largest spending category in public budgets.[1] Over the last century, demographic change and the logic of contributory programs have typically confronted industrialized societies with a profile of rising expenditures. When such schemes were first established, the early cohorts of retirees would have accumulated short contribution records and earned a right to only modest benefits. Quite predictably, however, financial pressures have mounted over time as workers have accumulated larger entitlements to benefits and populations have grown older.

In both designing and maintaining public pension schemes, politicians have thus faced a choice about long-run financing. On the one hand, they could choose to minimize short-term costs by taxing workers and employers only as much as necessary to pay each year's pensions (pay-as-you-go, or PAYGO, financing), leaving higher future costs for tomorrow's taxpayers to bear. On the other hand, they could operate their pension programs on a "funded" basis by taxing *more* in the near term than was required to pay current benefits. A funded scheme would accumulate reserves that would help pay future pensions, thus moderating the burden on future workers and employers. As we will see, governments in Europe and North America have, over the course of the last century, made a wide range of intertemporal choices in this field. Whereas some have opted to hold down costs in the near term, running their retirement schemes on a PAYGO basis, others have chosen to impose far higher short-run contribution burdens in order to amass funds that would not be spent on tangible social benefits for many decades.

[1] OECD member governments spend on average 6.4 percent of GDP on old-age cash benefits compared to 5.9 percent on health – by far the two largest items of social expenditure (OECD 2007).

Looking across arenas of state activity, the governance record of advanced democracies appears to be characterized not by constant short-run maximization but by substantial intertemporal variance. While politicians have often chosen to boost constituency benefits and limit social costs in the short run, they have at other times opted to restrain spending, raise taxes, or slow economic activity today in order to enhance social welfare tomorrow. This is the basic empirical puzzle that motivates this book.

INTERTEMPORAL VERSUS DISTRIBUTIVE POLITICS

That governments respond to similar policy problems in different ways is a commonplace observation in the study of comparative politics. As political analysts, we have developed an increasingly nuanced understanding of the causal forces – institutional, organizational, economic, ideological – that give rise to this kind of variation. As this book argues, however, conventional approaches to explaining policy choices – tailored to illuminating the volume and cross-sectional distribution of policy benefits and costs – tend to be poorly suited to explaining the allocation of a policy's benefits and burdens over time.

There are three related reasons why we cannot simply import arguments about the politics of distribution into explanations of intertemporal choices. First, the very puzzles to be explained depend on the analytical question asked. Consider again the choices that governments have made within the field of public pensions. In recent years, a substantial literature has sought to explain why some governments have moved more aggressively than others to reform their pension systems over the last three decades (Hacker 2004; Swank 2002; Huber and Stephens 2001a; Bonoli 2000; Pierson 1994). This literature has framed the policy choice that governments confront as a decision about who gets – or, in this case, *loses* – what. In comparing and ranking outcomes across cases, analysts have typically focused on the scale of *benefit retrenchment* that governments have undertaken: those reforms that produce deeper benefit cuts are coded as cases of more radical change, whereas instances of benefit maintenance are considered cases of relative stasis. In the standard view, for instance, Margaret Thatcher's reforms of the British state pension system in the 1980s are considered among the most radical cases of policy change because she deeply slashed benefit levels in the flat-rate and earnings-related retirement schemes. By contrast, reforms in the United States (1977 and 1983) and Canada (1998), where benefit levels were adjusted only modestly, are considered cases of more incremental reform that kept the status quo largely intact (Béland and Myles 2005; Huber and Stephens 2001a; Pierson 1994). From a purely distributive perspective, the question is why the British government was able to impose far greater losses on pensioners than were U.S. and Canadian governments.

Viewed along the temporal axis, however, the cross-national comparison is actually *reversed*. While the British reforms reallocated future financial burdens from one social group (taxpayers) to another (pensioners), they changed little in intertemporal terms. It was, rather, U.S. and Canadian politicians who enacted the far more dramatic trade-offs over time. Largely by raising payroll taxes, these governments imposed major losses on constituents in the *near term* and, in doing so, enhanced the *long-run* financial sustainability of their pension programs. From an intertemporal perspective, the puzzle is thus a very different one: Why did the British government choose to reduce long-run tax burdens by imposing deferred losses on future pensioners, while politicians in Canada and the United States chose to impose massive short-term losses on constituents and to relieve financial pressures on workers, employers, and retirees decades hence? As this contrast of comparisons suggests, taking timing into account can fundamentally reorient the explanatory task itself.

Second, choices over time – as compared with choices across groups – often confront governments and their constituents with distinctively structured trade-offs. In particular, intertemporal choices may entail the prospect of *positive-sum* rather than merely *zero-sum* outcomes (King 1993). A central theme of much recent work on public policy (e.g., Weaver and Pal 2003; Pierson 1994; Weaver 1986) is that the politics of policy change tends to be dominated by the problem of imposing losses – of avoiding blame and circumventing opposition by those who would bear the new policy's costs. Investments in the long term will frequently inflict substantial pain on important constituencies, and their politics will be partly governed by the logics of loss imposition that have been elucidated elsewhere. Unlike a distributive trade-off between groups, however, a policy of investment may provide those who bear costs today with *a stream of even greater benefits over the long run*. For reasons to be explored later in this chapter, policy action over long periods of time is often conducive to the production of net aggregate benefits, rather than a mere reallocation of resources. The prospects for long-term investment should thus depend not only on the politics of inflicting pain but also on the politics of promising and delivering benefits – in particular, benefits that are substantially delayed in time. Put differently, the outcome of governments' intertemporal choices should hinge critically on the form that policy trade-offs take: in particular, on whether or not investment-oriented policies credibly promise influential actors long-run gains that outweigh their own short-run losses.

We thus need to *temporally disaggregate* our theories of the politics of imposing policy losses. There are critical differences between the politics of transferring resources between groups at a given point in time and the politics of imposing costs today to invest in gains tomorrow. In fact, the conditions that allow governments to make intertemporal transfers will sometimes be the mirror image of those that enable redistribution across groups. As I argue in the next chapter, it is precisely when actors face *obstacles* to expanding their resource share – i.e., when redistribution is most difficult – that they will be most willing to invest in increasing aggregate social welfare. Hence, those situations most conducive to imposing losses to redistribute will often be those least permissive of imposing losses to invest, and vice versa. In short, we cannot explain *who loses what* without also asking *who stands to gain what and when*.