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THE REAL BUT LIMITED INFLUENCE OF EXPERT IDEAS

By JOHANNES LINDVALL

This article examines the role of experts in policy-making. Its main claim is that expert ideas have real but limited effects on policy: they exert strong influence over the selection of policy instruments, but their influence over the formulation of policy objectives is much weaker. The reason is that politicians rely on experts only when considering certain types of decisions, because they know that an expert is someone who “chooses to be ignorant about many things so that he may know all about one,” as E. E. Schattschneider put it in The Semi-sovereign People.¹

In developing this argument, the article revisits the literature on the role of economic ideas in the transition from high-employment-oriented to low-inflation-oriented macroeconomic policies in the advanced democracies in the 1970s, 1980s, and 1990s. A number of influential studies argue that this policy shift was the result at least in part of the decline of Keynesianism and the appearance of alternative approaches to macroeconomics.² Other scholars claim, by contrast, that politicians merely use economic ideas to rationalize policies that they wish to adopt for other reasons.³ The subject matter of this debate is a particular set of policy changes in the advanced industrialized countries.⁴ But it has broader implications, for it ultimately concerns the competition between two types of legitimation claims: those based on expert knowledge and those based on majority rule.

The empirical part of the article uses a comparison between Austrian, Danish, and Swedish economic policies to test the argument that expert ideas have real but limited effects on policy. Austria, Denmark, and Sweden followed different paths after the 1973 oil crisis: while Denmark had already given up on full employment in the mid-1970s,

¹ Schattschneider 1960, 133.
² McNamara 1998; Marcussen 2000; Blyth 2001; Blyth 2002.
⁴ For a recent study of emerging economies, see Chwieroth 2007.
Austria used economic policy to maintain low unemployment well into the 1980s and Sweden gave priority to low inflation only in the early 1990s. The empirical findings—which are based on primary research in all three countries, including a unique set of interviews with leading economists and politicians—suggest that the break with Keynesianism in Sweden around 1980 led Swedish governments to abandon fiscal policy as an instrument of macroeconomic management, whereas the predominance of Keynesianism in Austria and Denmark led their governments to treat fiscal policy as a useful policy instrument well into the 1990s. The fact that Swedish economic experts were less Keynesian than their Austrian and Danish counterparts suggests, however, that economic ideas cannot explain why Swedish governments put full employment first for so long.

**Experts and Politicians**

**Defining Expert Ideas**

Expert ideas, as defined here, are shared beliefs about cause-and-effect relationships, developed and disseminated by actors who are widely recognized as having special knowledge about a certain policy’s target area—often, but not necessarily, as a result of academic training. This definition is familiar from the literature on epistemic communities, which is concerned with “networks of knowledge-based experts” who assist policymakers in “articulating the cause-and-effect relationships of complex problems” in international affairs.5

The political influence of experts is an important topic in its own right, since the potential contradiction between democracy and technocracy is one of the core problems in democratic theory.6 This topic also has implications for the wider literature on the role of “ideational elements” in politics, for even scholars who define ideas more broadly often make specific claims about the role of expert ideas.7 Consider, for example, Vivien Schmidt’s work on the politics of “discourse” in processes of economic and social policy reform. Schmidt defines discourse as “whatever policy actors say to one another and to the public in their efforts to generate and legitimize a policy programme.” This is obviously a very broad definition, but, as Schmidt notes, the specific part of

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5 Haas 1992, 2. See also Goldstein and Keohane 1993, 13–17; McNamara 1998, 4; and Esterling 2004, 6–7, 49.

6 Dahl 1989, chaps. 4–5; Esterling 2004, chap. 2.

7 On “ideational elements,” see Parsons 2007, chap. 4.
her theory that deals with how discourse provides “a common language and framework for the construction of a policy programme” is closely related to theories about policy ideas and epistemic communities.8

Since this article is concerned with expert ideas specifically, the analysis does not generalize to other ideational elements such as values and norms, for the mechanisms of ideas-based, values-based, and norm-based explanations of policy-making are very different. Ideas, according to the argument developed here, are intellectual tools that political decision makers use to predict the likely effects of the policy alternatives they consider. Values—or what Goldstein and Keohane call “principled” beliefs—determine the priorities of political agents.9 Norms, finally, define the sets of actions that agents consider in the first place. Nevertheless, given the fact that claims about the effects of expert ideas have played and continue to play a prominent role in both international relations and comparative politics, an examination of this particular problem can contribute to the more general literature about the role of ideational elements in policy-making.

My definition of expert ideas relies on a distinction between causal beliefs and normative beliefs. In other words, this article is based on the assumption that it is at least in principle possible to mix a given set of expert ideas—such as an economic theory—with different ideological assumptions and political agendas. Some scholars question this view, arguing that causal beliefs necessarily imply specific normative beliefs and political priorities. Mark Blyth, for instance, claims that economic ideas offer both “scientific” and “normative” accounts of the economy.10 According to Blyth’s argument, scientific and normative aspects of ideas are intrinsically linked, since “all positive statements about the causal order of the economy necessarily imply value trade-offs and hence different patterns of distribution.”11 Similarly, Cornelia Woll defines “beliefs” as “normative and causal ideas about means-end relationships,” suggesting that beliefs “not only provide road maps for action” but “also have an indirect effect on preference formation by specifying causal and normative relationships relevant to a particular choice of action.”12

Scholars who hold such views will probably find many of the distinctions that this article relies on questionable, since they believe that “scientific” and “normative” beliefs are intrinsically linked and perhaps

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10 Blyth 2002, 37.
also suspect that “experts” and “politicians” cannot be easily separated into two distinct groups of political agents. I do not dispute that most experts have political motivations, and it is important to take seriously the suggestion that there is a close relationship between causal and normative beliefs. However, I wish to examine this relationship empirically rather than making it a matter of definition, since I wish to consider the possibility that expert ideas may have different normative meanings in different societies. The empirical sections of this article will demonstrate that similar economic ideas have in fact been associated with different political agendas and values both over time and across countries, suggesting that the relationship between scientific and normative ideas is specific to circumstances. Regardless of which analytical assumptions one starts from, this empirical fact must be accounted for.

When Expert Ideas Matter

Previous studies of the role of expert ideas in policy-making have not paid very much attention to the question of which kinds of decisions expert ideas influence. Consider Figure 1. In their efforts to understand the relationship between ideas and policy (1), previous studies have dwelled on the definition of the independent variable (2), the impact of conditioning variables that influence the relationship between ideas and policy (3), and the effect of variables that influence both ideas and policy, potentially rendering the relationship between those two variables spurious (4). The impact of conditioning variables (3) has been the object of a series of important studies exploring the interaction of expert ideas, interests, and institutions. Taking a different approach, this article starts with a discussion of the dependent variable (5), attempting to identify the types of policy changes that an analysis of expert ideas can help to explain.

The fact that previous authors have so rarely distinguished between the effects of expert ideas on policy objectives and the effects of expert ideas on policy instruments is probably a consequence of the widespread application of models borrowed from the literature on international relations in comparative politics. In the world of international organizations and agencies, the distinction between objectives and instruments

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13 See, for example, the contributions to Hall 1989b; Campbell 1998; Johnson 1998; Walsh 2000; and Hansen and King 2001.

14 In her useful and influential review article “Ideas, Norms, and Culture in Political Analysis,” Sheri Berman 2001 offers helpful advice on the definition of ideas (point 2 in Figure 1), the interaction of ideas and other factors (3), and how to control for competing explanations (4), but her article says very little about the explanandum (5), which she refers to in general terms, such as “political life,” “behavior,” or “outcomes.”
may not be crucial, but it is in domestic politics, since domestic policy-making differs from international policy-making in important ways.

First, while international agencies and organizations tend to have relatively limited sets of tasks—such as arms control or environmental protection—domestic policies are almost always “nested” with other policies. For example, economic policy is just one element in a larger set of policies that includes social policy, labor-market policy, and industrial policy, as well as many other areas. Since expertise consists of being able to offer advice on cause-and-effect relationships in a particular policy’s target area, experts are less influential in an environment where policies are nested than they are in an environment where policy-making is compartmentalized. However, policy nesting places fewer constraints on the choice of instruments than on the choice of goals, so even in domestic settings, experts may influence the choice of instruments.15

Second, it is sometimes possible to confine policy debates to small groups of experts at the international level, but domestic debates about the goals of policy almost always take place in the public domain. Again, however, this places fewer constraints on the influence of experts over the choice of instruments than over the choice of objectives, for debates about methods tend to be more arcane than debates about goals.

These are some of the reasons why this article claims that in domestic politics expert ideas are quite likely to influence what Peter Hall calls second-order changes (involving policy instruments) but much less likely to influence third-order changes (involving policy objectives).16 More generally, the article claims that expert ideas influence the methods governments use but not the goals they pursue.

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15 For example, certain social security systems may require high levels of employment (Esping-Andersen 1990, 28), but it is not clear why they should depend on the use of a specific instrument for meeting this objective.
16 Hall 1993, 278–79.
The argument that supports these claims is simple. The basic assumption is that politicians use experts in order to deal with uncertainty, and depending on the kind of policy change they consider, policymakers face different types of uncertainty.\textsuperscript{17} The consequences of decisions involving policy instruments may well be uncertain, but in this case the uncertainty mainly concerns the immediate effects of policy, which is something that experts can offer advice on (at least that is what they are expected to do; clearly, they are often unsuccessful). The consequences of decisions involving policy objectives are much more far-reaching; third-order changes not only do have wider and deeper social effects, but they also have repercussions in other policy areas. Since experts cannot analyze or predict these consequences, politicians have no reason to consult them. It follows that we should not expect experts to exert much influence over the selection of policy goals but that we should expect them to influence the selection of instruments.

This argument applies primarily to policy experts, by which I mean experts on cause-and-effect relationships in a certain policy’s target area. If we consider experts more broadly, it follows from my argument that experts should be able to speak with authority on the choice of objectives if they can say whether certain objectives—if attained—would contribute to the ultimate goals that politicians pursue. For example, if politicians are office seeking, they will have reason to listen to experts who are able to estimate how much of a threat a certain policy outcome—such as high unemployment—would be to their electoral prospects. Even in this special case, however, expert ideas are likely to have stronger effects on instruments than on goals, since the choice of instruments will always be further removed from the ultimate political goals than the choice of objectives.

One attractive feature of the argument that ideas are more likely to influence some types of political decisions than others is that it portrays politicians as relatively autonomous agents who use ideas to design policies, and not—as in the famous quote from the last section of Keynes’s \textit{General Theory}—as “slaves of some defunct economist” or “[m]admen in authority, who hear voices in the air.”\textsuperscript{18} In other words, my argument assumes that politicians sometimes choose to make ideas a factor in the policy-making process because they believe that experts will help them to overcome specific intellectual problems. (But politicians are only relatively autonomous, for when they do rely on experts,

\textsuperscript{17} Blyth 2002, 31–34.

\textsuperscript{18} Keynes 1964 [1936], 383.
the sets of policy options they consider are limited to options supported by available expert knowledge.)

KeYnESiANiSM, OBJEcTi VeS, aNd iNSTrUMEnTS

This general argument about expert ideas and policy has important implications for the specific case of economic ideas and macroeconomic policy. In the first decades after the Second World War, macroeconomics was dominated by ideas associated with the works of John Maynard Keynes, especially his *General Theory of Employment, Interest and Money* (1936). The basis of the Keynesian approach to economic policy is the idea that politicians can control the development of macroeconomic aggregates—such as unemployment, inflation, and growth—by means of policy measures designed to increase or decrease domestic aggregate demand.19

In the course of the 1970s Keynesianism began to lose ground among academic economists in both Europe and North America. In his presidential address to the American Economic Association in 1967, Milton Friedman had argued that there was a “natural” rate of unemployment and that governments could not use economic policy to keep unemployment below this natural rate in the long run.20 In the following decade other economists—often referred to as “new classical”—presented a more abstract, theoretical critique of Keynesianism, introducing the concept of rational expectations and arguing that macroeconomic policy could not even contribute to economic stabilization in the short run.21 In the late 1970s Robert Lucas and Thomas Sargent summarized this critique in their manifesto “After Keynesian Macroeconomics.”22

By the early 1980s the new anti–Keynesian ideas had become established in international organizations such as the OECD and the IMF. The OECD’s 1977 *McCracken Report* signaled the transition from one paradigm to another, and an official history of the International Monetary Fund attributes the “silent revolution” in international economic affairs in the 1980s to “a shift in economic philosophy toward a new classical synthesis” based on the experiences of the 1970s.23 The election of a conservative government in Great Britain in 1979 and Ronald Reagan’s victory in the 1980 presidential election in the United States enhanced the political relevance of monetarist and new classical ideas.

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19 Hall 1989a, 6–7.
20 Friedman 1968, 8.
21 Snowdon and Vane 2005, chap. 5.
22 Lucas and Sargent 1978.
With regard to the goals of economic policy, Keynesianism is often associated with the pursuit of a specific objective: full employment. There are historical reasons for this; for example, Keynes himself believed that economic policy should be used to reduce unemployment, and anti-Keynesian ideas were promoted within the new right that rose to political prominence around 1980. But if expert ideas are defined narrowly—as causal beliefs—it is quite possible for experts who promote Keynesian ideas to advise governments to pursue other objectives, just as it is possible for economic experts who do not promote Keynesian ideas to put employment first (the empirical parts of this article will present several examples of this).

Instruments are a different matter. As Peter Hall has noted, one of the most important implications of Keynes’s work was that a new political strategy became available to policymakers: “To the existing alternatives of laissez-faire or direct industrial intervention that policymakers seemed to face, Keynes added a third option based on demand management.” In other words, Keynesianism put certain policy alternatives on the political agenda, presenting policymakers with options they would not consider if they were not informed by Keynesian ideas. Specifically, Keynesianism raised the profile of fiscal policy (relative to monetary policy). From a Keynesian perspective, both fiscal and monetary policy should be included in the policy arsenals of governments, but the novelty of Keynes’s ideas was that they assigned a role to fiscal policy in the first place. To be more precise, Keynesianism suggests that fiscal policy not only has “allocative” and “distributive” functions but also has a “stabilization” function. My expectation is that politicians will treat fiscal policy as an instrument that can be used to influence the level of domestic economic activity only in countries and periods when Keynesian ideas dominate among the economic experts that governments consult.

**Research Design**

In order to test the argument that ideas exert a more powerful influence over instruments than over objectives, this article compares five important economic policy changes—involving either objectives or instruments or both—in Austria, Denmark, and Sweden. The reason for concentrating on these three countries in particular is that they represent three different combinations of objectives and instruments. Dur-
ing the post-1973 period as a whole—that is, in the decades after the first oil crisis—Austria’s economic policies have been characterized by a strong emphasis on full employment (objectives) and by a reliance on fiscal policy (instruments); Denmark’s economic policies are also based mainly on fiscal policy (instruments) but full employment was given up much earlier (objectives). Sweden, finally, has based its economic policies on monetary policy ever since 1980 (instruments), while giving a high priority to employment (objectives).

Rather than presenting a chronology of policy-making throughout the 1970s, 1980s, and 1990s, this article focuses on a small number of key policy shifts, since it wishes to trace the influence of academic economists and other experts inside the Austrian, Danish, and Swedish political systems. At one time or another, governments in all three countries have declared openly that neither fiscal policy, nor exchange rate policy, nor monetary policy would have full unemployment as its main short-term objective. The empirical investigation will concentrate on these three episodes and on two other particularly important policy changes in Denmark and Sweden. As Donald Winch pointed out in his great study of the Keynesian revolution in economic policy, in the postwar era the transmission of economic ideas has been carried out by extensive networks of official and semiofficial organizations, a situation that calls for an empirical approach that moves beyond broad correlations between ideas and policy.\(^{25}\)

Austria, Denmark, and Sweden are members of the IMF and the OECD, so politicians and senior civil servants inside these three countries were exposed directly to the international idea changes of the 1970s and 1980s. Yet it remains instructive to study how domestic economists and other experts received new economic ideas, for they interpreted the new ideas and applied them to domestic circumstances. Given that this article is concerned with the interface of economics and politics, the views of domestic experts will be identified through an analysis of publications where academic economists comment on policy issues and politicians describe the economic philosophy behind their policies. In the Austrian case the main sources are *Wirtschaftspolitische Blätter* and *Wirtschaft und Gesellschaft*, two journals published by the Federal Chambers of Industry and Labor, corporatist institutions at the heart of the Austrian social partnership system. In Denmark the main transmitter of ideas from academic economists to politicians is the Economic Council (*Det økonomiske råd*), a semicorporatist body

for the coordination of domestic economic policy formed in the early
1960s. The Economic Council includes representatives of the politi-
cal parties, institutions such as the central bank, and the major inter-
est organizations. The council’s three chairmen (the formandskab) are
academic economists appointed for three-year terms and known as the
“Wise Men.” They write two major reports on the Danish economy
each year.26 In the Swedish case the main source is Ekonomisk debatt,
which is a policy-oriented journal published by the Swedish Economic
Association. In order to aid the interpretation of these publications,
I have conducted interviews with a number of Austrian, Danish, and
Swedish economists. Similarly, I have conducted interviews with lead-
ing politicians to aid in the interpretation of the official documents that
form the basis of the description of policy.

Because Austria, Denmark, and Sweden are similar in many respects,
the likelihood is increased that any observed relationship between ideas
and policy choices is causal. All three countries are relatively small (be-
low ten million inhabitants), they all have strong corporatist traditions,
and their social democratic parties belong to the most influential in
Europe. Perhaps most importantly, all three countries are moderately
open economies, with trade-to-GDP ratios significantly higher than in
the United States but significantly lower than in other small European
countries, such as the Netherlands (Figure 2). We can therefore expect
to have faced similar constraints on macroeconomic policy (it has
been known for a long time that economic openness, defined as expo-
sure to international trade, complicates demand management).27

It is hard to see how the observed differences in policy instruments
could be attributed to partisan politics. David Bearce argues that left
parties tend to choose a “loose fiscal–tight monetary policy mix,” since
this gives them more opportunities to pursue redistributive policies via
taxing and spending, whereas right parties tend to prefer a “tight fiscal–
loose monetary policy.”28 In Austria, Denmark, and Sweden, however,
there is no obvious correlation between the party composition of gov-
ernments and the instruments that governments have used. For ex-
ample, a center-right government established a “hard currency policy”
in Denmark in 1982, but a social democratic government in Austria
had done the same in the early 1970s, and all major parties agreed on
a hard currency strategy when it was attempted, briefly, in Sweden in
the early 1990s.

26 I draw on Asmussen 2007, which contains a detailed analysis of these reports.
27 Cooper 1968, chap. 6.
The fact that Austria, Denmark, and Sweden are similar in many respects makes it easier to identify any effects of ideas on policy choices. The disadvantage of studying similar cases is that the generalization of the results becomes more difficult, since there is no way of determining empirically whether the relationship between expert ideas, instruments, and objectives in Austria, Denmark, and Sweden is a function of specific circumstances in these three countries. For example, the existence of a relationship between ideas and instruments in Austria, Denmark, and Sweden might be a result of their corporatist traditions, since experts in corporatist systems will often be required to reach agreement on some aspects of policy (such as instruments) even if there is disagreement on other aspects (such as objectives). Similarly, the absence of a relationship between ideas and policy objectives in Austria, Denmark, and Sweden might be specific to political systems where political parties represent relatively well defined categories of voters, as most parties do in the smaller European democracies. The trade-off between identification and generalization is typical for small-N comparative re-
search. Given that this article is concerned with relatively complicated causal processes, it gives priority to the former.

EXPERT IDEAS AND ECONOMIC POLICY IN THREE EUROPEAN COUNTRIES

THE END OF FULL EMPLOYMENT IN DENMARK (1976)

Denmark was one of the first European countries to give up on full employment after the first oil crisis. By 1976 unemployment had increased to 4 percent, but the social democratic government nevertheless terminated many of the expansionary programs that had been launched in 1974 and 1975, seeking to balance the budget and reduce the deficit on the current account. The Ministry of Finance announced that the objective of economic policy was no longer an immediate reduction in unemployment but rather was to “secure the basis for the reestablishment of full employment” in the medium term.29

By the early 1980s the social democrats (who remained in power until 1982) had become more pessimistic still: in April 1980 the Finance Ministry explained that the aim was to “guarantee a reduction of the current account deficit in order to achieve a situation in the second half of the 1980s where the current account is in balance and there is a basis for a reduction in unemployment.”30 The new center-right government that was formed in 1982 subsequently downgraded the full employment objective further: it said that the targets for the coming years were balance on the current account, an elimination of the budget deficit, and a reduction of inflation. Lower unemployment was simply expected to follow—it was not a target of economic policy as such.31 In the period from the mid-1970s to the early 1980s, governments thus changed the main objective of macroeconomic policy from low unemployment to fiscal consolidation, balance on the current account, and low inflation.

There is little evidence that the gradual reorientation of Danish economic policy was the result of a change in economic thinking in Denmark. Very soon after the first oil crisis began, the government’s main economic advisers, the Wise Men, argued that it had become difficult for Denmark to preserve full employment, since the large European countries had chosen not to, and in 1977 the Wise Men even claimed

29 Budgetdepartementet 1976, 9. All quotes from Danish, German, and Swedish sources are translated by the author.
30 Budgetdepartementet 1980, 47.
that the “Keynesian Model” could no longer be used. However, this was not because Danish economists had become persuaded that the Keynesian approach to economic policy was theoretically or empirically unsound; rather, the leading economic experts believed that Keynesian solutions to the unemployment problem were ineffective due to particular constraints. As Balder Asmussen shows in his comprehensive study of Danish economic policy-making, the economic debate in Denmark was dominated by Keynesians throughout the 1970s and well into the 1980s and 1990s.32

The economics professor Bent Rold Andersen, who was chairman of the Wise Men from 1976 to 1978, says that “almost all influential economists in this period were clearly Keynesian” and that new classical views arrived late in Denmark, “perhaps in the 1980s and 1990s.”33 According to Rold Andersen, most economists believed that Denmark faced important constraints—especially the deficit on the current account—but they also believed that “once we eliminated the constraints, fiscal policy and demand steering would be the chief instruments for getting rid of unemployment.” Hans Zeuthen, who succeeded Rold Andersen as chairman of the Wise Men and held the position from 1978 to 1983, says that he also “tended to think in a Keynesian way,” but he believes that “traditional Keynesian policies have not been possible.”34 The leading economic policymaker of the 1970s—the social democrat Knud Heinesen (budget minister in 1973; finance minister in 1975–79 and 1981–82)—claims that social democratic policies in this period “were not formulated in very theoretical terms.” He believed that “expansionary Keynesian fiscal policies, which could have positive effects in the closed society of the 30s, had small effects in an open society,” but for Heinesen, as for Rold Andersen and Zeuthen, the main problem was that Denmark in the 1970s had very little room for maneuver. When the room for maneuver increased in the early 1990s, Heinesen believed that expansionary fiscal policies were possible once more.35

Although the objectives of economic policy changed, fiscal policy remained the main policy instrument for purposes of domestic economic management. The social democrats discontinued expansionary fiscal policy programs in the mid-1970s, but they went on launching selective fiscal programs in the late 1970s and the early 1980s, in order to keep the budget as employment intensive as possible within a

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32 Asmussen 2007, 57, 65.
framework of generally austere fiscal policies. More importantly, the center-right government in 1982–93 used fiscal policy very actively, especially in the mid- to late 1980s, to achieve balance on the current account and low inflation: although full employment was no longer the main objective, the idea that fiscal policy could be used to control the macroeconomy was the same.

Exchange rate policy and monetary policy were never seen as very important instruments of macroeconomic management in Denmark. Before the oil crisis Denmark had joined the European “Snake” system, aligning its exchange rate policy with that of the Federal Republic. From 1976 to 1982 Denmark gradually devalued the krone vis-à-vis the West German mark, but a 5 percent devaluation in 1979 was the only time Denmark devalued outside of a general realignment within the Snake. This relatively cautious approach sets Denmark apart from its Scandinavian neighbor Sweden, which left the Snake in 1977 in order to pursue a more independent exchange rate policy. Some Danish social democrats—such as Ivar Nørgaard, the minister for economic affairs—advocated a more aggressive policy of devaluations, but other, more influential politicians and civil servants opposed this. From 1982 onward Denmark has maintained a hard currency policy vis-à-vis the German mark and subsequently vis-à-vis the euro.

The Danish case shows that it was entirely possible for a country where Keynesian ideas were predominant to change the main objective of economic policy from full employment to “sound policy”—low inflation, budget balance, and balance on the current account. The predominance of Keynesian ideas did not lead Danish policymakers to give priority to full employment. It seems likely, however, that the continued emphasis on fiscal policy rather than on monetary and exchange rate policy has been a consequence of the Keynesian approach of Danish economic experts. Danish governments have continued to rely on fiscal policy as an instrument of macroeconomic management both when they have sought to reduce unemployment (in the mid-1970s and again briefly in the 1990s, as I will show later) and when they placed other goals higher on their list of priorities (from the mid- to late 1970s to the early 1990s).

The Swedish Social Democrats Return to Power in 1982
The leading Swedish economists and experts responded very differently to the anti-Keynesian trend in international economic organiza-

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36 Budgetdepartementet 1977, 80*, 83*.
37 Hoffmeyer 1993, 93.
tions and policy debates around 1980. Over a relatively short period of time, from the late 1970s to the mid-1980s, Keynesian ideas became largely irrelevant both to the advice of domestic economic experts and to Swedish economic policy-making.

An analysis of articles published in the Swedish journal *Ekonomisk debatt* suggests that the transition from Keynesianism to predominantly new classical ideas can be divided into three phases. In the first phase (the mid-1970s), some elements of non-Keynesian theories were discussed in connection with particular empirical or theoretical problems. In the second phase (the late 1970s), individual economists presented broad challenges to Keynesianism, describing the problems of Keynesianism as so serious that it should be regarded as inferior to other macroeconomic approaches. In the third phase (the early 1980s), economists started describing alternatives to Keynesianism as commonly held views and took the crisis of Keynesianism to be historical fact. In 1982 an entire issue of the journal dealt with “the need for new strategies in stabilization policy.” 38 In Denmark non-Keynesian ideas were associated with a few individual economists, but the opposite was true in Sweden, where by the mid-1980s Keynesian ideas were associated with individual economists such as Sven Grassman (an expert on balance of payments statistics).

Economists affiliated with the organization SNS, a business-funded research institute and publishing house, contributed to this intellectual change. Their 1980–81 report on the Swedish economy is evidence of an increasing influence of non-Keynesian ideas, advocating a program of “rules-based policies.” 39 Bengt Rydén, CEO of SNS at the time, says that the 1980–81 report “was a result of new thinking in economics breaking through” and he points out that Hans Tson Söderström and Johan Myhrman—two young economists at the Institute for International Economic Studies in Stockholm who participated in the SNS group for the first time—“had contacts among American academics and were inspired by theories about, for example, rational expectations.” 40 Subsequent SNS reports, especially the one published in 1985, advocated rules-based economic policies in a more programmatic way. This has led some students of Swedish economic policy-making to emphasize the role of the Economic Policy Group, and of non-Keynesian economists more generally, in the mid- to late 1980s. 41 But ideas about

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38 See Calmfors 1982.
39 Bentzel et al. 1980, chap. 3.
rules-based policies as such were present already in the early 1980s. “The report from 1980–81 contained the ideas that would later appear in the report in 1985,” says Hans Tson Söderström, who headed the SNS group from the mid-1980s to the mid-1990s.42

In 1982, when six years of center-right government were drawing to a close and social democratic economic experts were developing a new economic program, Keynesian ideas were thus widely regarded as outdated among Swedish economists. This did not lead the social democrats to change the main objective of economic policy from full employment to low inflation—the premise of their strategy was that full employment was the “purpose and soul of social democracy,” according to Michael Sohlman, a leading social democratic economic adviser at the time—but it did lead them to change the instruments of economic policy drastically.43

In the mid-1970s, before losing the 1976 election, the social democrats’ economic strategy had been based on fiscal policies designed to keep domestic demand high, in order to prevent the oil price increases from reducing domestic economic activity. These so-called bridging policies had been continued by the center-right governments in 1976–79. In the aftermath of the second oil crisis, the center-right government had declared that these policies would stop. However, to compensate for the associated decline of domestic demand, the center-right followed up on the two devaluations it had implemented in 1977 with a 10 percent devaluation in September 1981. The social democrats followed a similar course when they returned to power the next year: there was no new “bridging policy,” but there was a big change in exchange rate policy. On October 8, 1982, the new government implemented an unprecedented 16 percent devaluation in order to increase foreign demand for Swedish products, following it up with relatively austere fiscal policies that were expected to induce a transfer of resources from sheltered economic sectors to the export-oriented sector.44

The importance of economic ideas for this policy change can be identified clearly in the internal memoranda that the two main social democratic economic advisers, Michael Sohlman and Erik Åsbrink, wrote in the spring and summer of 1982.45 In the beginning of that year Sohlman and Åsbrink had been secretly instructed by the future finance minister Kjell-Olof Feldt to prepare an economic policy strat-

45 See especially Åsbrink 1982.
egy for the social democrats for use in the likely event that they would win the election in September. Sohlman’s and Åsbrink’s memoranda rejected a strategy based on expansionary fiscal policies—a strategy that they believed had failed in the 1970s and in the first year of the Mitterrand administration in France and that they associated with the economist Sven Grassman (who, as we have seen, was one of the few remaining outspoken Keynesian economists in Sweden at this time).

Having no faith in the favored Keynesian instrument, fiscal policy, the social democratic economic advisers emphasized exchange rate policy. Their idea was not only to make a big devaluation but also to peg the Swedish krona to the West German mark in order to control inflation. The second part of the program was never implemented, but the reasoning behind it reveals the influence of new classical economic ideas. Sohlman and Åsbrink based their arguments explicitly on the notion of “rules-based economic policies,” which was the version of anti-Keynesian thinking that gained currency in Sweden in the early 1980s. “I believed in rules-based economic policies, and the idea of pegging the krona to the German mark, which didn’t happen, was an obvious example of rules-based policies,” Åsbrink says today.46 Kjell-Olof Feldt—who was finance minister from 1982 to 1990—says that the idea of rational expectations “had become part of our worldview.”47

The economic strategy of the Swedish social democrats after the party’s return to power in 1982 is a particularly clear example of the real but limited effects of economic ideas. The leading social democratic economic advisers had decided not to prescribe Keynesian remedies, being persuaded by the critique of Keynesianism that had become influential in international economic organizations and among Swedish economists in the early 1980s. Still, there was never any question of changing the objectives of economic policy. Being persuaded that Keynesian ideas were not useful, the advisers suggested that a new instrument, exchange rate policy, could be used to meet the objective of full employment. New ideas changed the method, not the goals. The limited effects of ideas on objectives are also apparent when we consider the fate of the proposal of linking the Swedish krona to the German mark. Although this was a logical part of the program from the point of view of the new classical ideas that informed it, the leading politicians chose not to implement it since they believed that it might lead to higher unemployment in the medium term. The experts who devised the social democratic economic strategy in Sweden in the

1980s had remarkable freedom when it came to selecting policy instruments, but as soon as their suggestions involved core policy objectives, the politicians chose not to follow their advice.

**THE END OF FULL EMPLOYMENT IN AUSTRIA (1987)**

Full employment was the primary goal of Austrian macroeconomic policy throughout the long period of social democratic majority government in the 1970s and early 1980s. Hannes Androsch, who was finance minister from 1970 to 1981, declared in the early 1970s that the Austrian government would “reject any fight against inflation that leads to stagnation, because we are not prepared to pay the price of unemployment under any circumstances.” The government’s efforts to keep unemployment low after the oil crisis were mainly associated with fiscal policy programs: generally expansionary programs in 1975–76 and more cautious, selective programs in the late 1970s and early 1980s. Meanwhile, exchange rate policy—and therefore in the long run monetary policy—was assigned to the maintenance of a fixed exchange rate vis-à-vis the West German mark. This “hard currency policy” (Hartwährungspolitik) was established gradually during the 1970s, after the breakdown of the Bretton Woods system.

Beginning in the early 1980s unemployment started creeping up. But at least in political rhetoric, full employment remained the main objective until the mid-1980s. Franz Vranitzky, who was finance minister from 1984 to 1986, says that compared with his predecessors he was “a little more hesitant” to use fiscal policy to maintain low unemployment, but he believed that “it was still possible, with public investments, to stimulate parts of the economy.” A clear change in the goals of economic policy followed in 1987, when budget consolidation was given priority over full employment. The government declared that economic policy aimed for a gradual decrease of the budget deficit, and no longer spoke of full employment but instead spoke of keeping employment “as high as possible.” This policy was launched following the formation of a grand coalition between the social democratic SPÖ and the Christian democratic ÖVP, the first such coalition since the mid-1960s. The new government formulated a program for fiscal

52 Unger 2001, 347.
consolidation that was based on the understanding that “the traditional Austrian approach to demand management may have become ‘overstrained’” due to the deterioration of public finances.\textsuperscript{54}

When the government launched its new program, it said that one of the aims of consolidating public finances was to provide for a return to employment-promoting fiscal policies later on, which suggests that the policy change was not motivated by the abandonment of Keynesianism. To some extent this was rhetoric. Ferdinand Lacina, finance minister from 1987 to 1995, says that “it was easier for the Social Democrats to say that we had to concentrate on the consolidation program, of the budget, in order to have more room for maneuver at a later time when it was really necessary.” But Lacina also points out that expansionary fiscal policies were in fact used in the economic downturn in 1993–94.\textsuperscript{55}

In the 1970s and 1980s, and arguably also in the 1990s, among the main sources of economic advice to Austria’s main political parties, the social democratic SPÖ and the Christian democratic ÖVP, were the Chambers of Labor and Commerce, which are publicly regulated corporatist institutions designed to represent worker and business interests. Referring to his period as chancellor, 1987–97, Franz Vranitzky says that the Chamber of Labor was “a kind of brain trust, and to a large extent we relied on their capacities and their abilities,” and Ferdinand Lacina, the finance minister, had his background in the Chamber of Labor, which has consistently advocated Keynesian ideas and policies.\textsuperscript{56} Günther Chaloupek, who is the present head of economic research at the Chamber of Labor, says that the chamber has always regarded “expenditure from the budget for investment in infrastructure and also the promotion of investment, incentives for investment” as well as “countercyclical fiscal policy” as important economic policy instruments.\textsuperscript{57}

Importantly, however, the Chamber of Labor did not oppose the policy change that occurred in 1987, when full employment was downgraded. Chaloupek says that the Chamber had “a realistic perspective,” and “did not have the boldness to say ‘now we have to get down to 2 percent’ or even 3, 3.5—we did not consider this feasible.” In other words, its Keynesian approach did not lead the Chamber of Labor to propose certain targets, only to continue advocating the use of certain instru-

\textsuperscript{54} \textit{OECD} 1988, 17.
\textsuperscript{55} Ferdinand Lacina. 2006. Interviewed by the author. Vienna, Austria, June 6. Concerning fiscal policies in the early 1990s, see \textit{OECD} 1994, 90–91; and Walterskirchen 1997, 6.
\textsuperscript{56} Franz Vranitzky. 2006. Interviewed by the author. Vienna, Austria, June 7.
\textsuperscript{57} Günther Chaloupek. 2006. Interviewed by the author. Vienna, Austria, June 8.
ments. Meanwhile, although the Chamber of Commerce—the business counterpart of the Chamber of Labor—did not actively promote Keynesian ideas, it did not oppose them either. Werner Teufelsbauer, a former head of the Economic Policy Department in the Chamber of Commerce, believes that anti-Keynesian ideas never penetrated the social partnership system: in the Chamber of Commerce, “the ideas of monetarism were studied, and some leaders became quite impressed by this,” Teufelsbauer says. “But it did not become an explicit, paradigmatic change.”

This also applied to academic economists. As a result of Austria’s proximity to Germany, monetarist and new classical ideas were known and discussed in Austria early on, but Keynesianism remained dominant. In his essay “Austro-Keynesianismus,” published in 1982, Hans Seidel, a leading Austrian economist and former state secretary in the Finance Ministry, wrote that Austrian economists may have disagreed on many things, but they had one thing in common: they were all Keynesians. Although monetarist and new classical ideas have gained ground in Austria since Seidel’s essay was published, an analysis of articles in Wirtschaft und Gesellschaft and Wirtschaftspolitische Blätter suggests that Keynesianism has remained stronger in Austria than in many other European countries, especially when it comes to practical policy issues. This was almost certainly the case when the objectives of economic policy were changed openly in 1987—as late as 1994, both Wirtschaft und Gesellschaft and Wirtschaftspolitische Blätter published issues on macroeconomics in which most contributions represented broadly Keynesian views. Gunther Tichy, an emeritus professor at the University of Graz, says that it is important to remember that Austrian Keynesianism was always different from other Keynesian traditions, since it was mainly concerned with the reduction of uncertainty, not with short-term stabilization—“the question of how to fight recessions with fiscal policy was never the main point”—but he also says that “macroeconomic policy and macroeconomic aspects are much more looked at in Austria than anywhere else” and that Keynesianism, in the Austrian sense, has remained relatively influential even in the 2000s.

At first glance, Keynesian ideas seem to have generated not only a strong faith in fiscal policy as an instrument of macroeconomic man-

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58 Werner Teufelsbauer. 2006. Interviewed by the author. Vienna, Austria, June 5.
59 See, for example, Wirtschaft und Gesellschaft 1977, 93.
60 Seidel 1982, 11.
61 For two contributions to these special issues, see Tichy1994a; Tichy 1994b.
62 For a recent example, see WIFO 2006, 156–58.
agement in Austria but also an employment-oriented economic policy. However, compared with the 1970s, policy objectives have clearly changed, as Austrian political scientists noted already in the mid-1980s. Since Austrian macroeconomists were predominantly Keynesian both before and after this policy change, it seems clear that the Keynesian orientation of economic experts could not prevent a gradual shift away from full employment policies in the course of the 1980s. There are strong reasons to believe, however, that the Keynesian orientation of economic experts is an important reason why active fiscal policy has remained a part of the policy arsenal of Austrian governments.

The End of Full Employment in Sweden (1991)

In the early 1980s, as we have seen, the Swedish social democratic government responded to the threat of rising unemployment with a large devaluation that was designed to increase foreign demand for Swedish export goods. In the next economic downturn, which occurred in the early 1990s, both the social democratic government that was in power until September 1991 and the center-right government that took over in 1991–94 acted differently, following a course that most other European countries had already taken by making low inflation the main objective of economic policy. The threat of rising unemployment was not met with a fiscal policy–led expansion of the domestic economy, as in the 1970s, nor with devaluations, as in the early 1980s. On October 26, 1990, the social democratic government announced that the fight against inflation “must take priority over all other ambitions and demands.” The government now assumed that optimal long-term employment performance required low inflation and that economic policy therefore could not be used to protect employment in the short run.

This significant change in policy objectives occurred just before a severe economic downturn, and open unemployment increased from less than 2 percent to more than 8 percent between 1990 and 1993.

When it comes to policy instruments, there has been a great deal of continuity from the early 1980s onward, in the sense that exchange rate policy and monetary policy, not fiscal policy, have been the main instruments. In the 1980s devaluations were used to preserve full employment; in the early 1990s the government based its anti-inflationary strategy on a “hard currency policy”; and from 1992–93 onward both

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63 Talos 1987.
center–right and social democratic governments have based their macroeconomic strategies on inflation–targeting monetary policies and a floating exchange rate. Fiscal policy has been evaluated only in terms of allocation and distribution and rarely in terms of its stabilization function. The fact that many Swedish economists abandoned Keynesianism around 1980—leaving little expert support for a discussion of the stabilization effects of fiscal policy—arguably contributed to Swedish policy choices when it comes to policy instruments. But the fact that the shift to low inflation policies occurred approximately ten years after Keynesianism was abandoned strongly suggests that expert ideas have had little or no impact on the objectives of economic policy in Sweden.

The Danish Social Democrats Return to Power in 1993

A series of center–right minority governments under the conservative Poul Schlüter ruled Denmark from 1982 to 1993. In the beginning of this long period of center–right rule, the economy performed remarkably well and unemployment declined rapidly. But in 1985–86, following a deterioration of the current account balance, the government began to adopt more austere fiscal policies, and unemployment increased continuously from the mid-1980s to the early 1990s. Fiscal policy was the main macroeconomic instrument for the center–right governments, and the government used this instrument very actively, but just like the social democrats in the late 1970s and early 1980s the center–right governments did not see any room to use fiscal policy to stimulate the economy, especially not after 1985–86.\(^\text{66}\) Current account balance and low inflation came first.

Toward the end of the center–right government’s term in office—in the late 1980s and the early 1990s—anti-Keynesian ideas briefly became more influential in the Danish economic debate. A 1988 report by the Wise Men was inspired by new classical economic thinking, and the new macroeconomic approach found a willing exponent in the liberal minister for taxation, Anders Fogh Rasmussen. In 1990 the government, inspired by new classical ideas, even declared that fine tuning would no longer be used in fiscal policy.\(^\text{67}\) However, this was but a short interlude, for Keynesian ideas had staying power. During the sharp economic downturn in the early 1990s, many academic economists (including, again, the Wise Men) started to advocate expansion-

\(^\text{66}\) Asmussen 2007, 104.

\(^\text{67}\) Asmussen 2007, 115, 121–24.
ary fiscal policies. In 1992, for example, the Wise Men recommended an expansionary fiscal program aimed at boosting domestic demand. The center-right government did not follow this advice, but when Poul Schlüter stepped down as prime minister in 1993, Poul Nyrop Rasmussen's new social democratic–liberal coalition government implemented an expansionary fiscal program, including public investments that were expected to lead to an increase in domestic demand and therefore also to higher employment. This policy was supported by the economic establishment both at the time and afterward. Although the views of economists had become more heterogenous over time, relative to the Keynesian consensus in the 1970s, Keynesian ideas about the role of economic policy had remained viable and offered politicians the opportunity to implement active fiscal policies when they believed that the circumstances allowed.

In conclusion, Keynesianism was important for policy not because it encouraged politicians to place employment first but because the discussion about fiscal policy as an instrument was kept alive among Danish economists and policy advisers. When politicians primarily wished to improve the current account balance and reduce inflation, as in the mid-1980s, experts devised fiscal policies that reduced domestic demand. When politicians were looking for a way to increase employment in the early 1990s, they asked experts to devise fiscal programs that might achieve this aim.

IDEAS AND POLICY

In the cases of Austria, Denmark, and Sweden, it seems clear that changes in the objectives of economic policy have not resulted from the decline of Keynesianism and the emergence of competing approaches to macroeconomics. In the Austrian and Danish cases, politicians stopped using macroeconomic policy to preserve full employment while Keynesian ideas were still very strong, even dominant. In Sweden, by contrast, this change in the objectives of economic policy occurred long after new classical ideas had become the new orthodoxy. When it comes to instruments, however, ideas have been highly relevant. In Austria and Denmark, where economic experts had not given up on Keynesianism, governments continued to treat fiscal policy as an important macroeconomic instrument well into the 1990s. The Austrian and Danish governments even returned to expansionary fiscal policies

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68 Asmussen 2007, 156.
69 Nannestad and Green-Pedersen 2000, 14, 17.
70 See, for example, Andersen, Hougaard, and Risager 1999, 7.
in the early 1990s, if only temporarily. But in Sweden the fiscal policies of both center-right and social democratic governments have been concerned almost exclusively with the allocative and distributive functions of fiscal policy ever since new classical ideas became dominant in the early 1980s.

**Concluding Remarks**

The hypotheses formulated earlier in this article receive a great deal of support: there is little evidence that economic ideas have mattered for the choice of economic policy goals in Austria, Denmark, and Sweden, but there is strong evidence that economic ideas have mattered for the selection of instruments.

From a normative point of view, these results appear to be good news. If elected politicians set overall goals while experts give advice on the selection of instruments, it would seem that politicians have simply delegated functions that experts do well. In a recent normative paper on the delegation of authority from elected politicians to bureaucrats—a problem that corresponds reasonably well with the distribution of influence between politicians and experts—Alesina and Tabellini conclude that politicians should not delegate

if the policy has far reaching redistributive implications so that compensation of losers is important, if criteria of aggregate efficiency do not easily pin down the optimal policy, and if there are interactions across different policy domains (so that a single measure of performance is affected by several policy instruments and policy packaging or evaluating controversial trade-offs is required to build consensus or achieve efficiency).71

The main results of this article—that experts influence instruments but have a much weaker influence over goals—map well onto these criteria. The choice of goals has more “far reaching redistributive implications” than the selection of instruments; it is by definition difficult to evaluate with reference to “criteria of aggregate efficiency” (since any judgment about efficiency requires a well-defined set of goals); and it is more likely to be affected by “interactions across different policy domains” than the selection of instruments. This article thus adds to the literature that describes the role of expert ideas in politics as essentially benign.72

71 Alesina and Tabellini 2008, 444.
72 See also Esterling 2004.
However, the results must be interpreted with caution: it would clearly be premature to conclude that democracy and technocracy can be reconciled on the basis of a comparative study of three European countries—especially a study limited to the relationship between macroeconomic ideas and economic policy. There are other countries, other policy areas, and other sorts of ideas. The hypothesis that experts exert strong influence over the selection of policy instruments but not over the formulation of policy objectives must be tested in other settings and policy domains.

The relationship between political institutions, expert ideas, and policy-making should also be examined further, both theoretically and empirically. For example, one observation made in this article—that Keynesianism was stronger among Austrian and Danish experts than among Swedish experts—itself calls for an explanation, and one plausible hypothesis is that the presence of corporatist institutions for the production of economic advice in the two former countries has encouraged a pragmatic approach to macroeconomics, as opposed to the competition between theoretical schools that appears to have characterized the Swedish macroeconomic discussion. As Marion Fourcade-Gourinchas has shown, the development of economics as an academic discipline across the world has itself been shaped by national political and social structures. The complex interaction of institutions, expert ideas, and policy-making is a promising topic for future comparative research.

One issue that deserves to be explored in this context is the long-term effect of expert ideas on policies. This article shows that in the short term, expert ideas can be mixed with different ideological and political agendas. For example, the Swedish case is an example of how new classical economic ideas, which are often regarded as right-wing beliefs, were used by a strong left-wing political party. However, it is possible that in the long term, effective policy-making requires a good match between objectives and instruments in the sense that the instruments experts recommend are appropriate for the goals politicians wish to pursue. An examination of this hypothesis probably requires a historical analysis of the interaction of expert ideas, political conditions, and policies over a longer time period than the three decades covered in this article.

The argument of this article concerns only expert ideas, defined as shared causal beliefs. It may well be that other ideational elements,
such as values and norms, can influence policy goals. In fact, this is my own view: the transition from full employment-oriented to stability-oriented economic policies in Europe in the 1970s, 1980s, and 1990s was associated with the breakup of postwar political settlements, and values and norms almost certainly played an important role in this process. But this article suggests that expert ideas have real but limited effects on policy.

References


75 For one attempt to develop an analysis of such a process, see Lindvall 2006.