

Rational Historical Institutionalism: With Application to British and Swedish Health Policy

Tim Hicks*
Nuffield College,
University of Oxford
`timothy.hicks@nuffield.ox.ac.uk`

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Abstract

Historical institutionalists have been among the most cognizant of the importance of considerations of time in studying political phenomena. However, they have tended to do so in ways that assume the absence of sufficient information or rationality on the part of actors. By contrast, rational choice institutionalists have tended to hold precisely the reverse bias - seeing actors as rational and informed, but failing to consider the kinds of strategies that follow from explicit consideration of time. This paper argues for a synthesis of the two approaches in which actors making decisions at ‘critical junctures’ are held to be able to foresee the patterns of ‘path dependency’ inherent in their available choices. A comparison of health policy in Sweden and the UK at the end of the Second World War shows the value of this synthesis.

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This paper develops an argument for a synthesis of rational choice and historical institutionalism. By briefly tracing the development of these two ‘new institutionalist’ schools (c.f. Hall and Taylor, 1996), it is shown that both suffer from analytical predispositions that are unnecessarily limiting. More specifically, as they stand alone, each school tends to ignore consideration of *rational* political actors strategically pursuing their goals *through time*. On the one hand, historical institutionalists have long-term processes at the heart of their theoretical approach, but often reject rational agency in their explanations of political phenomena. On the other hand, rational choice institutionalists assume the rationality of actors as a core building block, but have tended to ignore longer-term processes in favour of modeling short-run legislative behaviour and the like.

Based on this interpretation of the literatures, the position advanced here is that there is value in adopting more of a synthesis between the historical and rational choice institutionalisms. While the former has paid more attention to dynamics, it has done so in a way that is under-developed in terms of the rationality ascribed to political actors. Implicit, and sometimes explicit (e.g. Mahoney, 2000; Pierson, 2004) rejections of the idea of rational actors has led historical institutionalists to throw away too much in the way of valuable theoretical building blocks. Likewise, concepts from the historical approach such as ‘path dependency’ and ‘critical junctures’ are of key importance in understanding partisan strategy, but their close association with that approach has left them under-exploited by rational choice analysts.

I argue that consideration is needed of the possibility that there are ‘rational actors’ making decisions at ‘critical junctures’. Furthermore, given that issues of ‘path dependence’ are of such importance in political science, we should also consider that those rational actors will, where suitable, seek to take advantage of path dependent processes in their decision-making. Thus, the concepts of historical institutionalism provide pointers to the locus of where our theoretical explanations are appropriate. The rational choice framework then makes it possible to derive hypotheses and generalisable understanding — but all the while incorporating the historical institutionalist insights into the strategic decision calculus undertaken by political actors. In this way, it really is a synthesis that is proposed here. Advancing a general theoretical orientation of this sort holds the prospect of allowing us to develop more compelling accounts of the ‘critical’ decisions made by political actors.

The argument can be extended further than simply highlighting theoretical considerations that should be given to the analysis of critical junctures, though. Adopting a softer understanding of ‘path dependency’ than is sometimes accorded by historical institutionalists implies that the kinds of hypotheses that can be developed for strategic action at critical junctures may also play out in the more ‘path dependent’ eras of political processes. That is, if we consider political developments as being *influenced* rather than *determined* by earlier decisions, then there remains scope for political agency to affect those developments. In this case, political actors retain similar incentives to try to (re)structure the earlier decisions that

still wield influence — and there is every reason to think that the same strategic calculations that were present at the ‘critical’ juncture will remain relevant during this later period. As such, the synthesis of historical and rational choice institutionalism proposed here also offers the prospect of a unification of our theoretical understanding of the political choices made at what have often been considered rather different types of historical periods.

To make this argument, I begin by outlining some of the key concepts of historical and rational choice institutionalism and engage with them in a critical way. I then sketch out a synthesis of the two. As an example of the utility of the approach, I then present a brief comparison of the development of health policy after the Second World War in the UK and Sweden. The paired cases show how consideration of strategic policy-making during critical junctures can lead us to explanations of interesting differences in partisan actions, both across countries and within countries through time.

1 On Structure

The institutionalist literature has produced widely varying definitions of precisely what is meant by the term ‘institution’. Early institutional work tended to use a definition that focused on legal, often constitutional structures. Exponents of this type of work would provide a largely descriptive account of the constitutions of a number of states. Comparative politics under this sort of approach largely amounted to ‘compare and contrast’, rather than ‘compare and explain’ (c.f. Peters, 2005, 3–11). The restrictiveness of this body of work led the ‘new institutionalists’ who subsequently emerged to make more analytical use of ‘institutions’ (c.f. Hall and Taylor, 1996).

In a sense, the rational choice institutionalism that developed in the late 1970s and early 1980s shares the formal understanding of institutions with the ‘old’ institutionalism that preceded it. Despite this definitional affinity, rational choice institutionalism is generally held to have its roots in the study of US legislative politics, rather than descriptive comparativism. Scholars such as Kenneth Shepsle, Barry Weingast, and Keith Krehbiel rejected the notion, stemming from Arrow’s ‘Impossibility Theorem’, that no firm predictions regarding voting outcomes could be made — “that in politics, there typically were no equilibria; the core was empty” (Shepsle, 1989, 138). Instead, even cursory research on US Congressional politics, they felt, revealed patterns of behaviour and outcomes that were ripe for systematic theoretical explanation. To avoid the indeterminacy of the earlier theories, Shepsle introduced the idea of ‘structure-induced equilibrium’ in which the institutional context in which actors vote and legislate is seen to lead to tighter predictions from theoretical models (Shepsle, 1979; Shepsle and Weingast, 1981). In a technical sense, the emphasis was on translating institutional context into a suitably specified extensive form game theoretic construct. In Shepsle’s words, “choosing an institution is equivalent to choosing a game form” (Shepsle, 1989, 138)

This theoretical innovation has led to a vast literature on US legislative politics with rational choice institutionalism — in the form of game theory — as its driving analytical paradigm.¹ Building on this US legislative foundation, contributions like that from Ostrom (1986) explicitly tried to draw out the general conceptual foundations of formal ‘rules’ so as to develop “an agenda for the study of institutions”.

Comparability between units of observation is ‘messier’ for comparativists than it is for those focused on US legislative politics. Nonetheless, George Tsebelis’ ‘veto player’ concept proved to have notable analytic importance and tractability for comparativists (c.f. Tsebelis, 2002). Political economists from the economics tradition also began to construct rational choice institutionalist theories with application across countries. With Torsten Persson and Guido Tabellini as the leading lights in this research agenda, economists began to produce explicitly comparative formal models that sought to explain the differing patterns of expenditure across countries on the basis of various constitutional features (Persson, Roland and Tabellini, 1997, 2000; Lizzeri and Persico, 2001; Persson and Tabellini, 1999, 2002, 2005).² In doing so, they built on work conceived of in a US context, such as the model from Weingast, Shepsle and Johnsen (1981) in which the incentives of legislators to provide benefits to different coalitions of voters are examined. This newer economics literature drew distinctions between, among others, parliamentary and presidential democracies, and between proportional and majoritarian democracies, and went on to make considerable empirical progress. For all these advances, however, issues of partisanship play almost no role in this body of work. While this can probably be ascribed to the broad, macro-comparative approach adopted by Persson and Tabellini, the omission is, nonetheless, notable. There appears to be relatively little well-developed work of this ilk that embeds partisan agents as explanatory variables.³

What, then, are the distinguishing features of rational choice institutionalism? One is clearly the adoption of rational, utility-maximising, agents as the core actors. Another is the assumption that actor preferences are exogenously given — and often operationalised as preferences for higher incomes or probabilities of re-election. Thelen and Steinmo (1992, 7) claim that one core component of the approach is that, “institutions define (or at least constrain) the strategies that political actors adopt in pursuit of their interests”. As can be seen above, this tendency may be traced to the school’s intellectual roots among US legislative scholars. In developing the approach, those researchers were faced with highly formalised institutional environments in which rules were explicit and tightly adhered to. There is little in the way of ambiguity over Congressional committee membership, vote sequences,

¹Influential examples include Baron and Ferejohn (1989) and Krehbiel (1998). For a broader view, see numerous chapters from Weingast and Wittman (2006).

²A textbook treatment is given in Persson and Tabellini (2000).

³In a sense, this is not strictly correct. Persson and Tabellini (2000) set out models in which parties have outcome preferences, but their focus is largely on how the Downsian mechanics of electoral systems leads the parties to have little in the way of discernible policy impact.

agenda-setting powers, and the like.

One consequence of this intellectual heritage, though, is that rational choice institutionalism appears to be overly focused on the kinds of formal, legalistic, institutions that tend to constitute the ‘rules of the game’. The concentration of rational choice analysis on this subset of relevant political institutions is a notable weakness of the tradition. The focus on formal institutions comes at the expense of other aspects of ‘structure’ that are highly consequential in the political realm. This is all the more problematic for RCI scholars because there are strong justifications for endogenising parts of this structure: the policies that are the outcome of RCI game theoretic models very often create new political constraints that become relevant moving forward.

The contrast between the RCI and HI conceptions of ‘institution’ and ‘structure’ is, in some ways, rather difficult to draw. While RCI scholars almost universally share a focus on institutions as the ‘rules of the game’, the concept of an ‘institution’ in the historical institutionalism that developed in parallel has been far less clear cut. Indeed, in a critical review of a milestone historical institutionalist volume edited by Steinmo, Thelen and Longstreth (1992), Pontusson wrote,

[w]hat exactly do we mean by institutions? And what variables other than institutions are there that might matter? The lack of conceptual elaboration in the historical institutionalist literature is striking [...]. (Pontusson, 1995, 118)

Despite this apparent lack of conceptual clarity, the empirical historical institutionalist literature exhibits signs that the understanding of the term ‘institution’ goes beyond the more formal rules employed by rational choice analysts. This can be seen, for example, in Peter Hall’s influential comparative study of British and French political economy.

The concept of institutions is used here to refer to the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy. As such, they have a more formal status than cultural norms but one that does not necessarily derive from legal, as opposed to conventional, standing. (Hall, 1986, 19)

From this definition, the concept of ‘institution’ does not appear to be stretched too far from the rule-based roots. However, other historical institutionalists have borrowed from their sociological institutionalist cousins and,

[t]he works that lie at this intersection often embrace a more expansive view of institutions, not just as strategic context but as a set of shared understandings that affect the way problems are perceived and solutions are sought. (Thelen, 1999, 371)

Far from formal rules and laws, in the sociological approach, emphasis is placed on the idea that institutions can be seen as socially constructed symbols and norms. These symbols and norms, in turn, determine preferences and the very logics by which individuals act (c.f. March and Olsen, 1984, 1996). As such, they really do provide ‘structure’ to a political phenomenon.

Knight (1992) provides a corrective to the tendency for rational choice approaches to rely on formal institutions, however. His development of a rational choice theory of institutional emergence and change is particularly concerned with informal social institutions. He argues that “social institutions [...] are a product of the efforts of some to constrain the actions of others with whom they interact” (Knight, 1992, 19) and, therefore, that they constitute a “by-product of substantive conflicts over the distributions inherent in social outcomes” (Knight, 1992, 40). However, in some ways Knight goes too far (for the purposes of the analysis pursued here) in concentrating so much on ‘informal institutions’. His aim is to apply rational choice methodology to phenomena such as culture and norms and he sees ‘the state’ as merely a third-party arbitrator and enforcer, rather than as part of the politico-economic bargaining system, itself.

The debate over the definition of the term ‘institution’ would seem to be broader than the preceding text would suggest, however. While many historical institutionalists conceive of institutions as ‘the rules of the game’, in reality, this leads to a fairly large degree of latitude for interpretation. So, while rational choice institutionalists have tended to consider ‘rules’ to be formal laws or legislative procedures, historical institutionalists have smuggled far more in under this heading. I would contend that the difference partially stems from a rather different analytical focus between the two. For RCI, institutions provide the game setup that can be used to explain particular policy outcomes. For HI, those policy outcomes are very often the ‘institutions’. In this way, there is a tendency in the empirical literature for RCI scholars to use institutions as part of the explanatory toolset for other political phenomena, while HI scholars study institutions directly, for their own sake. Prominent examples of this latter tendency abound. For his Anglo-French comparison, Hall wrote that,

[t]hroughout, the emphasis is on the relational character of institutions; that is to say, on the way in which they structure the interactions of individuals. In this sense it is the organizational qualities of institutions that are being emphasized; and the term ‘organization’ will be used here as a virtual synonym for ‘institution’.
(Hall, 1986, 19)

The tendency to study the policy-as-the-institution can be seen more recently, as well; such as Pierson (1996) on the development of the European Union and its social policies, Thelen (2004) on the evolution of skills policies across ‘developed’ democracies, and King (1995) on work-welfare policies in the UK and the USA. Indeed, King is explicit about his focus, noting that,

[i]n Britain mass unemployment in the 1930s made [labour] exchanges politically important institutions but labor lacked the resources or power to modify them. (King, 1995, 6)

What this kind of approach loses in conceptual clarity, it gains in analytical insight. That is, the muddying of the meaning of the term ‘institution’ comes with the benefit of a focus on deeply consequential structures that have implications for politics over time. With respect to terminology, my preference is for the maintenance of a distinction between the (exogenous) ‘rules of the game’ and those (endogenous) policies that may come to have similar effects to the ‘rules’.⁴ Pontusson (1995) identifies a third category of ‘variable’,

such as factor endowments and the concentration of capital, that cannot be characterized as institutional variables without rendering the concept of institutions vacuous. As a shorthand, I refer to these variables as structural variables, but I am wary of this label insofar as it implies common properties that distinguish these variables (as a group) from institutional variables. (Pontusson, 1995, 120)

Pontusson’s argument for considering these ‘structural’ variables is that they are necessary when moving “from comparative public policy to political economy” — if we are to explain the similarities and differences between (capitalist) societies, then a focus on what might be thought of as fundamentals is necessary. At the conceptual level, I support the added clarity that the distinction brings. However, many of these ‘structures’ can have similar effects to ‘institutions’ as they can influence expectations about the future in functionally equivalent ways. A specific example would be the apparent tendency for both the institution of proportional representation (Iversen and Soskice, 2006; Ticchi and Vindigni, 2005) and the presence of a large-and-organised working class (Korpi and Shalev, 1979; Stephens, 1979; Cameron, 1984) to increase likelihood of left-wing parties forming governments.

I shall make a final point on the issue of institutions, policies, and structure. The HI focus on the enduring, quasi-institutional, effects of policies has led them to highlight an aspect of politics that is often missed in RCI treatments: the importance of the distributions of power that result from policies. Even Knight (1992), whose view of institutions is probably the most expansive and sociological still to employ an RCI approach, ultimately sees institutions as legal rules, not public bureaucracies, service providers, or similar. The result of this theoretical position is that Knight by-passes the kinds of organisation-level institutions that constitute bodies of power that are valuable theoretical building blocks for the understanding of political decision-making. Moe (2005) has already made a broad case that RCI scholars should engage to a greater extent with the concept of power. Nonetheless, the conclusion

⁴For reasons of ‘power’ which I will discuss below, this latter category is likely to be composed to a large extent of policies that create ‘organisations’.

of his critical survey that sets out a rational choice interpretation of power packaged up in the form of ‘agenda control’ seems to be potentially too limited. This can be seen because, stemming directly from policy decisions, one particularly important area in which power becomes vested is the state. It is not clear why we should consider the construction of powerful state-based actors to be relevant to ‘agenda control’. In a sense, then, RCI can be seen to have failed to heed the call to ‘bring the state back in’ (Evans, Rueschemeyer and Skocpol, 1985). In its tendency to study those same structures as the evolutionary outcome of policy choices rather than constitutional choices, historical institutionalism has been far less liable to succumb to the same failing. At root, the HI treatment of power relations as structure has been of great value.

Part of this failure to adjust the sights of the rational choice approach may be due to the prevailing formal and contractual nature of work in the tradition; implicitly assuming away issues of the relative power differentials between those same (and often ignored potential) actors (Knight, 1992; Korpi, 2001; Katznelson and Weingast, 2005; Moe, 2005). Korpi (2001, 239) refers to this as the “contractarian perspective” in which institutions are seen as being “to the mutual benefit of all individuals concerned” and contrasts this with the “power perspective” in which institutions are seen “as outcomes of conflicts of interest among actors differently endowed in terms of power”. The latter view clearly shares much with Knight’s understanding of institutions being the “by-product of substantive conflicts” cited above. Arguably, this predisposition to the contractarian perspective blinkered scholars of bureaucratic delegation to consideration of how legislative decisions could have important *power* dynamics — an aspect that I will argue below as being of great importance.

2 On Time

RCI, as it stands, also tends to suffer from another short-coming. The focus on mapping formal rules — often in legislative contexts — into particular game forms has led to a notable short-termism in theoretical work in this tradition. Indeed, in the words of Katznelson and Weingast (2005, 11), “[t]oo often, to our taste, these analyses suffer from the absence of longer time horizons, both medium and more extended”. Payoffs to political ‘players’ are seen to be instantaneous: realised at the conclusion of the bargaining process. In a sense, this is a suitable way to model even political phenomena that have long-term implications. Delayed and, perhaps, uncertain pay-offs can be given present values that become the relevant reflection of incentives at the time decisions are made. However, while theoretically possible, RCI analysts have rarely noted the relevance of longer-term incentives and, consequently, have rarely given consideration to the types of choices that might have such characteristics. Even the example given by (Katznelson and Weingast, 2005, 11) of rational choice scholars who “have begun to work with longer periods of time” — the study of civil rights legislation in the

USA by Brady, Ferejohn and Pope (2005) — is essentially an application of the traditional point-in-time analysis across consecutive points in time. While preferences are held to have changed through time — hence the success of legislative reform in 1964 as compared to 1957 and 1960 — decisions in the earlier periods are not seen as being made with a view to their subsequent effects on preferences. Strategic consideration of payoffs through time are, therefore, not really present.

In one area, rational choice scholars *have* paid attention to long run payoffs when modeling policy choices: that of bureaucratic delegation. Early work by the ‘McNollgast’ team highlighted how legislators took great care in the design of bureaucracies and the rules within which they operate (McCubbins, Noll and Weingast, 1987, 1989). At root, the important issue is that bureaucrats will often have different preferences to the legislators that created the administrative agencies. Given too much discretion, bureaucrats will have the ability to move policy away from the legislators’ ideal point. Without enough, they will be too rigid and inefficient to successfully implement the legislators’ wishes. Formal expressions, refinements, and extensions of the original intuition regarding the delegation problem have been provided by numerous rational choice scholars (e.g. Calvert, McCubbins and Weingast, 1989; Bawn, 1995; Franchino, 2007).

The point is that at the core of this body of rational choice literature is consideration of strategic utility maximisation through time. However, even here, scholars in this field have tended to focus on how the design and structure of formal rules can be used to minimise the costs associated with the delegation problem. Answers are sought to questions along the lines of, ‘What is the optimal level of discretion to be afforded to bureaucrats?’ and ‘What types of legislative oversight are optimal?’. This remained so despite the early interventions by Horn and Shepsle (1989) and Moe (1990) which extended the McNollgast insight to more general forms of what became known (due to Moe) as ‘political uncertainty’. However, these calls to consider broader implications of such a theoretical view were largely unheeded and the focus remained on formal administrative rules.

Comparing RCI with HI, the contrast between their treatments of time is stark. Hall and Taylor (1996, 938) highlight how, in HI, there is, “a view of institutional development that emphasizes path dependence and unintended consequences”. The HI predisposition towards a greater appreciation of the importance of time in politics may partly reflect a tendency for such scholars to “address big, important substantive questions” (Pierson and Skocpol, 2002, 695) relating to societies or governments as a whole rather than the more micro-level approach, concentrating on individual actors, often pursued by RCI analysts. In order to gain any empirical tractability over such large-scale issues, a willingness to address developments over a long period of time can be essential. A thorough understanding of historical processes and events — with the associated methodological techniques such as ‘process tracing’ — are, therefore, hallmarks of HI studies. Perhaps, then, a side-effect of the substantive focus

adopted by HI scholars was a theoretical orientation that embraced time at its core. In Skocpol's words,

[r]ational choice scholars often seek to model one set of events and the maneuvers of actors in one institutional setting at a time. Historical institutionalists are more likely to trace sequences of outcomes over time, showing how earlier outcomes change the parameters for subsequent development. (Skocpol, 1995, 106)

In terms of intellectual heritage, political scientists in the HI tradition have borrowed much from the brand of economic history pioneered by Douglass North (1981, 1991). North's aim was to "explain the structure and performance of economies through time" (North, 1981, 3) and he did so by focusing his theoretical lens on the birth and evolution of institutions. One of his driving puzzles is how and why different nation states have developed with such differing degrees of (economic) success. At root, his explanation is that institutions are vital in determining the pattern of incentives that 'entrepreneurs' and the 'organizations' that they found are driven by. These organisations thus become embedded within the institutional structure in which they form and, in turn, come to reinforce the initial institutional configuration. This latter reinforcement is driven by 'learning effects', 'coordination effects', and 'adaptive expectations' (North, 1991, 94).

From these intellectual roots, it is unsurprising that two concepts lie at the heart of the HI treatment of time in politics: path dependence and critical junctures. At the theoretical level, the former leads the analysts inexorably to the latter in seeking explanations of social phenomena.

2.1 Path Dependence

Path dependence is the notion that once a process is started, it develops in a way that is highly determined by that initial state. Each step in the process is seen as resulting from the state of the process in the step before. As expressed by North (1991, 98), "[p]ath dependence is a way to narrow conceptually the choice set and link decision making through time. It is not a story of inevitability in which the past neatly predicts the future". However, Mahoney (2000, 507) goes a stage further in defining path dependence as "event chains that have *deterministic* properties"⁵ — that there is no room for random variation in the development of the chain of events. Logically, then, an analyst can recurse all the way back to the starting point of the process where the fundamental causal variables for the path will be revealed. Once history has chosen a track, there is no deviation from it.⁶

⁵Emphasis added.

⁶Page (2006) provides a detailed formalisation that distinguishes between various types of path dependence, as well as their various sources.

Mahoney (2000, 508) highlights two types of path dependence. ‘Self-reinforcing sequences’ are those in which institutional patterns are such that incentives and mechanisms for their own reproduction are inherent. In the earlier words of North (1991, 99), this form of path dependence occurs when “the network externalities, the learning process of organizations, and the historically derived subjective modeling of the issues reinforce the course”. Once the initial pattern has been established, agents either have no incentive to change it — perhaps due to high costs of transition — or are unable to change it due to the presence of veto players within the system. Sequences that economists term as exhibiting “increasing returns” fall within this category. The most commonly cited example of this sort of process is the ‘QWERTY’ keyboard design, which is held to be inefficient given current technologies, but impossible to move away from as existing computer users would find the costs of adapting to a new layout too large (David, 1985).

‘Reactive sequences’ constitute the second type of path dependence for Mahoney (2000, 509). In contrast with ‘self-reinforcing sequences’ which exhibit high degrees of stability, this second type is characterised by punctuations in which political patterns shift repeatedly, but predictably — at least, in hindsight. Mahoney emphasises that sequences of this sort must possess “inherent sequentiality” so that each event is clearly a reaction to an event or state of the process at an earlier period.

Of Mahoney’s two types of path dependence, ‘self-reinforcing sequences’ are likely to be of greater relevance to strategic decision makers who are afforded the choice of which political path to take. That is, it seems natural to think that patterns of institutions that offer great stability will be more predictable for an actor than will those that are likely to see repeated punctuations and shifts. As such, for an actor at a critical juncture seeking to maximise her utility through time, the inherent predictability of self-reinforcing sequences should offer greater scope for strategic choices. It is surely easier to make decisions over which path to take when it is possible to foresee with greater accuracy what that path will look like. For this reason, the kind of rational-historical institutionalist synthesis proposed below is likely to be more fruitful when applied to self-reinforcing sequences.

Offering a slightly different dichotomy to that of Mahoney (2000), Thelen (1999, 384–386) identifies two types of mechanism through which such path dependence may occur — both of which fall largely in the ‘self-reinforcing sequences’ category. The first springs from analyses of ‘technological trajectories’ in which actors become so coordinated and invested in a particular technology that it becomes almost impossible to shift to a new technology, even if it were an improvement — the QWERTY example, again. Analogs to political institutions are not difficult to conceive of. Indeed, Pierson (2004) spends much time applying just this concept to the political sphere. In his highly influential article, Pierson (2000) emphasises that path dependence in the political realm is caused by ‘increasing returns’ to particular institutional configuration. The “*relative* benefits of the current activity compared with other

possible options increase over time” (Pierson, 2000, 252).

The second path dependence mechanism identified by Thelen is derived from sociological institutionalism (c.f. Hall and Taylor, 1996). When institutions take the form of symbols and norms that determine preferences and the logics by which individuals act, once a pattern of such norms becomes embedded, the same patterns of behaviour will be repeated as agents become locked into the same decision processes that prevailed in earlier periods. While this sociological mechanism may be amenable to a rational choice interpretation,⁷ it is less obvious how to determine which path will exhibit greater ‘dependence’. Each and every possible path would, presumably, entail an associated pattern of symbols and norms that would come to be accepted by individuals acting within the system. For this reason, it is difficult to consider how some institutional forms may become more or less deterministic as to their future development. Such a tendency to predict stability no matter what path is taken precludes consideration of much strategic decision making at the start of paths. I certainly do not preclude the possibility of theoretical development in this area; indeed, this would appear to be rather an interesting avenue of research. However, for the purposes of this discussion and the empirical features that I wish to explain here, I focus more on the ‘technological’ mechanism.

2.2 Critical Junctures

An acceptance of the importance of path dependence leads logically to the second of the time-related concepts in HI: critical junctures. As the discussion above makes clear, analysts are accustomed to tracing path dependent processes back to their initial states in order to explain particular political phenomena. It is these initial states that constitute the critical junctures.

While logically being of great importance, until recently, the concept of critical junctures has received relatively little theoretical development. Capoccia and Kelemen (2007) go some way to rectifying this. They,

define critical junctures as relatively short periods of time during which there is a substantially heightened probability that agents’ choices will affect the outcome of interest. (Capoccia and Kelemen, 2007, 348)

In this formulation, critical junctures are not simply periods of great change. Rather, they are periods when “change is substantially less constrained than it is during the phases of path dependence” (Capoccia and Kelemen, 2007, 368). One consequence of this definition is that change is *not* a pre-requisite for the identification of a critical juncture: only the *possibility* is. It also explicitly brings agency into the analytical framework as actors are seen

⁷Indeed, see the subsequent discussion of Korpi (2001) in *Section 3*.

to have considerable discretion in the choices that they can make. Thus, the study of critical junctures provides strong hope of satisfying the need to produce a “clearly identified source of agency” when explaining political change (Peters, Pierre and King, 2005, 1284). In the agency-structure debate, then, it seems that critical junctures are periods when the analyst should lean more decisively on the side of agency as the explanatory construct.

This recent refocusing back onto agency was recognised as necessary far earlier in the development of the historical institutionalist school. More than 15 years ago, Thelen and Steinmo (1992) wrote that,

to the extent that we take seriously notions of human agency as crucial to understanding political outcomes, we need to come to terms not just with political behavior as the dependent variable, influenced by these macro-socioeconomic structures, but as independent variables as well. (Thelen and Steinmo, 1992, 10–11)

But this position poses a difficulty for historical institutionalists qua *institutionalists*.

The problem with this model is that institutions explain everything until they explain nothing. Institutions are an independent variable and explain political outcomes in periods of stability, but when they break down, they become the dependent variable, whose shape is determined by the political conflicts that such institutional breakdown unleashes. (Thelen and Steinmo, 1992, 15)

The logic leads inexorably to a focus on critical junctures as the points at which historical paths are chosen — the loci of causation. However, right at those points, the institutions that provide the foundation of the path dependence arguments become invalid. Structure is jettisoned as an explanatory variable. Ironically, historical institutionalists are led to hold a theoretical position that is inherently non-institutional. While their analytical tools are tailored for detailed accounts of long term political developments, they are curiously irrelevant at the most critical moments.

Indeed, Mahoney (2000) takes this notion of an atheoretical approach to explaining the choices made at critical junctures to its logical extreme. He asserts that the very definition of a critical juncture is a period in which,

events are contingent occurrences that cannot be explained on the basis of prior events or “initial conditions.” (Mahoney, 2000, 511)

Thus, theory can have no place in the analysis of critical junctures.

Contingency refers to the inability of theory to predict or explain, either deterministically or probabilistically, the occurrence of a specific outcome. (Mahoney, 2000, 513)

This definitional position is rather puzzling. If a critical juncture is held to be a period when randomness prevails, then what are we to make of a subsequent analysis that appears to successfully bring explanatory order to that chaos? Should we no longer consider the period to be a critical juncture? While maintaining his theoretical position, Mahoney acknowledges that empirical research often does not meet his exacting standards.

In the actual practice of research, social analysts will consider an event to be contingent when its explanation appears to fall outside of existing scientific theory. (Mahoney, 2000, 514)

Even given this concession, should the development of new theory *necessarily* lead to the invalidation of a claim that a period constitutes a critical juncture? Such a position seems to be of little theoretical merit and, furthermore, does not appear necessary. The definition provided by Capoccia and Kelemen (2007) — “a substantially heightened probability that agents’ choices will affect the outcome of interest” — seems quite sufficient, and comes with the benefit that it does not preclude, by definition, the development of theories that explain critical juncture decision making.

3 On Rationality and Structure

The preceding discussion makes clear that, in isolation, both RCI and HI have important deficiencies. The former has tended to use an overly narrow definition of structure that largely focuses on formal institutions and has been surprisingly limited in its consideration of issues relating to time. The latter faces an internal anomaly in which its main theoretical constructs are seen to be of limited use in an explanatory sense. A synthesis of the two — one that employs the best features of both approaches — offers the prospect of alleviating these problems and rejuvenating our understanding of why institutions are formed in particular ways. As I shall argue below, it also suggests that there is value in extending the kind of strategic decision making found at critical junctures to subsequent ‘path dependent’ processes.

At root, the synthesis that I propose is that historical institutionalists accord a far greater role for rational actors. Specifically, that there is much merit to consideration of the idea that rational actors strategically utilise the very processes that historical institutionalists hold to be of paramount importance — those that are path dependent. A large part of my argument centres on the claim that it is valuable to endogenise those aspects of structure that can be manipulated by agents — most especially state-based ‘organisations’. I claim that policy-makers will have the foresight and the ability to rationally select policies that have implications for both the effectiveness and the durability of those policies. In essence, I claim that politicians can rationally employ path dependence.

On the face of it, path dependence should be a powerful tool in the hands of politicians. By definition, the processes that it refers to accord them the ability to lock in their chosen policies over a long period of time. If political scientists are able to discern the processes by which path dependence occur, then it should be reasonable to believe that politicians will be able to, as well. As I have noted above, this should be especially true of ‘self-reinforcing sequences’ which, by their stable nature, offer predictable political patterns stretching into the future. For a politician seeking to maximise their utility through time — or, more colloquially, to leave a ‘legacy’ — this predictability is surely of great value. A path dependent sequence that locks in their preferred policy choices and, therefore, their preferred pattern of beneficiaries will be desirable to a rational policy maker.

As I have discussed, HI scholars often fall back on the ‘contingent’ nature of events. This is especially the case during critical junctures, but it is also common for them to assert that particular political paths, while clearly ‘temporally sequential’ after the fact, are not predictable as viewed from the start of the path. Such a view can be found in North’s work.

But note that the agent — the entrepreneur — not only is constrained in alternatives by the existing institutions, but has imperfect knowledge with respect to accomplishing his or her objective. (North, 1991, 100)

At least in the political setting, I question this view. Indeed, Mahoney (2000, 521–523) provides at least one conceptual distinction between types of ‘self-reinforcing sequences’ that supports my contention. He describes a ‘power explanation’ of such sequences which,

emphasize[s] that institutions distribute costs and benefits unevenly, and [...] stress[es] that actors with different endowments of resources will typically have conflicting interests vis-à-vis institutional reproduction. (Mahoney, 2000, 521)

Furthermore, the institution, “is reinforced through predictable power dynamics” (Mahoney, 2000, 521). *Predictability* is the key, here. If the dynamics are predictable, rational politicians should be expected to use them. For my own approach, then, ‘power dynamics’ are of key importance. My argument is that we have given insufficient consideration to the ability of policy-makers to deliberately construct powerful organisations that survive through extended periods of time. This focus on power, as I have already noted, is largely lacking in the RCI literature, which probably explains the failure of scholars to apply the rationality assumption to issues of this sort.

Mahoney’s own understanding of power dynamics is one of progressively greater privileging of the initially powerful groups such that,

the institution initially empowers a certain group at the expense of other groups;
the advantaged group uses its additional power to expand the institution further;

the expansion of the institution increases the power of the advantaged group; and the advantaged group encourages additional institutional expansion. (Mahoney, 2000, 521)

While this is certainly a plausible political dynamic, it is not the only one. Another relevant pattern would be that in which a group is effectively accorded a veto power within a particular policy area that does not (necessarily) grow or shrink through time.

Adopting Mahoney's 'power explanation' also affords a further theoretical development. It becomes clear that the kind of strategic decision making that we should expect at critical junctures should also be found during what I have, to this point, referred to as the 'path dependent' period of a political sequence. In this understanding — one which is in accordance with the view of Capoccia and Kelemen (2007) — the relevant distinction between a critical juncture period and otherwise becomes the degree to which political agents are *constrained* in their decision making. Once again, the source of this development can be found in Mahoney's work.

Power-based accounts assume that institutional reproduction is a conflictual process in which significant groups are disadvantaged by institutional persistence. The presence of this conflict means that a dynamic of potential change is built into institutions, even as a dynamic of self-reinforcement also characterizes institutions. (Mahoney, 2000, 523)

Thus, predictions of how political actors will seek to structure particular policies — so as to privilege the power of particular groups — should also lead to predictions of how those actors will behave when those policies have already been initiated. Where power-related path dependence is in operation and detrimental to an agent's interests, we should expect to see them attempt to chip away at the institutional order that embodies that pattern of power relations. With this understanding, the theoretical distinction between critical junctures and path dependent periods becomes softer, but without the cost of conceptual confusion. Instead, it suggests that there is reason to pursue theoretical and empirical strategies that provide unified explanations of political dynamics across both types of time period.

As I have touched upon above, the theoretical approach outlined in this section goes some way towards reconciling the 'agent/structure' debate that has troubled social scientists in general and new institutionalists in particular. While notionally concerned with one discrete area of political research⁸, Mahoney and Snyder (1999) provide some theoretical framework for how scholars may 'integrate agency and structure' in a theoretically satisfying way.

The approach most relevant to that set out here is termed the 'path dependent strategy'. When using this strategy,

⁸The study of 'regime change'.

[t]he historical events [...] of interest [...] are foundational moments, or “critical junctures,” when political action created structures that had persistent causal effects which shaped subsequent trajectories of political change. (Mahoney and Snyder, 1999, 16)

Thus, agency is seen to enter directly at critical junctures — and it is this agency that goes on to create the structure that constrains future actors. However, commensurate with the views regarding critical junctures expressed in Mahoney (2000), “explanations for the genesis of structures during these junctures should rely on choice and contingency” (Mahoney and Snyder, 1999, 17). In my view, however, if we are to analyse political “choice”, it is neither theoretically necessary nor empirically sensible to jettison structure from the explanation. The main thrust of my argument here is that the structures that result from policy choices will have dynamic implications that should more often form part of our explanation these choices. However, it is also plausible to recourse to other forms of structure. Constitutional provisions systematically determine patterns of power held by political groups and, as such, can determine the degree to which one political actor or another may seek to design particular policies in order to change those patterns of power. For example, a left-wing party that is systematically disadvantaged by, say, the electoral system may wish to construct a welfare state that is particularly effective at increasing the power afforded to its allied left-wing interest groups — such as unions. In this way, the agent/structure conundrum is only partially resolved. Agency is returned to the political equation, but it is itself modeled as being constrained by institutions that are analytically prior to those policy-institutions that are essentially the ‘dependent variable’ for the analysis.⁹

At this point, it should be noted that the synthesis of rational choice and historical institutionalism proposed here is not *entirely* novel. Two examples of this kind of synthesis make this clear.

Rothstein (1992) adopts a similar line of argument in his explanation of why unionization rates vary so markedly across countries. His claim is that particular institutional forms have been especially conducive to the development of strong unions — most notably the so-called Ghent system in which unions operate unemployment insurance schemes directly. Of most direct relevance to the argument here, though, is the extension he makes to this claim. He argues that (some) politicians at the point at which unemployment insurance schemes were being adopted were aware of the effects that they would have on future union strength.

Thus [Rothstein’s] theoretical object [...] is not restricted to showing that institutions are important in shaping political behavior but that at certain *formative moments* in history, these institutions are created with the object of giving the

⁹For a more extensive argument along these lines, see Clark (1998).

agent (or the interests the agent wants to further) an advantage in the future game of power. (Rothstein, 1992, 35)

Rothstein's specific example is the way in which the Swedish Social Democrats, in the person of social policy spokesman Gustav Möller,

compromised greatly about the content of the scheme (i.e., the actual policy) in order to be able to institutionalize an insurance scheme that would greatly enhance [... the unions'] future organizational strength. (Rothstein, 1992, 48)

He shows that Möller actually persuaded the union leaders that such a scheme really was in their interests (Rothstein, 1992, 49).

Korpi (2001) makes a more conscious attempt to synthesise RCI and HI, as well as sociological institutionalism. Picking up on earlier debates on the nature of 'power', he identifies three types of 'power costs' that are of relevance to rational political actors: "mobilization of power resources", "maintenance of liquidity of power resources", and "use of power resources" (Korpi, 2001, 245). From this foundation, Korpi derives what he terms an 'augmented rational-action approach' in which institutions are seen as mechanisms that have the potential to affect each of the three types of power costs (Korpi, 2001, 247). For example, different welfare state structures are held to have different consequences for the ease with which citizens can be organised into groups that represent their interests — with the strength of unions being of particular relevance.

While pursuing a synthesis of all three of the 'new institutionalisms', Korpi's most interesting theoretical advance is actually one that marries rational choice with sociological institutionalism. He argues that societies have numerous competing cleavage structures and that institutions have the capacity to influence the relative salience of each. In this way, "institutions come to have endogenous effects on the formation of citizens' values, interests, and identities" (Korpi, 2001, 249). From here, the application of rationality is easy.

Thereby societal institutions can be of importance for mobilization costs and collective action among citizens, something which reasoning holders of power resources are likely to take into account in the design of institutions. This indicates that influential actors can use the 'logic of consequentiality' to generate a 'logic of appropriateness' among other actors; 'calculus' can be used to generate 'culture'. (Korpi, 2001, 250)

It is interesting to note the parallels between the specific case of union strength discussed by Rothstein (1992) and the more general theory proposed by Korpi. Rothstein's claim could be interpreted through Korpi's lens as the construction of an institution that changes the very

preferences of particular sections of the labour force by increasing the likelihood that they are union members.

Korpi's line of reasoning shares much with my own. There are, however, differences of emphasis between the approaches that we each advocate. This seems to be a consequence of Korpi (2001, 245) using a trichotomy of "types of power cost" as a major theoretical building block. The costs he identifies are:

1. "mobilization of power resources, that is, making resources ready and organized for use";
2. "maintenance of liquidity of power resources, that is, keeping resources 'on standby' in a state of readiness for use";
3. "use of power resources to a) reward or b) punish other actors in bargaining or conflict".

From this typology, he goes on to discuss how 'sociological' factors can potentially be used by rational political actors. He argues that the structuring of policies can have different effects on "interests, identities, and mobilization costs" within a society so that the preferences and coalitional allegiances of citizens are partially endogenous to policy choices (Korpi, 2001, 249).

On the face of it, there is little for me to disagree with in the typology set out by Korpi. However, for the substantive policy choices that I analyse, his typology does not seem to provide a helpful theoretical insight. Both theoretically and empirically, my focus is on how the construction or destruction of 'organisations' that employ large bodies of labour can have political benefits, as well as efficiency costs. In this way, my line of argument essentially assumes that the relevant state-based organisations will possess the characteristics of relatively low "mobilization" and "maintenance" costs of power resources and, consequently, will be able to use those power resources to "reward" or "punish". It is for this reason that I am not drawn into the more sociological reasoning provided by Korpi to try to explain variation in the elements of his typology. Instead, the questions that I ask revolve around the circumstances under which (left-wing) parties will be willing to take advantage of the construction of power-resourced organisations and when they will prefer to opt for other policies. That is, when politicians will find the need to employ path dependent processes to secure their goals.

4 Case Studies: Swedish and British Health Policy After the Second World War

In this section, the value of the theoretical development set out above is exhibited using a comparison of health policy in Sweden and the UK in the aftermath of the Second World War.

The typical view of ‘leftist’ involves ideas of larger state control, bureaucratisation, and socialisation. For this reason, a simplistic analysis of Swedish and British politics in the aftermath of the Second World War could lead to a belief that the Swedish welfare state would develop in a more statist, bureaucratised, way than its British counterpart. Such a view would be based on the observation that Social Democratic hegemony in Sweden can be contrasted with regular periods in office for the British Conservative Party. That is, while the Left dominated in Sweden and was able to build a welfare state upon this political foundation, in the UK the electoral fortunes of the Left were markedly worse. Labour endured repeated and long periods in opposition, which afforded them very little influence over policy due to the prevailing majoritarian parliamentary system. In this view, the greater (Swedish) left-wing strength should be associated with more ‘leftist’ health policies than were implemented in the UK.

The ensuing text challenges such a view, showing that it is at odds with the facts and, therefore, ultimately misleading. Using the theoretical framework of rational historical institutionalism, an alternative explanation is developed. Following strategic calculations as to the likely durability of the redistributive aspects of the welfare state in each country, the Swedish Social Democrats (SAP) were able to pursue a health service of a far less rigidly statist nature. By contrast, the British Labour Party, fearing future Conservative rule, were constrained to pursue more traditional ‘nationalised’ welfare state structures. I argue that two specific incentives drove Nye Bevan, the Labour minister who founded the NHS. First, his aim was to construct a health *service* that was profoundly redistributive in terms of its funding mechanisms and its access. This was in contrast to the SAP, who were perfectly comfortable designing a health system that was based on cash transactions — they knew that they could ensure all citizens would have the cash to pay the fees through solidaristic wages and unemployment benefits. Second, Bevan expressed concern when making his policy choices for their susceptibility to manipulation by future Conservative governments. This can be seen in terms of his commitment to the principle of no charges within the NHS that he considered would make it more difficult for the Tories to reduce the redistributive effect of the system. It can also be seen in the specific structures that he sought to create in building the NHS.

The selection of Sweden and the UK as the two comparative case studies is made for a number of reasons. First, and most obviously, my theoretical claim concerns how left-wing parties choose to structure health policy (and the welfare state more generally) when they are in power. My historical focus is on policy after the Second World War: while there were important developments in welfare states before this point, the post-war period is conventionally recognised as being a crucial time that saw radical advances in state-sponsored welfare provision across many ‘developed democracies’. The selection of this period also has the advantage that, in the aftermath of the War, the political environment in most countries

potentially relevant to this study was fairly settled — and unconditionally democratic. Heclo (1974, 15) saw similar reasons for his own comparison of Swedish and UK social policy — as well as the fact that both countries were seen as early leaders in this field.¹⁰

Given the theoretical position taken here, one requirement is that the two selected cases experienced left-wing government at this point. The transition from broad-based war-time coalition government to left-wing rule in both countries fulfills this requirement — and also excludes several other prominent candidate cases, such as France, West Germany, and Italy.

The influence of the Second World War provides a further reason to compare Sweden and the UK: neither experienced all-out war on their own territory. The consequence of this being that both emerged *relatively* better off in terms of housing and industrial capacity, as compared to other continental European countries. That Sweden remained neutral during the war and Britain emerged as a victor also removes any complicating factor associated with political vacuums following shifts to democratic post-war regimes.

There is, of course, a positive reason to choose to compare these two countries, as well. While they offer the similarities described above, they also differ in respects that are most relevant to the theoretical claims that I am seeking to test. The Labour Party in the UK and the Swedish Social Democrats (SAP) were faced with fundamentally different institutional and electoral prospects; differences which, I will argue, led them to pursue rather different structures for their health systems.

First, the electoral system in Sweden amounted to proportional representation (PR) while that in the UK was the archetypal first-past-the-post (FPTP) majoritarian system. Recent theory has suggested that PR systematically favours left-wing parties while FPTP favours right-wing parties (Iversen and Soskice, 2006; Ticchi and Vindigni, 2005). Even if we assume that the benefits of hindsight were not available so that they were not aware of the theoretical bases for such a bias, the distinction between PR and FPTP remains relevant. The essence of majoritarian systems is that they give an extra boost to the largest party (or parties) in the translation of votes to seats so as to yield stronger, more cohesive, very often single-party, governments. For this reason, if nothing else, a left-wing party operating in a FPTP environment would have had good reason to expect future governments to be formed by right-wing parties with fairly high probability. The regular swing of the electoral pendulum is enough to give fairly unconstrained power to the Right. By contrast, PR systems do not have this inherent tendency to boost the power of the largest party, with the result being the promotion of a more consensual politics as single-party majorities are less likely (Lijphart, 1999).

Second, and related to the differing electoral systems in operation, the SAP faced a right-wing bloc divided between the Liberals, the Conservatives, and the Agrarians while the Labour Party faced a united right-wing party in the British Conservatives. This made the

¹⁰Unfortunately, Heclo did not include health care in his study.

SAP easily the largest political party in Sweden, gaining around twice as many votes as its nearest competitor in elections of the period. As such, if the need were to arise in the future for coalition government in Sweden, there would be more opportunities for the SAP to forge a parliamentary alliance, and thus attain power, than for other parties.¹¹ Indeed, the SAP took advantage of these circumstances in allying with the Agrarians in 1933 — which led to a formal coalition agreement in 1936 (Lewin, 1988, 143).

Third, following the much-remarked Saltsjöbaden agreement of 1938 between organised capital and labour, the Left had an accepted, institutionalised, extra-parliamentary arena through which they could pursue their interests (Lewin, 1994). That is, even were the SAP to lose power in parliament, the strength of the labour movement and its position of accord with the major business organisations was such that they could have reasonable beliefs about being able to defend their core interests against right-wing governmental attack.¹² By contrast, no such corporatist agreement and unified labour movement was available to the Labour Party.

My claim, then, is that when the SAP and Labour Party found themselves in power in 1945 they faced fundamentally different strategic positions. The Labour Party could look forward to the prospect of unconstrained Conservative rule in the not-too-distant future. The SAP, on the other hand, could reasonably expect to form more governments than its right-wing opposition and anyway had far less to fear from an incumbent right-wing government, should it come to pass.

One further factor also suggests Sweden as a particularly appropriate case study. The constitutional reforms it underwent around 1970 changed the strategic position in which the SAP found itself. The reform actually moved the SAP's electoral and legislative positions somewhat closer to those of the Labour Party. As such, it offers an extra opportunity — taken up in *Section 4.3.3* — to observe whether differing strategic positions of the sort discussed above lead to differing policy choices on the part of left-wing parties.

4.1 Theoretical Specifics

Before studying the history of post-war health policy in the UK and Sweden, it is helpful to extend the theoretical argument set out above to the more specific sphere of health policy. In constructing health systems, there were a number of decisions that policy-makers had to make and which had large impacts on both the redistributive character of the system and its likelihood of survival under future governments. I outline four such choices that were particularly salient to policy-makers in Sweden and the UK.

¹¹Ruin (1988, 313–314) describes how Tage Erlander, the long-time Swedish Social Democratic Prime Minister, was well aware of how the operation of the electoral and party systems built in this advantage for the SAP.

¹²Of course, the equivalent argument with respect to capital and the right-wing parties can also be made. The point is that the institution made consensual policy more likely by limiting the large swings of policy-making influence from ideological poles that is often associated with Westminster parliamentary systems.

The first is the presence or absence of fees for individual consumers of health services. Where visits to doctors and other specialists require a patient to make payments directly to the service provider on a per-visit or per-procedure basis, the system clearly has a strong cash element to it. By contrast, policy-makers may opt for a system in which access to such services are ‘free at the point of use’ such that the patient makes no direct payments on a per-usage basis; the costs being borne by a broader pool of financial contributions. In order to enable the poorer sections of society to gain access to health services under a fee-for-service system, it is imperative that they have the financial resources with which to pay for them. As such, from the point of view of redistributively-minded policy-makers, the viability of fee-for-service systems must be contingent upon their continued ability to ensure that the poor have sufficient cash with which to pay the fees.

The second specific policy choice available to designers of health systems relates to the nature of state-mandated financial contributions at the macro level. At one end of the spectrum are (often mandatory and socialised) contributory systems in which the state determines the size and arranges the collection of what are effectively health insurance premiums. Contributions to the scheme give entitlement to health service benefits (with the result that non-contribution, obviously, does not). State-organised funding of this sort is effectively a hypothecated poll tax to support the provision of a ‘national’ health system. By contrast, at the other end of the spectrum are systems which are funded out of general taxation revenues. To the extent that the general tax system is more progressive than a poll tax, such a system is inherently more redistributive as health insurance is effectively purchased on an ability-to-pay basis through the lower (or zero) taxes paid by the less well-off.

The nature of medical staff employment is the third policy choice in health. Doctors, nurses, scientists, cleaners, and the like are all required to provide health services, but what should their financial and employment relationship be with the state? At one extreme, they (individually or in corporate groups) can be independent contractors paid on the basis of the number of patients they serve and/or the number and difficulty of treatments and tests that they administer. Such a system makes it much easier for doctors to reduce their dependence upon the state-financed system by maintaining and expanding their provision of private care to those able to pay. In essence, it provides a graded way in which doctors can withdraw their labour from the state system when this is in their interests. By contrast, the opposite extreme is where all medical staff are directly employed by the state as civil servants. Under this design, public sector managers directly control the work patterns of their employees and are able to restrict slippage towards a more privatised system. Indeed, restrictions can be such that doctors are blocked from engaging in any private practice as long as they remain employed by the state — thus leading doctors to need to take the risk of resignation before attempting to act entrepreneurially.

The differing nature of these two types of systems has a further consequence, though. Once

	Cash oriented	Public-service oriented
Individual payments	Fee for service	Free at the point of use
State funding	Insurance/contributory	General taxation
Staff employment	Self-employed	Civil servants
Capital ownership	Decentralised	Nationalised

Table 1: Health policy options by type

the medical staff are employed in a system as civil servants, it is in their collective interest to lobby government to maintain or increase state health expenditure as a means of maintaining or increasing their wages. To the extent that state-arranged expenditure is redistributive, this lobbying comes to have an inherently redistributive nature. In this situation, higher resources for health care, even when in the form of higher wages, should raise the quality and or the quantity of health care that is available to those who would otherwise struggle to access it. On the other hand, when medical staff operate as private contractors with outside options, it is far less clear that any successes that they have in raising public expenditure should have positive redistributive consequences as the spending is channeled through an inherently less egalitarian system.

The fourth policy choice is similar to the issue of medical staff employment, but revolves around ownership of the capital assets required to provide health care — most prominently, hospitals. Decentralised and perhaps even privatised ownership of such assets limits the control that the state has over their use, and consequently limits the control that the state has over the extent to which they are made available on the basis of need or the basis of ability to pay. Where hospitals are nationalised and directly controlled by the central state, fears of redistributive roll-back are also likely to be much reduced. The issue revolves around the nature and structure of organised interests that are formed under decentralised versus nationalised systems. In the former case, a centralised bureaucracy is created with a vested interest in maintenance and expansion of its empire (c.f. Nordhaus, 1975). In the latter case, a distributed and less organised group of hospital owners would develop, and their interests are likely to be more disparate as a result of the differing economic, social, and health environments in their localities.

The preceding discussion is summarised in *Table 1* and, as we shall see, they prove to be important aspects of the health policy-making process in both the UK and Sweden. The public-service oriented policy choices would traditionally be thought of as more left-wing than the cash oriented choices. As such, it might be expected that Swedish health policy after the Second World War would follow the public-service pattern and British policy the cash pattern. In fact, as is shown in the following sections, the reverse is true.

4.2 British Health Policy

The founding of the National Health Service (NHS) in Britain is a seminal moment in British politics. While health care had been developing for many years,¹³ Day and Klein (1992) term the years around 1945 as a period of “constitutional politics” in health policy as compared to a more normal consensual climate at other times.¹⁴ Similarly, in discussing health policy, Hacker (1998, 93) writes that, “If any moment in modern British politics deserves to be called a critical juncture, it is the Labour landslide of 1945”.

Following a landslide electoral victory in 1945, Aneurin (‘Nye’) Bevan was appointed as the Minister for Health in the first Labour government to enjoy a parliamentary majority in the UK.

From South Wales, the new Minister inherited a broad synoptic diagnosis of the interrelated character of employment, health, welfare, and the other components of a civilized society. They left him with a deep scepticism of the vested interests of middle-class pressure groups such as the medical profession. Above all, he had a zest for power. He sought to translate the socialist faith into practical and enduring reality. (Morgan, 1985, 152)

In short order, Bevan set about constructing a new and ‘enduring’ system that would sit “in place of fear” for all British people (Bevan, 1952). Within just four years, he had constructed the British National Health Service. The major characteristics of this service were that it was free at the point of use, available to all (even, somewhat controversially, foreign visitors), and provided through a system of newly-nationalised hospitals.

The nationalisation of voluntary hospitals was remarkable on two counts: the size of the programme and the relative ease with which it was achieved. While the nationalisation was a large break with previous health policy in the UK,¹⁵ Bevan’s desire to pursue it should not be surprising.

Timmins (2001, 104) emphasises the perilous state of hospital finances and notes that at least one voluntary hospital leader had predicted nationalisation as far back as 1930.¹⁶ He also quotes a discussion between Bevan and Lord Moran,¹⁷ then President of the Royal College of

¹³Abel-Smith (1964) provides a history of ‘The Hospitals’ from 1800 and Bunbury (1957) sets out the passage of the National Insurance Act of 1911 in great detail.

¹⁴Day and Klein (1992) also see constitutional restructuring in 1911 and 1989, but these are not directly relevant to our discussion here.

¹⁵Indeed, Timmins (2001, 113), perhaps over-stating the case, asserts it was “the biggest break with all that had gone before”.

¹⁶Lindsey (1962, 14–15) reports that voluntary hospital finances were found to be precarious as early as 1921, when Parliament voted to distribute funds with which to keep them afloat. Again, in 1925, a call for funds was made, with the Parliamentary response being to pass a law enabling local government to subsidise the voluntary hospitals, at their discretion.

¹⁷Related by Lord Moran to Michael Foot (Timmins, 2001, 104).

Physicians, in which Moran is seen to lead Bevan to the conclusion that nationalisation is the only way to achieve a more equal geographic distribution of the benefits of specialist medical care. The problem, as Bevan saw it, being that the extant provision was overly centered around the large urban areas — most especially London and its teaching hospitals. In fact, the distribution of general practitioners was also far from ideal.¹⁸ Nevertheless, Webster (1991, 6) is more reticent in assigning the reasons for Bevan’s nationalisation drive, writing that, “The source of Bevan’s inspiration on hospital nationalisation is not entirely clear”.

There seems little doubt that the dual problems of impending hospital insolvency and an unequal distribution of specialist resources confronted Bevan in 1945. Nonetheless, such difficulties, by themselves, need not necessarily have led to nationalisation as the logical response. An insurance-based system, subsidised by the state, could have solved both issues, as well as satisfying the BMA. Indeed, Klein (1989, 5) notes that the insurance-based system was “the road followed by nearly all other Western societies in the post-war period, and advocated by the BMA not only in the 1930s but also subsequently”. As we shall see, this was also the option chosen by the Social Democrats in Sweden. With such a policy, the financial issue would have been resolved via an infusion of public funds that would ultimately, if indirectly, have flowed to the cash-strapped hospitals. The geographic issue would have been resolved via the effective provision of medical purchasing power across the full breadth of the country. Why, then, with various political groups arrayed against it and with a widely accepted alternative system available, is it “evident that this opportunity [for nationalisation] was grasped with alacrity” with Bevan making “this radical policy initiative the central feature of Labour’s NHS legislation” (Webster, 1991, 6)?

I argue that, in nationalisation, Bevan saw the opportunity to create a more highly redistributive service and to embed his reforms in a far more permanent way. On redistribution, he was explicit, writing “any scheme which leaves responsibility for the hospital service with local authorities must be unequal in its operation” (Cabinet Papers, 1945*c*). Strategic thinking regarding future dynamics of policy choices was also certainly on his mind. He dismissed insurance- and employment-based alternatives for national health care as the political dynamic inherent to each would create interests that were antithetical to the kind of egalitarian system that he sought. Of those two alternatives, he wrote that,

[a] whole network of strong points emerge, each with a vested interest in preventing a rational national scheme from being created. Thus to the property Lobby is added the Lobby of those who stand to lose under the national project. In the end they may have to be bought out at great cost in time, effort and money (Bevan,

¹⁸Lindsey (1962, 7) found that by “the late 1930’s there were [...] one-half as many doctors per capita in South Wales as in London, and only one-fourth as many per capita in the industrial midlands as in the coastal resort city of Bournemouth”. This gives the lie to the claim made by Eckstein (1959, Chapter 2) that the pre-war health system was notably pro-poor.

1952, 78–79).

Tellingly, under the nationalised system that he proposed, a centralised bureaucracy with a direct interest in the protection and expansion of the hospital system was created. Indeed, Bevan’s plan deliberately bypassed the existing local government infrastructure; at some political cost to him within Cabinet where he faced opposition from Deputy Prime Minister Herbert Morrison, who was strongly pro-local government.¹⁹ The more independent and decentralised nature of such organisations were deemed inadequate for Bevan’s aims of central control, resilience, and universalism. Beyond the health bureaucracy, hospital nationalisation also linked the interests of hospital staff with the size of the government’s financial contribution.²⁰ Morrison, at least, foresaw the implication of the structure Bevan had chosen as Cabinet minutes show that he felt the new bureaucracy “would be tempted to press for more and more lavish expenditure at the expense of the Exchequer” (Cabinet Papers, 1945*b*). With nationalisation by central government there also came an in-built redistributive mechanism of finance being drawn from the proceeds of general taxation, rather than local government tax revenues, fee-based revenues or separate insurance funds.²¹

4.2.1 Conflict with the Doctors

The second noted aspect of the process of health reform pursued by Bevan is the conflict that he had with the doctors over their terms of employment and pay. In the sense of its impact on both the public and more private aspects of policy-making at the time, this was a politically significant event. However, it is also significant for the theoretical argument that I advance here. The conflict revealed that Bevan had a preference for a salaried medical profession of an essentially civil service character. That is, his preference was for the construction of a body of organised medical labour that had a direct interest in maximising state funding to the redistributive health service he was building. Such a move accords with the theoretical position developed previously regarding the potential importance of constructing powerful organisations as a way of embedding policy choices.

The position of the doctors had always been of major importance in the development of health policies — especially through the war period. With the passing of the National Health Service Act 1946, in terms of political discourse at least, this would become even more true. Indeed, Glennerster (1995, 51) terms this period of conflict between Bevan and the British Medical Association (BMA) as the “battle for the NHS”.

At root, the BMA’s main objection to the NHS Bill was the prospect of the medical

¹⁹See Cabinet Papers (1945*c*), Cabinet Papers (1945*a*), and Cabinet Papers (1945*b*) for a view of the nature of this disagreement.

²⁰As we shall see in the next section, this did not necessarily include doctors, but other portions of health sector labour were nationalised with their workplaces.

²¹The latter of which would inevitably have been financed in less progressive ways.

profession becoming subsumed within the general civil service, with all the limitations on their freedom that that implied. In fact, they had good reason to fear such an outcome. In the planning phase for the NHS Bill, Bevan had,

circulated [Cabinet] memoranda [that] were vague about the method of remuneration of general practitioners, but [...he] confided to colleagues that he wanted to move ‘eventually to a full-time salaried service’ (Webster, 1991, 7).

Whether Bevan’s Cabinet confidences were breached or not, his ultimate aims were exposed by the BMA and their Conservative parliamentary allies. On this point, it is worth quoting Webster’s account of the Second Reading of the NHS Bill extensively.

The debate followed predictable lines. Conservatives complained most about the nationalisation of voluntary hospitals, which was regarded as a gratuitous assault on charitable institutions. Willink made capital out of Labour Ministers’ statements in favour of voluntary hospitals during their previous incarnation in the Coalition Government. Conservatives were also suspicious of Labour’s intention to relegate the issue of doctors’ salaries to regulations, which they exposed as a subterfuge for introducing a full-time salaried service. On the Labour side, Bevan came under criticism for not committing himself to full-time salaried service and for permitting pay beds in state hospitals. (Webster, 1988, 98)

Bevan, then, took flak from both sides on the issue of a salaried medical profession. In that light, his decision to kick the issue into the long grass of (negotiated) regulations rather than come to a firm decision in primary legislation was probably the best course open to him. The Bill had provision for some basic salaried component, with the remainder being made up of payments based on the number of patients registered with each doctor — capitation. An attempted Lords amendment to remove the salaried component was rejected by Bevan (Cabinet Papers, 1946). However, it appears that Bevan had largely reconciled himself to defeat on this point even at the Second Reading stage.

Some of my hon. Friends on this side of the House are in favour of a full salaried service. I am not. I do not believe that the medical profession is ripe for it, and I cannot dispense with the principle that the payment of a doctor must in some degree be a reward for zeal, and there must be some degree of punishment for lack of it. (Webster, 1991, 72)²²

Despite this apparent dismissal of the notion of a salaried profession, the reference to the doctors not being “ripe for it” is telling. As Webster (1991, 72) makes clear in a footnote

²²The quote is from Bevan’s speech during the Second Reading debate.

to the passage quoted above, Bevan subsequently and controversially qualified his Commons statement by saying, “There is all the difference in the world between plucking a fruit when it is ripe and plucking it when it is green”. Bevan’s true preference seems in little doubt, then. Rather, he recognised the need for compromise in the face of overwhelming professional opposition and hoped to be able to pursue his goal at a later date.

The obvious question is: why did Bevan (and much of the rest of the Labour Party) have a preference for a salaried medical profession employed on similar terms to the existing civil service? Again, my answer is that such a system would have dramatically reduced the likelihood of doctors, under a future Conservative government, successfully agitating to reduce the redistributive effects of the NHS. While an outright prohibition of private practice by NHS-affiliated doctors would have been the strongest move, the imposition of a salaried employment relationship between doctors and the State would have reduced the prevalence of for-pay medical services. That was an outcome that was deemed highly desirable by Labour due to fears that fee-for-service medicine would be detrimental to the health of the poor. Following as similar logic to that for hospital nationalisation, instigating a civil service medical profession would, therefore, have been an extra step towards the goal of locking-in free-at-the-point-of-use medical services that were in no way restricted based on ability to pay. Salaried doctors would be placed in a position in which their interests would largely be aligned with those of the poorer NHS users. Attempts to cut NHS resources in the form of doctors’ salaries — and thus attempts to reduce this aspect of the level of service — would be defended vigorously by the powerful, organised, doctors.²³ This logic was not expressed openly by Bevan, but that is not surprising. Amidst a “battle” with the most powerful interest group he had to contend with — an interest group closely aligned with the Conservative Party — Bevan had to be careful. To declare that his reason for wishing to recast the members of this respected and independent profession as supplicants of the State was that it would help stop future reforms by the Conservatives could not have been an attractive proposition.

In this light, it is little wonder that Webster (1988, 97) termed “acceptance that the time was not ripe for introduction of full-time salaried service” as “Bevan’s major concession to the profession”. With the ‘Appointed Day’ for the commencement of the new health service rapidly approaching and the doctors threatening non-cooperation with the new scheme that would effectively have wrecked it, Bevan agreed to the passage of amending legislation that explicitly ruled out imposition of a salaried profession.

²³It may be contended that state-subsidised fee-for-service schemes have a similar characteristic. There is truth to this, but I would argue that a salaried profession is bound together as one in terms of their lobbying incentives in a way that a ‘privatised’, fee-for-service, profession is not. In the former case, salary and, therefore, spending increases are the uniform goal of all. In the latter case, there would exist variation in the source of income amongst doctors, with those earning a greater share of their income from private practice being less enthusiastic regarding increased state funding. Indeed, if state funding is tied to greater regulation — as it surely would be — then some doctors are likely to be positively opposed to an increase.

4.2.2 The Fight Over Charges

With passage of the NHS Act secured and compromise with the doctors allowing Bevan to move to the implementation phase of his health service reforms, a new issue arose. The parlous state of the economy in the post-war years, coupled with large debts from the financing of the war effort, meant that the Labour government faced a budgetary crisis. The need to rectify the government's financial situation led to huge pressure on spending departments from the Treasury — and the Ministry of Health was far from exempt from this pressure. A notable suggestion that was discussed repeatedly at Cabinet level was for the imposition of user charges in the NHS as a means of reducing costs to the Exchequer. It was argued that this would both raise revenues and reduce some of the demand for the service. In what may appear counterintuitive at first glance, in this section, I show that the fight over the introduction of NHS charges that played out *within the Labour Cabinet* actually provides evidence as to their partisan importance. While Bevan was pressed by several of his own colleagues to accept charges, this was in a context of dire economic circumstances and was resisted with all the power that he had. Furthermore, when charges were finally introduced by Labour, they were very small compared to those employed both by subsequent Conservative governments and, particularly, left-wing governments in Sweden.

My argument for why Bevan opposed charges so vociferously is based directly on his own expressed view. He feared that the introduction of charges would constitute the thin end of the wedge if a Conservative government were to be elected. Implicit in his statement is a kind of rational sociological institutionalist logic of the sort set out by Korpi (2001). He appeared to believe that Labour was uniquely able to adjust the 'norm of appropriateness' with respect to charging in the NHS. That is, for Labour to introduce the charges would imply that they were normatively acceptable. Once that ground was conceded, a future Tory government would be able to extend them in even more inegalitarian ways. On the other hand, were Labour to hold their ground and reject charges, the norm would remain intact and the Tories would be unable to pursue such a policy reform.

As has already been noted, the NHS was constructed with the principle of free-at-the-point-of-use at its foundation. However, it did not take long for this tenet to come under strain, even with the stewardship of the NHS still under Labour and Bevan. After a year of operation, it became clear that the cost of the service was considerably higher than initial estimates had suggested. With budgetary pressures mounting amidst a prevailing national economic context that remained seriously weakened by the recent war, the Government began to seek ways of containing costs across the board. The NHS was not immune to the budgetary pressure.²⁴ Indeed, its spiraling costs well above initial estimates suggested that cuts were possible in health as spending appeared to be rather out of control. For the first nine months

²⁴See Webster (1988, Chapter 5) for a more detailed discussion of this period.

of operation from July 1948, gross spending ran at around 140 percent of its projected level. The pattern was similar for the full year 1949/50.²⁵

Despite heavy pressure from Stafford Cripps, the Chancellor of the Exchequer, Bevan largely resisted attempts to limit health expenditure by the Exchequer. Most relevantly to the discussion here, Webster writes:

[f]irmly precluding the introduction of charges [... Bevan] declared ‘I just say at once that I am entirely opposed to any idea of obtaining additional appropriations in aid by requiring payments from the beneficiaries under the service’. Bevan defended this conclusion at length, pointing out that the yield from charges would be insignificant compared with the extent of administrative inconvenience. Furthermore, charges would involve a premature and fundamental reversal of policy, raising the spectre of the means test and harking back to the discredited Poor Law. (Webster, 1988, 138)

Webster continues,

[c]oming at the outset of the long argument over the imposition of charges in the NHS, this letter provides a useful reminder of Bevan’s depth of feeling on this issue, and an indication of his grounds for attaching great symbolic importance to the principle of a service free from direct charges. Webster (1988, 139)

Bevan’s objection to the introduction of charges seems to have been at least two-fold. First, he considered it a retrograde step in his attempt to build a health system that would redistribute from rich to poor. However, the weight of this argument is undercut by his own claim that the proposed charges would amount to a small fraction of overall health expenditure. This suggests that the second objection was the more telling. The “symbolic importance” to which Webster alluded was based on the view that a free service was a precondition for a socialist service and that concession of this principle held the potential to open the flood gates to charges under the Conservatives. Cabinet minutes report that he,

said that he had always been opposed to the introduction of charges for dentures and spectacles. In his view it would be undesirable in principle, and politically dangerous, for the Labour Party thus to abandon the conception of a free Health Service. (Cabinet Papers, 1951)

Ultimately, Bevan’s defense against Cripps partially failed, however; budgetary imperatives came to outweigh the Welshman’s political and rhetorical manoeuvres. Cripps’ continuing pressure forced Bevan into compromise. He was offered a choice of charges for in-patients,

²⁵Figures taken from Webster (1988, Table I, 135).

dentures, or spectacles, or an increase in the rate of National Insurance (NI) contributions that would be siphoned to the NHS (Webster, 1988, 143). With the use of NI contributions deemed to be “a form of poll tax with all its disagreeable features” (Bevan, 1952, 79), Bevan faced a dilemma. Interestingly, his initial reaction was to propose, as an alternative, a reduction in the level of NI benefits — that is, a reduction of cash transfers in favour of health services. This was not accepted. With his back to the wall, he finally relented; agreeing to the imposition of a charge for all prescriptions below the level of one shilling. The estimated saving was £10 million, out of a total NHS budget of around £450 million — i.e. approximately 2 percent of total health expenditure. Webster (1988, 143) describes this as Bevan’s “momentary capitulation”.

The capitulation really would prove to be momentary. Although Parliamentary approval was obtained,²⁶ no progress was actually made with the implementation of prescription charges. Difficulties over which, if any, categories of people should be entitled to exemption from the charges, over how to physically collect the cash, and a shrewd game played by Bevan saw deferral of the scheme. By the time it was even near to being ready for adoption, Bevan successfully argued that to do so at a time so close to the impending general election was politically unwise (Webster, 1988, 147). The issue of NHS expenditure and, therefore, of charges, would not disappear, though.

The election of 1950 returned Labour to power, but this time with a dramatically reduced majority of six. This new political reality meant no possible respite for Bevan and the NHS. Cripps quickly retired, only to be replaced by the equally implacable Hugh Gaitskell as Chancellor. With NHS spending continuing to rise, a Cabinet committee was convened to oversee the issue — a committee which increasingly forced Bevan onto the defensive. Still, he held out against the imposition of charges to the health system. By February 1951, Attlee moved him to the Ministry of Labour.²⁷ The switch, however, would not dim his passion for defence of the health service he had constructed.

Matters came to a head at a Cabinet meeting on April 9th 1951. Gaitskell had managed to wring the concession of ophthalmic and dental charges from the new Minister of Health, Hilary Marquand. It was felt that these were more politically expedient due to the public perception of “abuses” in these areas (Webster, 1988, 173).²⁸ Nonetheless, Bevan remained resolutely against the move, making it clear that he would resign if his Cabinet colleagues agreed to force through the measure. In this threat, he was joined by the then President of the Board of Trade and future Prime Minister, Harold Wilson. Gaitskell had made the issue one of confidence in his tenure as Chancellor and it appears that Attlee felt compelled

²⁶Via the National Health Service (Amendment) Act 1949.

²⁷With a promise “to protect the social services from further cuts” from Attlee, according to Webster (1988, 166).

²⁸Dentists and opticians were in a role of prescribing the use of ‘appliances’ and then directly profiting from their manufacture and/or sale — a fairly clear conflict of interest.

to support him (Webster, 1988, 172 and 177). Notwithstanding several grave misgivings as to the wisdom of forcing resignations, the rest of the Cabinet fell in with the two senior members. Bevan and Wilson resigned.

Bevan's resignation speech to the House of Commons is instructive as to his thought processes. With the principle of charges conceded, he clearly felt that the threat posed by Conservative extension of charges was magnified.

I have been accused of having agreed to a charge on prescriptions. That shows the danger of compromise. Because if it is pleaded against me that I agreed to the modification of the Health Service, then what will be pleaded against my right hon. Friends next year, and indeed what answer will they have if the vandals opposite come in? What answer? The Health Service will be like Lavinia — all the limbs cut off and eventually her tongue cut out, too. (Webster, 1991, 192)

In this quote, Bevan can be seen to be explicitly concerned with how a policy decision today will have implications in the future under a Conservative government — “the vandals opposite”.

4.3 The Evolution of the Swedish National Health System

The story of Swedish health care is one of evolution. In several respects, it can be contrasted with the more radical reforms undertaken in the UK in the period 1946–1948. The question is why this should be so. In order to answer that, I begin with a brief outline of the system that came to be in place at the end of the Second World War. The subsequent story of reforms, failed and realised, provides a telling contrast to contemporaneous developments in the UK.

The immediate post-war period saw the solidifying of political dominance by the Social Democrats. The 1944 election gave them a majority in the First Chamber and an effective majority in the Second Chamber when the Communists were accounted for (Lewin, 1988, 180). The party system remained in their favour, with the Agrarians potentially available as coalition partners should the need arise (as they had been since the election of 1932) and the rest of the non-socialist bloc still split between Liberals and Conservatives (Rustow, 1955, 104–109). They had held power from 1932 until the outbreak of war — a period of in which Sweden experienced considerable economic difficulty — and then as the lead faction of the war-time coalition government.²⁹ While broad differences remained between the socialist and non-socialist blocs in parliament as to the degree to which the state should intervene in the economy, the 1948 election was to prove that this skirmishing would not be to the detriment of the Social Democrats (Lewin, 1988, 187). Political hegemony was theirs and, accordingly,

²⁹Strictly, there was a gap of three months in 1936 in which the Agrarians formed the “Vacation Government”, before elections returned the SAP to power (Rustow, 1955, 108).

they started to plan for the long term (Lewin, 1988, 168). Indeed, King and Rothstein (1993, 161) assert that this long term planning began as early as 1936 when they found they “could expect to dominate government for several years”.

With the Saltsjöbaden corporatist agreement in place, the purely economic realm appeared to be largely settled (Swenson, 1991*a,b*; Lewin, 1994). The Social Democrats turned their attention to construction of what would become the archetypal welfare state. Interestingly, Baldwin (1990, 135) suggests that, in the ensuing “triumph of egalitarian universalism [...] [h]ealth insurance played an important role [...], but pensions came foremost”. In itself, this is indicative evidence regarding relative preferences over cash and in-kind redistribution. The details of developments in health care reinforce the point.

4.3.1 The Höjer Non-Reforms

At the end of the Second World War, Health care in Sweden was far from universal and the Social Democrats were not slow to attempt to reform the system so as to expand coverage. The first attempt to do so was to find patronage in the form of J. Axel Höjer, Director of the National Board of Health. In the ‘strong state’ tradition highlighted by Lindvall and Rothstein (2006), the Government had appointed him in 1943 to chair a commission to investigate how best to pursue a reorganisation and expansion of the health system. After extensive research, including analysis of the British NHS developments, he presented his report in 1948.³⁰

In sum, the Höjer report was a proposal for a national health service, a national health service whose ambitions surpassed those of the NHS. Not only would hospital inpatient care be delivered at virtually no cost, but all forms of outpatient care — whether taking place in doctors’ private offices, in the government offices of public doctors, or in the hospital outpatient clinics — were to be integrated into this service. Private patients and private fees — something that all Swedish doctors, both hospital and office-based, private or public, depended on — would be eliminated; all doctors would eventually be paid a government salary. (Immergut, 1992, 205–206)

The doctors did not have to wait for publication of the report to know of its contents — several members of the committee were their own. As early as 1946, Dag Knutson, the incoming chairman of the Swedish Medical Association (SMA), had clashed in a public debate with Höjer over “whether doctors should continue to be members of a free profession or should become health care civil servants” (Ito, 1980, 63). However, upon publication,

³⁰See Serner (1980, 101–102) for more details of the proposed reforms.

the report provoked a huge controversy.³¹ The bitterness between the man who would turn doctors into ‘mere’ civil servants, Höjer, and the SMA was extraordinary. In a remarkable, but reversed, parallel with the the rhetoric employed in the clash between Bevan and the BMA, Höjer denounced Knutson as “pro-Nazi” (Heidenheimer, 1980, 206).

The Conservative Party, the Swedish Employers’ Association, and even Landsorganisationsen (LO) — the main trade union federation — were deeply concerned about the proposed health reforms. The latter’s unease was primarily on grounds of cost, although there was also a desire that expenditure across the social services be correctly balanced (Immergut, 1992, 206–207). As if that opposition were not sufficient, the Federation of County Councils, headed by a Social Democrat, was strongly opposed.³² As owners of the existing hospitals, the councils feared that Höjer’s reforms, by ousting private practice, would lead to staffing shortages as doctors fled the system (Immergut, 1992, 207).

In the face of this opposition, the Höjer reforms were axed. One interpretation of this result is that the SMA scored a victory against the governing Social Democrats. It seems incontrovertible that the SMA was victorious against *Höjer*, but there are notable problems with calling the outcome a defeat for the Government.

There is a consensus that the SMA, both relative to its international cousins and in domestic terms, was a weak organisation. Both Ito (1980, 58) and Immergut (1992, 207) note that the number of doctors, per capita, in Sweden was remarkably low making the profession’s economic and organisational capacity for applying political pressure correspondingly low. How could such a weak grouping come to defeat a government with a firm legislative majority?

Ito’s partial answer is that, faced with a reform that it found to be particularly threatening, the profession coalesced to an even greater extent and became stronger. From the election of Knutson as its leader,

[t]henceforth, the SMA continued to become stronger, but never strong enough to defeat the public authorities. In some cases, it succeeded in postponement, but in the end it lost, and the state had almost full control of health insurance. (Ito, 1980, 63)

Even in Ito’s terms, then, it is not possible to explain any putative SMA defeat of the government in terms of its own power. While the SMA became stronger, it never became “strong enough”. Immergut implicitly acknowledges this difficulty, as well, writing that, “Whether the failure of the *Höjer* reform should be credited entirely to the lobbying campaign of the medical profession, however, is debatable” (Immergut, 1992, 208). Her preferred

³¹Immergut (1992, 207) comments that “*Svenska Dagbladet*’s yearbook notes that no other legislative proposal received as much nor as critical press coverage in 1948”.

³²Interestingly, local government opposition to the NHS Act did *not* lead to rejection of similar legislation in the UK.

explanation is that popular support for the welfare state in Sweden had eroded as the Social Democrats began to levy the taxes needed to pay for it. “Reactions to the Höjer reform fit very neatly into this general backlash against the welfare state” (Immergut, 1992, 208). But this interpretation is an awkward one for Immergut to make given her own theoretical stance on Sweden. Her claim is that the Swedish case amounts to an example of “executive dominance”, whereby the executive was relatively unencumbered by political institutions that accorded interest groups the opportunity to exploit veto points. Her view is neatly summarised in the following passage.

For most of the period studied, the executive could count on stable parliamentary majorities bound by party discipline to ratify its proposals. Moreover, even at times when the majorities were unstable, institutional mechanisms developed to isolate policy-making procedures from both the executive and parliament allowed for continuous policy preparation despite fluctuations in the governing coalition. Paradoxically, institutional features introduced to preserve the power of the monarch and the Conservative Party during the transition to democracy ended up working to the benefit of the Social Democrats once they assumed control of the executive. Consequently, although these institutions were intended to ensure stability — that is, the status quo — they facilitated radical political change. This process was based on conciliation rather than conflict, however. (Immergut, 1992, 179)

Furthermore, while the Höjer reforms were not passed, there remained a consensus that health care needed to be expanded to a greater proportion of the population. In this light, Immergut’s recourse to public opinion around the 1948 election turning against the growing welfare state seems less credible — not least because that election saw the Social Democrats lose only 0.6 percent of their vote share and retain a majority in both legislative chambers (Immergut, 1992, 209).

A more natural interpretation, and one commensurate with the core of Immergut’s understanding of the Swedish case, is that the Social Democrats — indeed, the Left more broadly, as seen by LO’s response to the proposal — saw no need to pursue the Höjer reforms. Imposing salaried civil service status on the medical profession was not necessary. There was no need to co-opt the doctors into the defence of the health system under any future non-socialist government. Arranging finance such that health care became free-at-the-point-of-use — the over-riding principle that became a resignation issue for Bevan and Wilson in the UK — was also unnecessary. Maintaining the fee-for-use system kept the doctors contented whilst offering little downside to the Social Democrats as they were able to ensure that all of their citizens would have sufficient resources with which to pay for care. Indeed, Tilton (1990, 118) asserts that Gustav Möller, the extremely influential SAP minister in charge of social

policy, got precisely the system that he wanted through the reforms that were subsequently implemented instead of the Höjer proposals.

The most appropriate conclusion, then, would seem to be that Höjer's reforms were ultimately rejected because *nobody* particularly wanted them. In taking inspiration from the nascent British NHS, he had failed to take account of the political realities in Sweden. Despite this rejection, there remained a consensus within Sweden that reforms of *some* sort were needed so as to ensure that all sections of society had sufficient access to care. The prevailing voluntary system left too many on the outside.

4.3.2 The National Health Insurance Act 1953

By the time that the Swedish system took shape, it differed significantly from the British National Health Service that had been adopted a few years previously. The British program is primarily a medical scheme, while the Swedish system is primarily a form of social insurance designed to offset the consequences to living conditions of disease, disablement, or unemployment for medical reasons. (Board, 1970, 233)

Concurrent with the debate over the Höjer reforms, the Government had actually pressed on with legislative action to introduce provisions for compulsory health insurance. Indeed, the issue having been debated during the war, an Act to this effect was passed by Parliament in 1946. With the Act essentially an extension of the prevailing voluntary insurance system, and with doctors having been extensively consulted during the formation of its provisions, it passed without controversy (Blanpain, Delesie and Nys, 1978, 173). For financial and staffing reasons, operation of the Act was delayed until 1955 (Sermer, 1980, 103) — a notable contrast with the urgency with which reform was pursued in Britain, which itself faced extreme financial difficulties following the war.³³

In terms of characteristics, the compulsory insurance system finally implemented in 1955 was, unsurprisingly, rather different from the Höjer proposals; and, indeed, rather different from the British NHS. Compulsion was only applied to employees (Blanpain, Delesie and Nys, 1978, 172). A salaried medical profession was no part of the new system and fees-for-service remained at its core. Patients would consult with the same private doctors as before, only their new state-provided insurance policy would reimburse them for a proportion of the cost of doing so. The legislation did not impose a fixed tariff for consultations.

They were, however, regulated in the sense that the insurance provided reimbursement for 75 per cent of fees below a fixed level. The level served as a guideline, but physicians were not obliged to keep below it. (Sermer, 1980, 103–104)

³³See Foot (1973, 50–59) for a discussion of the British financial predicament, together with Bevan's views on the matter.

Even with doctors, of their own volition, holding their fees below the ‘fixed level’, the system was designed to pay a *maximum* of 75 percent of costs. How stark a contrast this is with the tooth-and-nail fight in Britain over the introduction of fees amounting to only 2 percent of health expenditure.

There were some similarities between the Swedish and British systems, however. Doctors were permitted to retain the use of private beds in the hospitals (that remained publicly-owned).³⁴ Somewhat in accord with the use of base-line salaries for doctors in the NHS, a low salary was provided to provincial doctors as a way of ensuring their financial viability. The quid pro quo being that they agree to treat low income patients. Even these consultations were on a fee-for-service basis, though, and the salaried doctors were free to undertake private practice, as well (Immergut, 1992, 210).

On top of the contrast between Britain and Sweden on the issue of fees-for-service, a further major differentiation can be drawn.

The important item was sickness compensation to cover loss of income [...] [T]he reader should keep this emphasis on sickness and disability compensation in mind. These items claim by far the greatest sums of money in the Swedish national health insurance system. (Serner, 1980, 103)

The quote from Board (1970) at the start of this section makes this clear in a comparative sense, as well. Figures from Kangas (2004, 196) provide some support for this comparative view, although the intervals at which data is available are not ideal for our purposes. In 1950, post-implementation of the Beveridge reforms and the NHS in Britain, but pre-implementation of the Swedish reforms of 1955, Britain and Sweden had approximately equal coverage and replacement rates for their sickness benefits. By 1970, the British coverage rate had actually dropped slightly while replacement rates had risen from around 50 percent to around 60 percent. In contrast, the Swedish coverage had remained at 100 percent and replacement rates had grown to nearly 90 percent. The theoretical significance of these differing emphases on cash and service provision being that service provision, by creating powerful bodies of organised labour, is more likely to survive future government by opposing parties than are more cash based systems.

4.3.3 The Late 1960s and Early 1970s

For 15 years, the reforms implemented in 1955 provided the core of Swedish health care. Some further tweaks were made but the major features of the system remained in place until the so-called ‘Seven Crown Reforms’ in 1970. For the argument advanced here, the reforms are significant. The main empirical point is that a health system reform that moved Sweden

³⁴This aspect was subsequently abolished in 1959 (Serner, 1980, 104).

closer to the British NHS model was enacted precisely at the point when the governing Social Democrats had agreed to a batch of constitutional reforms that would leave them in a weaker position electorally, and with a body of institutions that offered less scope for them to veto changes to which they were averse when in opposition. My claim — one which accords with the interpretation of the political situation given by Immergut (1992, 212) — is that the Social Democrats responded to this change in their systematic strength by further embedding the Swedish health system in a structure that would allow it to weather any ensuing non-socialist government.

Ruin (1988) describes the main features of the constitutional reform. The electoral system (for the Second Chamber) was adjusted to make it more proportional, thus reducing some of the majoritarian bonus that was reaped by the largest parties — i.e. predominantly the Social Democrats.³⁵

The First Chamber, which was indirectly elected by county council politicians was also abolished. As Immergut (1992, 238–242) stresses, this step was notably detrimental to the Social Democrats. The double disproportionality entailed by the indirect electoral system meant that the Social Democrats had been able to secure a consistent absolute majority in the First Chamber from 1942 onwards.³⁶ Furthermore, the eight year terms, as compared to three years in the Second Chamber, meant that there was a good degree of stability and the Social Democrats could rely on their strength for a fairly long period. That strength in the First Chamber was of real significance. While governments were notionally formed by majorities in the Second Chamber, the annual budget could only be passed by a joint sitting of both chambers and the Social Democrat strength in the First Chamber meant that they nearly always had that joint majority, even during their weaker periods in the Second Chamber. As such, they could nearly always veto budgets. Removal of the First Chamber, then, removed an in-built and stable mechanism of ensuring Social Democratic legislative strength. It also removed a veto point as all legislation previously had to be passed by both chambers. According to the veto player analysis of the sort advocated by Tsebelis (2002), this should tend to increase policy instability, and thus to increase the uncertainty of the Social Democrats over their ability to block future unwanted reforms.

Taking these reforms together, the simulation results presented by Immergut (2002) suggesting that the Social Democrats would have performed better electorally in the post-1970 period under the old constitution appear unsurprising. At the very least, the shift to unicameralism unarguably removed a veto point — one that had been solidly Social Democratic — and thus increased the likelihood of future reforms being enacted by the non-socialist bloc.

³⁵Part of this reform also expanded membership of the Second Chamber. It now has 349 members representing 29 multi-member constituencies, with 39 top-up members used to ensure greater proportionality (Bergman, 2004, 205).

³⁶'Double disproportionality' in the sense of an electoral bonus for the Social Democrats at the county level and then that bonus magnified by a further bonus in the actual election to the First Chamber.

In health policy terms, how did the Social Democrats respond to this change? They instigated the ‘Seven Crowns Reform’ which earned its name from the principal change that lay at the heart of the package. Doctors would no longer be able to charge arbitrary fees for service. Instead, a fixed tariff of seven crowns (*kronor*) would be charged for all visits, regardless of the services that were performed. This level of fee was decided upon after the government conducted a survey to find out the average cost of a visit to the doctor. The answer was found to be 70 crowns and the fee was set to 10 percent of this level (Blanpain, Delesie and Nys, 1978, 175). Thus, the cash component of this major area of health care was reduced by about 15 percentage points.³⁷

The other main aspect of the reform, and one that clearly followed directly from the limitation on fees, was the move to a salaried medical profession. As Serner (1980, 104) notes, the change in the law “actually comprised a provision in the hospital law that forbade employees to accept any payment from patients”. No legal requirement was enacted to move doctors onto salaries, but in subsequent negotiations between the County Council Federation and the SMA, it was agreed that this was the most appropriate way forward. In the face of parliamentary resolve, the SMA had little option but to acquiesce (Immergut, 1992, 216). This parliamentary resolve was built upon the SAP having won an absolute majority in the 1968 election, as well as interesting dynamics amongst the non-socialist bloc. The Centre Party, which had a strong presence in local government, supported the reform — apparently as a result of the strengthening of the County Councils (Immergut, 1992, 219). The Liberal Party, reeling from losing “nearly one-half of its voters as a result of its negative stance on [...] pensions” during the previous electoral period, were in no position to be seen to obstruct social policy reform, again (Immergut, 1992, 213). This left the Conservatives as the right-wing standard-bearers on the issue; voting, as they did, against the reform.

It is interesting to note that “the Seven Crowns reform and the related negotiations introduced several of the more controversial points of the Höjer reform”. It was only the failure to find agreement on extension of the reform to private practitioners (outside of hospitals) that stopped the full Höjer package from being adopted in 1969 (Immergut, 1992, 214). Despite exclusion of the private doctors, “[o]vernight, 90 percent of Sweden’s doctors became full-time salaried employees of the state” (Blanpain, Delesie and Nys, 1978, 175). In essence, then, the Seven Crowns Reform was a notable move in the direction of the British NHS model. Fees for service remained, but at markedly lower rates. The medical profession was finally a salaried civil service corps, with the resultant benefits from their bargaining strength as a way of maintaining wage levels in the public service. Indeed, Immergut notes this point, albeit in reverse.

There were advantages for the leadership [of the SMA] in accepting a salary form

³⁷This is likely to be a low-side estimate as doctors were previously able to charge more than the notional tariffs for which reimbursement at the 75 percent rate was payable.

of payment. With an increased number of physicians, which not only weakened the market position of doctors but also brought in a large cohort of younger doctors, the leadership could improve the situation of its members more effectively by pursuing a hard line in salary negotiations than by clinging to private practice privileges. (Immergut, 1992, 215)

Doctors, then, had considerable capacity (and desire) to protect the health service in its new form. This fact would not have been lost on the Social Democrats.

In light of the evidence, Immergut’s summary of the political motivations underlying the Seven Crowns Reform seems apt.

The reform was part of a package of policies — in the areas of health care, taxation, and economic policy — that aimed to solidify the party’s electoral standing at a time when it was at the peak of its power, but when its future control of the government was in jeopardy. (Immergut, 1992, 212)

5 Concluding Discussion

The historical accounts set out above fit rather well with the theory advanced in this paper. To make the case, a number of steps are required. First, that the British Labour Party and the Swedish Social Democrats faced very different strategic positions at the end of the Second World War with respect to their expectations over future right-wing policy influence. Second, that they recognised their strategic situations.³⁸ Third, that they were able to and did act upon the incentives provided by these different situations.

A fourth, but not necessary step in the causal chain is recognition on the part of the actors that there were efficiency costs to structuring the NHS in its particular way. That being the case would provide further evidence that Bevan, the primary actor, was engaged in the construction of a second-best system, and so provide further indirect evidence that he was acting strategically. In the event, it is surely uncontentious to say that Bevan *was* aware of the efficiency costs of his scheme. The Treasury considered that charges would be useful in providing an “education of the public who use the service” (Webster, 1988, 143). Economic theory suggests that providing services at zero marginal cost should lead to over-demand. Bevan had accepted this kind of logic with respect to dental services.

A logical question to ask in the face of Bevan’s strategic policy-making is: did it work? That is, did he manage to construct a system that was relatively immune to the cost-cutting proclivities of ensuing Conservative governments? The need for brevity precludes an extensive discussion of this issue, but the answer is again, ‘yes’. A large part of this flowed from

³⁸Although not necessarily how they differed from each other.

the public support which the system had inspired, but also from the co-opting of medical professionals by placing them in a position that encouraged them to pursue an expansion of expenditure on the nationalised scheme.

Created amidst controversy, the NHS was soon cocooned in consensus. Over the following decades, the NHS not only established itself as Britain's most popular institution next to the monarchy — invariably receiving top ratings in all public opinion surveys — but increasingly came to be strongly supported by those who had fought its creation: the medical profession. (Day and Klein, 1992, 468)

So, not only did public opinion come to reinforce the system, but the doctors, who had fought bitterly against the scheme, came to be some of its most staunch defenders. Precisely as the theoretical account offered here would predict: path dependence that largely overwhelmed *subsequent* Tory partisanship was rationally chosen. Meanwhile, in Sweden, no such path dependent organisational structures were required by the SAP. Secure in government, they had little to fear from right-wing parties and so had no need to follow Bevan's policy lead — indeed, in the form of the Höjer reforms, they explicitly rejected it.

Based on the first three causal steps in the argument, empirically, we should witness a rather different structure to and set of principles guiding the construction of the two respective health systems. This is unarguably the case. The fundamental characteristics of the NHS, as constructed by the Labour Party, were: free-at-the-point-of-use, redistributive financing via general taxation, universal entitlement, and relatively small cash sickness benefits. By contrast, the fundamental characteristics of the Swedish system, as constructed by the SAP, were: compulsory insurance-based, fee-for-service, cash payments with circa 75% reimbursement of fees, and relatively generous cash sickness benefits. Furthermore, at the point at which the SAP came to face a political system that was notably less favourable to them, they reformed the health system in ways that reduced the fee-for-service component and further embedded the medical profession into a position that aligned their interests with those of the (poorer) service users.

As to the second step of the causal chain, it seems uncontentious to suggest that the Social Democrats recognised the enduring strength of their political position. This has most clearly been expressed with respect to the system of economic planning that they instituted, but it is hardly a stretch to think that this would have spilled over into other areas of policy. As Lewin (1988, 168) notes, “above all, the postwar program contained long-term plans”. On the British side, Bevan's references to “vandals” and “vermin” (Webster, 1991, 123) with respect to the Conservatives and his expressed fear of what they would do if they came to power lend credence to the claim that he acted strategically, with a view to the future, in his construction of the NHS.

In conclusion, the aim of this paper has been to develop a synthesis of rational choice and historical institutionalism — ‘rational historical institutionalism’ — in which rational actors are seen to use the organisational sources of political power in strategic ways. The individual theoretical building blocks of the approach have already been developed in each of the two existing institutionalist schools, but they have rarely been drawn together. For this reason, a synthesis of the two offers a fruitful development. Application of this rational historical framework to comparative case studies of British and Swedish health policy after the Second World War show the utility of the approach. The evidence suggests that the organisational forms of national health systems were at least partially determined by the strategic decision-making on the part of (left-wing) politicians in each country.

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