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An Investigation of Public Expenditures in West Germany

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# The Future of Party Government

A Series under the General Editorship of  
Rudolf Wildenmann

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Volume 4

## **Budgetary Politics and Elections: An Investigation of Public Expenditures in West Germany**

by  
Sabine Lessmann



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## Preface

In the middle of August 1971 at vacation time, when most of the people in Western countries had everything in mind but global economic policies, *Richard Nixon*, then President of the United States, suddenly announced his new economic measures. He changed currency relations, putting the Europeans in quite a predicament and causing world wide repercussions.

The goal to achieve an economic situation perceived by the people as being 'prosperous' in the USA in 1972, the time of Nixon's re-election, was obvious. It was part of Nixon's counter strategy to overcome the severe domestic effects on voters of the still ongoing Vietnam war. 'If he is only half successful, it will be a sweeping victory' said an outside observer of US politics. In 1972 Nixon achieved over 60% of the votes, and many campaign 'strategists' believed that this was mainly due to the economic policies adopted in 1971.

There are many other examples where the belief prevailed that an economic policy of growth would be successful electoral politics. *Mac Millan*, having succeeded *Anthony Eden* as Prime Minister in Great Britain, initiated an economic policy in 1957 from which he reaped the benefits two years later, and so his campaign slogan: 'You never had it so good', expressed his hope that the people would support him. He overwhelmingly won the election. *Konrad Adenauer* is supposed to have said to his Minister of Finance in 1953: 'speed up the economy' ('Legen Sie da was unter'), which in turn is supposed to have grossly contributed to the 'electoral miracle' of 1953 in the Federal Republic of Germany. On the other hand, the economic consequences of the oil shock are regarded as having initiated the downfall of the *Brandt* government in 1974.

In industrial democracies attempts to increase electoral chances of party governments by 'improving' the perception of economic development or personal well-being of the voters, seem to have become a standard procedure. If such improvements do not take place or if economic difficulties arise, governments are afraid of losing elections. This basically assumes that the variation in electoral results can mainly be explained by the variation in certain economic indicators like prices, wages or employment rates. The only exception to that 'rule' seems to be countries in which larger parts of the voter

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population are strongly influenced by religious beliefs and/or ideological motivations disregarding such 'material things' like the availability of money.

The literature on the subject based on empirical research is very controversial. *Sabine Lessmann* in her monography within the series of 'The Future of Party Government' discusses the most important studies. On the basis of the budgets of the Federal Republic between 1952 and 1984 she also develops her own insights. This data (available at the Cologne Central Archive for the period 1950 - 1980) is still the only comprehensive dataset for computer analysis; it was provided for at the University of Mannheim by a grant of the DFG (German Research Association).

Unfortunately, a comparative analysis was not possible due to the lack of compatible comparative data in other countries. However, the substantial empirical analysis is of lesser intellectual concern than the theoretical development which was achieved by this study (as well as that of *Helga Treiber*, 'Politik unter der Oberfläche', published in Germany 1984).

*This study is a contribution to the understanding of electoral legitimizing processes influenced or thought to be influenced by fiscal policies.* In this regard, it is also a contribution to the analysis of Party Government as such, which, by definition, is based on competition for governmental position.

It should be emphasized that electoral processes are synergetic processes and that election studies up to now have just *not* solved the problem of theoretical explanations of such synergetic processes. Various paradigms of explaining voter behaviour have been analysed since the first days of the studies by *Lazarsfeld*, *Campbell*, *Converse* or other scholars of the Ann Arbor School. Nevertheless, the identification of factors guiding or influencing such behaviour is not the same as theoretically attributing such factors within the synergetic processes. Today, we know very much about the role of class, stratification, education, issues, attitudes, non-attitudes, or the role of candidates in influencing voter behaviour. But our knowledge is, in many respects, based on 'statistical descriptions' of such factors, a fact which does not facilitate the task of analysing the synergetic processes. Institutes of opinion research never cease in their efforts to convince us that they are measuring 'feelings' only.

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However, there is one element of great importance, that is the *individual's safety* in view of the risks he/she is running in society as I define it. Improvements in safety form the basis of welfare state policies (unemployment benefits, pensions, health care and others). Large segments of societies are subsidized and live on transfers of public money. Only smaller portions of the society are still 'independent' of such transfers through their own wealth or the income distribution of market economies. This is a very existential element in social and political life; it has constituted one of the important cleavages in society since the industrialization. And in research we are bound to explore the 'normal' questions regarding 'class' with indicators leading to much more reliable variables.

To illustrate this approach: Only individuals or groups directly receiving guaranteed incomes and/or social benefits via budgetary transfers are less dependent on organizations in their access to political decision-making and in fulfilling their interests. Workers need their trade union, farmers their farmers' organization, artisans their artisans' union in order to push through policies in their interest. Also businessmen rely on their federations insofar as the industrial conflict or contract negotiations are concerned. They are all more or less dependent on collective societal 'security' or instrumentally active organizations. And it is the government which backs up this differentiated system and provides 'security'. Still, the majority of society ultimately depends on government policies. And even the 'class' which is directly government supported ('Versorgungsklasse') is very much concerned about such income policies.

This financial dependency of the majority on governmental policies is the structural basis for the belief that economic policies by governments will influence the voter decisions. The smaller the difference between winning or losing at the polls the stronger the attempts to influence voters' decisions via economic perceptions. And highly fractionalized parliaments, facing difficulties in forming government majorities, are also bound to do everything in their power to mobilize voters.

The differences in research results are analysed by *Sabine Lessmann*. First, there is a time-lag between budgetary policies and the desired change in the voter decisions. Secondly, 'hard' party identifiers (as described in the

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American Ann Arbor literature), 'consistent votes' in our terminology, are not easily changed whatever the reason for their consistency. Effects of such budgetary policies are hypothetically more observable within the volatile voters. In that respect the degree of emotional solidarity of any given voter, especially of labour, to his/her organization is very important. The lesser the trust, the higher the propensity of change by such policies. Thirdly, it is not only budgetary policy which counts, but the sum of economic policies including regulations, de-regulations, and 'preaching' as under *Ludwig Erhard* in the Federal Republic, that is a policy of non-interference, which may change voters' preferences.

In order to analyse the effects of *such* policies we need very sophisticated analyses. *Sabine Lessmann* demonstrates that we are not in a situation in which 'bread and games' will move the masses. We also know that it is not the voter who consciously goes to the polls and demonstrates his will as it is still assumed in normative democratic theories; there is much room for possible manipulation of the voters by governments. She begins her analysis by defining the *conditions, degrees and directions of governmental self-legitimization via economic policies*.

This book - though restricted in empirical evidence by the impossibility of a cross-national analysis - is an important link between Volume III ('Managing Mixed Economies') and the previous Volumes I and II of the 'Future of Party Government' Series. Almost regardless of the variation of experiences with party governments in different countries, the macro- and micro-changes of societies, the specific 'mix' of market economics and government intervention, all party governments are tempted or induced - with different rates of success - to carry out a policy of self-legitimization through economic policy. The consequences for further research are obvious: we need better studies of the interrelation between the polity and the economic system.

Rudolf Wildenmann



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Mannheim, December 1986

Sabine Lessmann



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## I. Introduction

The 1986 pre-election year in the Federal Republic of Germany was an interesting one. Starting with the communal elections in Schleswig-Holstein in March, the parties began to prepare themselves for the big upcoming event - the general election in January 1987. The governing Christian Democrats (CDU) suffered a severe vote loss in this March election as part of their most loyal supporters - the farmers - decided to abstain due to a general dissatisfaction with EEC regulations and agricultural government policies. In order to avoid further farmers' boycotts for the next 'Länder'-elections in Lower Saxony in June, Bavaria in October and Hamburg in November, the federal government sprang into action.

A 500 million DM programme was passed in the beginning of June, which reduced the farmers' contributions to the agrarian social security system with retrospective effect to January 1986. As a result of the reactor accident in Tschernobyl another 500 million DM were promised to cover the losses of agricultural products because of radio activity. In order to appease the farmers even more, a special election gift of 100 million DM to subsidize fallow land was given to Lower Saxony's farmers one week before the election took place. At the same time the parliament increased veterans' benefits by 2,15% from July onwards, further increases being promised by January 1987. The predominant social policy issue, however, concerned old age pensions, more precisely, the question of adopting a so-called 'baby year' in pension law. The coalition government in Bonn decided to give all women born before 1921 a monthly payment of 25 DM for each child. The programme will start in October 1987 and will gradually include all female pensioners with children by 1990. Described by Chancellor Kohl as a new dimension in social policy, the programme will cost 3,3 billion DM per year by 1990.

In order to finance these huge sums, the Minister of Finance was forced to pull the emergency brake. Various measures, such as a 10% freeze of non-investment costs in the 1986 budget, privatization of enterprises partly or totally held by the state, and a shift in the payment of unemployment assistance, were necessary in order to raise these funds. These measures are reminiscent of the beginning of the 1970's when

government as well as opposition clearly overestimated future economic growth and generously distributed future revenues - based on electoral calculations. The financial crisis to come was inevitable. In 1986 it happened again. New allocations of billions of DM were decided upon with very risky plans as to how they were going to be financed in the future. Was this again due to manipulative reasons - this time concerning the 1987 election?

Is it perhaps even plausible to assume that this 'democratic game' occurs whenever a general election comes up? Do politicians attempt to 'buy' electoral support in this way, and can we trace back the costs of these policy decisions in the federal budgets? These are the underlying questions of this study.

The study of government performance, public policy choices and outputs - and the forces that operate to shape policy decisions and outputs - has always been a central concern of political scientists. Thinking generally in terms of inputs, actors, processes, and outputs, 'public policy analysis' focuses on characterizing and explaining outputs. A substantial number of these public policy studies consider the government's distribution of financial resources as particularly attractive for research because such distribution is perceived as the measure of government's commitment to provide goods and services immediately relevant for the society.

This study attempts to add to the cumulative understanding of the distribution of financial resources in a democratic system and in particular in West Germany. It is not concerned with what policies governments ought to pursue, but rather with why and in what way governments pursue the policies they implement. Our central theme is an investigation of the relationship between policy outputs - defined as public expenditures and laws - and election dates in West Germany.

That policy outputs and elections are somehow related in democratic systems seems to be a generally accepted fact. It has often been pointed out that politicians are thought to be only too ready to adjust their policies in anticipation of an immediate or delayed electoral reaction<sup>1</sup>. Surprisingly, many assumptions and assertions exist in the political science literature referring to this relationship, but no unequivocal empirical evidence is found as to whether, to what extent, and in what way elections actually have a directing impact on the

political decision-making process and policy outputs. The basic reasoning of Western democratic theory generally is that a change of government by elections *prima facie* has a considerable impact on political decisions in democracies. Although the empirical analyses of Volume III of the 'Future of Party Government' series<sup>2</sup> raise considerable doubts about this assumption, general and free elections are the political procedure through which the legitimacy of public sovereignty is secured. The legitimacy of political order in general and the legitimation of specific institutions for political decision-making are dependent on this principle. This tenet of democratic theory, however, that democracy realizes itself in elections, is opposed by Marxist and non-Marxist critiques who claim that elections are only of marginal importance, if they have any meaning at all<sup>3</sup>. Rather than prejudging the question in a normative way, we might rather ask if the actions of politicians and competing parties are limited because of elections.

One of the main assumptions of the rational choice approach is that politicians adjust their decisions to approaching elections. This paradigm - as the framework for the construction of an empirical theory - will be adopted in this study. The basic unit of analysis for the rational choice approach is the goal-oriented rational actor. The individual actors, here conceived as the political decision-makers, perceive that they have goals and their actions are motivated by a desire to achieve those goals. The most common assumed goal for politicians has been that they are interested in getting (re-)elected and therefore try to maximize votes, subject to constraints, so as to retain office<sup>4</sup>. The concept of maximization and its implications of vote-capturing policies has attracted considerable attention during the last years as this goal determination may contradict both efficient policy-making and all ideal-type democratic ideas where politicians are perceived as solely representing their voters' interests<sup>5</sup>.

We have chosen the rational choice approach and in particular the vote-maximization hypothesis as the theoretical background for our study as they provide interesting possibilities for the formulation and testing of hypotheses concerning our research question and may contribute to understanding and explaining policy outputs<sup>6</sup>.

Our study of the relationship between policy outputs and election dates takes different levels of public expenditure commitments registered in the West German annual budget plans as its dependent variables in order to explain the influence of elections on public expenditure developments. This implies the methodological advantage of dealing with variables that exist as interval data. Problems of measurement are minimized and the data allow for rigorous quantitative analysis.

The study differs from much of the related research in several ways: 1) We mainly concentrate on the explanatory power of just one factor which might influence public policy decisions - namely elections. The development of public expenditures is obviously related to a multitude of forces, such as the nature of societal, political, and economic problems <sup>7</sup>. We do not deny the existence of all these influencing factors, but instead of just adding a further analysis to the enormous amount of already existing studies which attempt to discover the relative weight of the individual components, we will first of all scrutinize the explanatory power of political factors, i.e. the election itself. In order not to rely entirely on the election factor, however, organizational, demographic and economic factors will also be incorporated in the analysis. They will serve as sort of control variables and will prevent us from coming up with a too naive interpretation of public expenditure developments. The purpose of all these factors is to test the vote-maximizing hypothesis of the 'New Political Economy'.

Thus far research being conducted in this area has not been able to provide for any convincing evidence with regard to the development of public expenditures. The normative implications of the vote-maximizing hypothesis in combination with the electoral calendar - i.e. that expenditures should follow a 'cyclical' trend - have been a highly controversial point in the literature to date. Bold inferences made from even a five-year period as to the existence or non-existence of an 'electoral cycle' or the corroboration of the vote-maximizing hypothesis are fortunately an exception <sup>8</sup>. Moreover, the concentration on the election factor as a conceptualization of the notion of financial resource allocation was stimulated by a general discussion in the literature, regarding a change from the formal principle of interest



representation to the new formal principle of vote-maximization <sup>9</sup>.

2) We concentrate on one country - West Germany. This restriction is due to practical reasons concerning the quality of the data set and the impossibility of obtaining equally disaggregated budgetary figures for other countries. The great advantage of a case study like this is that one can go more deeply into a single case and thus compensate for a loss of range by gains in depth. This point of view runs contrary to Lijphart's assessment, which pointed out that the scientific status of a case study is a bit ambiguous 'because science is a generalizing activity', and case studies can only make an indirect contribution to the establishment of general propositions and thus to theory <sup>10</sup>. We do not agree with the position that case studies are useless for testing theories, or that a single case can neither constitute the basis for a valid generalization nor the ground for disproving an established generalization. On the contrary, individual case studies can increase or decrease our belief in theories and are essential for theory development in general.

Evidence for the actual existence of 'electoral cycles' is provided by the obvious endeavours of democratic governments to assure their re-election and the assumption that votes can be won by the awarding of policy gifts shortly before elections, or by election promises for the post-election period. Arguments against this strict 'cyclical' relationship - that elections systematically affect certain public expenditures - are numerous.

In order to keep the analysis in feasible dimensions, three areas of public expenditure in West Germany are covered: subsidies, labour and social welfare, and research and technology financial allocations. The reasons leading to the selection of these three policy areas are their different political importance for governments and for the societal system, so that the impact of elections is expected to vary considerably among them. In this context, the subsidy and social policy areas are seen as the ones with a particularly high directing intensity <sup>11</sup>.

In the following, the intention is to enter first of all into the position of elections with respect to democratic theories and the perception of politicians who assign to elections a high position within the model of the policy-making process

(chapter II). Furthermore it is necessary to come to terms with existing studies which analyse the determinants of policy outputs. These will be considered in chapters III and IV, before our analytical design and the operationalization of the chosen approach will be introduced in chapter V. The results are presented in chapter VI, followed by a short summary and an assessment of results in chapter VII.

The existing studies, analysing the determinants of policy outputs are : firstly, the so-called 'policy output studies' and secondly the research results of the 'New Political Economy'. The latter studies focus exclusively on the relationship between economic policy and government popularity or election dates. A presentation and critique of both types of studies will show that they cannot give a correct description of the interrelation using macro-economic indicators over time, because, for example, the assessment and evaluation of unemployment and inflation figures varies over time. Moreover, what these studies actually examine with reference to public expenditure development is hardly regular 'cycles', but whether public expenditures increase within a given electoral period.

The analysis will then be extended to our three policy sectors, bearing in mind that it is not sufficient to look at global expenditure figures and growth rates with respect to the existence or non-existence of a directing impact of general elections. It seems to be much more promising to analyse the micro-structure of the budget, i.e. to investigate systematically distinct smaller units of analysis such as pensions, or expenditures for job creation measures than the annual volumes or changes in total allocation in order to discover any systematic trends. This approach might enable us to show that the controversial results found in the literature are mainly due to the level of aggregation of the budgetary figures looked at.

In short, our impression is that the level of aggregation used in previous studies is too high, providing aggregate testimony which might well lead to misleading interpretations. An example might best illustrate this. Tufte (1978) compared the yearly changes in real disposable income per capita with the timing of elections for 27 countries from 1961 to 1972. Leaving aside the problem that he only reports three election years whereas in fact four elections took place in Germany during this period, he finds no empirical evidence for

Germany. This means that there were no measurable election gifts, i.e. increases in real disposable income, in election years. Von Beyme (1986) concisely comments that this result is not surprising for countries where a change in governments does not very often occur - even without big computational efforts <sup>12</sup>. Tufte's results as well as von Beyme's comments are not convincing given the obvious endeavours of our coalition government cited above. A systematic analysis of the micro-structure of public expenditures might well reveal a different but in any case a more differentiated result.

### Notes Chapter I

- <sup>1</sup> See e.g. Campbell et al. 1960:5 'The holders of elective or appointive office in democratic governments are guided in many of their actions by a calculus of electoral effect'; equally, Sartori, 1973:125.
- <sup>2</sup> See Castles/Lehner/Schmidt (eds.) 1987.
- <sup>3</sup> Dahl 1970; Parry 1972; Agnoli/Brückner 1968.
- <sup>4</sup> These ideas go back to Schumpeter 1950; Downs 1957; and Herder-Dorneich 1957.
- <sup>5</sup> Generally, 'vote-maximization' is linked with a strongly negative connotation, but we agree with Dinkel who pointed out that: 'Grundsätzlich aber muß der Wunsch, möglichst viele Wählerstimmen zu erhalten, ebensowenig negativ sein wie die Gewinnmaximierung, die im idealtypischen Beispiel der "unsichtbaren Hand" ein optimaler Lösungsmechanismus für Allokationsfragen auch aus gesamtgesellschaftlicher Sicht sein konnte. Für eine ganze Reihe von Fragen ist der Markt als Allokationssystem nicht anwendbar und der Mechanismus der Wahl tritt an dessen Stelle', Dinkel, 1980:66.
- <sup>6</sup> Within the last few years, rational choice models and in particular the vote-maximizing hypothesis have been exposed to an intensive methodological criticism. H.Simon (1951) put forward

the 'satisficing approach' and G.L.S. Shackle (1972) argued that maximization is not even possible. But referring to the classical philosophy of science treatment as established by K. Popper (1935,1965), Boland (1981) put forward that there are only two types of criticism of any behavioural hypothesis once one has established its logical validity. One can argue against the possibility of the hypothesized behaviour, or one can argue against the empirical truth of the premise of the hypothesis. It can be shown that both kinds of criticism will never be successful: The possibilities critique argues that the actor must have acquired all of the information necessary to determine or calculate which alternative maximizes utility. Shackle, for example, argues that such acquisition is impossible hence deliberate maximization is an impossible act. But true knowledge is not necessary for maximization. The politician only has to think that his theory of what is the shape of his utility function is true. With this objection, maximization behaviour cannot be ruled out as a logical impossibility. The second criticism would allow that if the politician is actually a maximizer, the hypothesis would be a true explanation of politicians' behaviour, but the truth of the premise is denied. How does one know the premise is false? It would seem that the hypothesis 'all politicians are maximizers' is a universal statement and hence is refutable but not verifiable. The methodological problem of empirical refutation is that behavioural maximization is not directly testable. The fundamental methodological problem of refuting any behavioural hypothesis indirectly is that of constructing a convincing refutation. In the form of an 'All-And-Some' statement - for all politicians there is something to maximize - it is neither verifiable nor refutable. As a universal statement it cannot be rejected because any alleged counterexample is unverifiable. The verification of a counterexample requires the refutation of a strictly existential statement and these cannot be refuted. In summary, the truth of the maximization hypothesis is no more testable than the hypothesis itself. See Boland 1981:1031-1036; 1983, and his discussion with Caldwell 1983.

<sup>7</sup> Such competing factors range from the institutional and structural constraints of the political system to the different social groupings of society. To name but a few factors that are discussed in the literature:

- the international environment
- the dynamics of party competition
- the national economy
- corporatist arrangements
- voter preferences
- cooperative federalism ...

<sup>8</sup> See Michalsky, 1961:94ff.

<sup>9</sup> Offe 1972; Narr/Thränhardt (eds.) 1979; equally Berger et.al., 1983:25 'Mit der endgültigen Abkehr vom Prinzip der Klassen- oder konfessionellen Weltanschauungspartei haben die Parteien ihren Einzugsbereich generalisiert und gleichzeitig ihre Organisationsziele spezifiziert auf Wahlerfolg und die Übernahme von Regierungsbefugnis'.

<sup>10</sup> See Lijphardt, 1971:691.

<sup>11</sup> For a detailed discussion of data and selection criteria see chapter V.

<sup>12</sup> See von Beyme, 1986:74.

## **II. Elections and parliamentary democracies**

The nature of the concept of democracy and its relationship to the political system with which it is associated has always been an important research topic in the study of politics. Elections and the electoral process hold a key place in modern as well as traditional democratic theory. The fact that elections take place and members of parliament, and ultimately the government, depend on them is a very important feature of a democratic political system. This is, of course, especially true for party government <sup>1</sup>.

The extent to which elections actually fulfil their assigned role in Western democracies, i.e. that voters decide on issues and policies, is a very controversial point and is opposed by Marxist as well as non-Marxist critiques <sup>2</sup>. Yet rather than deducing the steering capacity of elections on theoretical grounds - as will be done with reference to the rational choice approach later on - we will refer here to an assessment of the West German elites in the second part of this chapter. The incorporation of these elite data might add to the arguments of the 'New Political Economy' insofar as they strengthen the plausibility of its basic assumptions. Moreover, the answers given by the political elites can be used as hypotheses and are going to be tested later on as to whether they actually coincide with the observed policy outputs.

### **A. The position of elections in democratic theories**

In 1976, D. Robertson wrote: 'To talk, today, about democracy, is to talk about a system of competing political parties' <sup>3</sup>, i.e. about the competition of party elites to govern with public consent.

This statement is clearly related to one of the modern democratic theories, namely the theory of democratic elitism. The central idea of this theory is summed up in the definition of democracy given by J. Schumpeter (1950) who is regarded as the 'founding father' of this theory: 'The democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's