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Civil society organizations and public policy

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Abstract

The aim of this paper is to explore the connection between the decline of the presence of encompassing civil society organizations (CSOs) in the policy-making process and the composition of public expenditure in advanced economies. Empirical estimates on a panel of 41 countries for the period 1979-2019 show that the lack of involvement of CSOs in the policy-making process is associated to public policies whose benefits are limited to specific sets of constituencies while the involvement of CSOs is associated to public policies whose benefits accrue to a large fraction of the society. We argue that the decline of the intermediate structures observed in the last decades has altered the composition of public expenditure towards a less desirable direction for the societies.

Keywords: civic organizations, public policies, civic engagement, public expenditure, political economy.

JEL: H4, P4, L3

1. Introduction

Major political and economic transformations have taken place in most advanced economies starting from the 1980s. From an economic perspective, this period has been characterized by a relentless process of structural change and deindustrialization coupled with the reorganization of the global division of labour driven by the rise of global value chains and global capital (Baldwin, 2011; Pariboni and Tridico, 2019; Crouch, 2019). From a political economy perspective, advanced countries have experienced a profound rethinking of the role of the public intervention in the economy which has led to an age of liberalization, including in the labour market, and privatization of many public services.

These changes have brought about a sizeable impact on the society, and in particular on the role of the civic society with respect to the policy-making process. Western societies have witnessed the erosion of those intermediate structures and organizations which represent broad and multifunctional interests and act as a layer in-between the realm of the states and the governments on the one hand, and individuals and families on the other (Dekker, 2010). A generalised decline of the various forms of civic engagement such as political participation and volunteering activities has been documented (Putnam, 2000). At the same time, the decline of the manufacturing sector has been associated to a process of deunionization which had played historically an important role as a source of association and civic participation (Pontusson, 2013; Magnani and Prentice, 2003; Farber et al., 2021; Standing, 1992). In urban centres, civic engagement has declined as a result of phenomena of segregation and the rise of a disengaged urban elite (Maloutas and Pantelidou Malouta, 2004).

The aim of this paper is to explore the connection between the decline of the presence of large (encompassing) civil society organizations (CSOs) in the society and the composition of public expenditure in advanced economies. We put forward the hypothesis that encompassing CSOs shape

the public policy agenda in particular in the direction of favouring public policies whose benefits accrue to a large fraction of the society (what we call *general spending*); by contrast, a weak involvement of CSOs in the policy-making process might lead to policies whose benefits are limited to specific sets of constituencies (what we call *particularistic spending*). Hence, we expect that the generalised decline of CSOs has led to a change in the composition of the public policies in the direction of more *particularistic spending*.

Previous research in comparative political economy and fiscal federalism has investigated the determinants of the size of the public sector. This research found that some formal institutional settings, e.g. the electoral system or the institutional setting characterizing politics influence public spending (Person and Tabellini, 2004; Liberati and Sacchi, 2013). Other research has focussed on some specific CSOs; a case in point is represented by large unions. In most countries unions have advocated for policies which contributed to aggregate productivity growth and welfare, such as training and education, innovation and research (Western and Rosenfeld, 2012; Farber et al., 2021; Standing, 1992; Gahan, 2002). Our paper contributes to this research by taking a broader measure on the composition of public expenditure as a well as a more inclusive measure of CSOs.

Empirical estimates on a panel of 41 countries for the period 1979-2019 show that the lack of involvement of CSOs in the policy-making process favours particularistic spending in public policies. As a result, we argue that the decline of the intermediate structure has altered the composition of public policies towards the less desirable direction of making public spending more particularistic and less directed towards the benefits of the society at large.

2. Civil society and public policy

2.1 *The decline of civil society organizations*

The presence of an active civil society is a fundamental source of vitality and pluralism for political systems. This depends on the presence of voluntary associations and a set of intermediate structures (Putnam, 1993; Andriani and Christoforou, 2016). Political theory analysing the distribution of power within contemporary societies considers civil society organizations (CSOs) as a key actor to be taken into account. CSOs, broadly defined as “*organizational layers of the polity that lie between the state and private life*” (Coppedge et al., 2019, p.179) play a key role in shaping policy-making and the agenda of governments.

The main argument of this paper is the following. We put forward the hypothesis that large encompassing CSOs affect the *composition* of public expenditure; in particular they tend to advocate for general (versus particularistic) spending. In a nutshell, the presence of CSO is expected to be positively associated with a distribution of public expenditure that tend to favour the society at large, in contrast to a distribution whose benefits accrue to specific fractions of the population.

This hypothesis is particularly relevant in the face of a generalized decline of CSOs that most of the advanced countries has experienced since the 1980s. We contextualize the decline of CSOs within the major political and economic changes started in the 1980s which are usually summarized under the umbrella of the neoliberal agenda. The period under scrutiny is characterized by major structural changes which have involved several aspects of the economy. A new wave of internationalization of the global economy led by the rise of the global value chains has profoundly restructured the division of labour across countries (Baldwin, 2011). Closely related to the latter, a deindustrialization process characterized by a steady decline of the manufacturing sector has taken place followed by an increase in the share of the service sector; this has brought about relevant

implications in terms of wage levels, unionization and income inequality (Tridico and Pariboni, 2018; Pariboni and Tridico, 2019; Baccaro and Howell, 2011; Crouch, 2019).

As far as the political economy approach is concerned, this period has been characterized by a major rethinking about the role of the public intervention in the economy. In particular the years 1980s and 1990s have been characterized by: *i*) an intense programme of privatization which has reduced the role of the States in several key industries like telecommunications, transport or healthcare (Forrest, 1991; Blomqvist, 2004); *ii*) a reduced role for industrial policies according to the argument that (a strong) public intervention distorts competition, hampering the correct and efficient allocation of resources and thus having a negative effect on aggregate economic growth (Aghion et al., 2011); 3) several waves of liberalization reforms in the labour markets (Rodrik, 2006; Chang, 2002).

These major changes have had sizeable effects and implications on the society as a whole. An overall declining trend of the “civil society”, broadly defined, has been documented in several quarters. The decline of the intermediate structures has been investigated from different perspectives and in relationship with the major economic transformations highlighted above.

Building on the notion of social capital, in his book “Bowling Alone”, Robert Putnam (Putnam, 2000) has documented a generalised decline of civic engagement in American communities. Civic participation has steadily declined in the last fraction of the XX century in every type of activity, such as voluntary associations, political and social participation, informal social connections. Overall, his evidence shows a generalised decline in the participation to community activities and various forms of civic engagement.

Another strand of research is related to a new wave urbanization and greater mobility of people. In the first place, and connected to the rise of urbanism, people migration towards large

cities have disrupted the community linkages with their home communities. From an urban sociology perspective the globalisation and economic restructuring since the 1980s, along with the retrenching of welfare states, have brought about a spatial (re)-composition and restructuring of urban space – both in the United States and in Europe – leading to gentrification, segregation and marginalization processes (Maloutas and Pantelidou Malouta, 2004; Tammaru et al., 2016).

In the post-industrial economy cities have grown as the triumphant *loci* of the creative class and global capital, fuelled by supply-side economic policies, where cities make people “Richer, Smarter, Greener, Healthier, and Happier” (Glaeser, 2011; Florida, 2005). At the same time, this process has amplified urban income inequalities, driven and reinforced by gentrification, the privatization of services (e.g. education), and the concentration of financial activities (Harvey, 1989; Sassen, 2013). Cities have grown replete with spatial segregation, areas of deprivation and ghettoization which “reflect the mal-distribution of social resources and the misrecognition and status subordination of non-dominant cultural groups” (Perrons and Skyers, 2003). In the more segregated and marginalised areas of such urban environments, civic engagement has been understood as a result of middle-class mechanisms of closure and social cohesion as depending on different (unevenly distributed) provisions of capital endowment and access to resources (Maloutas and Pantelidou Malouta, 2004).

As a result, two different phenomena regarding civic participation in urban centres have emerged. On the one hand, people living in less affluent neighbours and in urban ghettos have reduced their trust in the public institutions and decreased their participation in the civil society. At the same time, the urban elite has lost interest in forms of civic participation in large and encompassing organizations, and they have moved towards participating in associations that serve (their) local and immediate interests (Harvey, 1989).

Another perspective takes into account the relationship between structural change, the involvement of the unions in policy decisions and the dynamics of inequality. In his analysis on

industrialized countries over the last decades, Trigilia (2022) shows that the involvement of social parties in public policies is associated to inclusive growth; by contrast, the lack of their involvement is associated to growth with increasing inequality. This is the case of the Scandinavian countries which have experienced a more inclusive pattern of economic growth since the 1980s, characterized by the presence of pro-active unions and a model of industrial relations coordinated by a few numbers of large organizations. A case in point described in Trigilia (2022) is that of Denmark. Denmark has been defined as a 'negotiated economy' in that the governance of the economic system is grounded on an encompassing nature with a strong role for both unions and industry associations. The negotiation process has favoured the development of policies benefiting the economy as a whole, such as public investments in research and development (R&D) and training. In the German model, the relationships between large unions and industry associations have resulted in investment in collective goods which have benefited the aggregate level of productivity (Trigilia, 2022; Soskice, 1994; Estevez-Abe et al., 2001; Gahan, 2002). By contrast, countries characterized by a growth pattern with inequality are those in which the so-called neoliberal interventionist state has reduced the inclusion of the social parties in the policy making process, as for instance by limiting the role of collective bargaining (Trigilia, 2022; Crouch, 1993).

These types of processes have been put in relationship with globalization and in particular with the increase in the international competition which has led the industry pushing for greater liberalization in the labour market through flexibility and decentralization in the wage bargaining system. This model promoted increases in competitiveness from the labour costs side, often leading to a decline of the income share of workers (Godard, 2009; Pariboni and Tridico, 2019; Navarro et al., 2004; Crouch, 2019).

2.2 Civil society organizations and public policies

One of the basic tasks of governments is the provision of goods whose benefits accrue to a large share of the population, ideally to the whole population. Public spending in education, health provisions, national infrastructures etc. have been fundamental to build competitive economies, cohesive societies and robust democracies. However, public expenditure is often plagued by a particularistic vision when policy makers have an incentive to favour spending benefiting specific categories of citizens. This can be the case of building infrastructure in specific places – e.g. large cities airports and fast railways in more developed regions – increasing financial transfers for specific categories of workers and providing tax benefits to specific categories of income - e.g. inheritance taxes and financial capital. When governments accommodate the interests of specific groups of citizens, corporate, elite, territories or other sets of constituencies, public resources are diverted from public goods such as health and education. This can also be pursued through tax cuts, as it has been the case over the last decades when cuts have disproportionately benefitted the wealthy population and the large corporations (Bartels, 2005; Nallareddy et al., 2022).

The composition of the public expenditure is affected by the presence of CSOs, institutions in which “individuals act collectively, rather than individually or privately” (Buchanan and Tullock, 1962, p. 292). CSOs become integral parts of the political process to the extent that: *i)* public budgets have grown over the years and therefore the ‘cake’ has got larger, and so the expected returns from CSO activities; *ii)* while in principle policy should pursue the public interest, there is hardly any political choice that has the same benefits and costs on the entire population; *iii)* conflicts among pressure groups have become an essential part of the democratic process (Buchanan and Tullock, 1962).

Adam Smith in his *Wealth of Nations* warned about the possibility that collective action of interest groups would be detrimental to public wealth, in a ‘conspiracy against the public’ (Smith,

1793). The concepts of collective action in organizations, interests of groups, and public costs have been further theoretically developed by Mancur Olson. In *The Rise and the Decline of Nations* (Olson, 1982) he argues that interest groups are detrimental to aggregate efficiency and economic growth. The harmful impact on economic growth is mediated by the composition of public policy: associations – named *distributional coalitions or special interest-groups* – will push for redistribution policies in favour of the common interests of their members, at the expenses of the whole society. Crucially, this will be done by diverting resources from growth-enhancing programs such as large infrastructures, education and research. By contrast, *encompassing associations* are not expected to lobby for special interests, but rather for more general public goods. This occurs because encompassing organizations represent a substantial portion of the society; therefore, favouring growth-enhancing policies is more effective for their members than acting for (possibly growth-harming) redistributive policies.

There are contrasting views about the role of CSOs in the economy. One argument is that organizations which lie between the state and the market tend to be inherently rent-seeking actors aiming to reinforce their rents hence creating distortions in the market, ultimately hampering market dynamism and economic growth. By contrast, others argue that organizations, especially large and encompassing intermediate actors, can do some good to the economy in that their activities tend to benefit not only their members but the entire society through the presence of several indirect effects; further, they can encourage collective action and help keeping policy makers in check.

When intermediate groups and organizations are large, in fact, their activities tend to go beyond the interest of their members as to include the whole society. A case of encompassing CSOs is that of large representative unions. Opponents of a strong role of unions see them as a source of market distortion in that they tend to push the wages of their members artificially relative to the rest of the

workforce, thus creating a fundamental market distortion. This will also hurt the competitiveness of the economy, especially within an open economy, vis-à-vis competition from elsewhere. Accordingly, reducing the power of unions will spur competition and economic growth driven by unchained market dynamism. By contrast, a more general perspective would consider that reducing the power of unions will reduce the power of a part of the population with negative effect on income inequality, ultimately backlashing on both the political arena and in terms of long-term growth potential. Trade unions have historically played an important role for reducing inequalities, supporting investment in education, and generally improving the democratization of countries (Acemoglu and Robinson, 2013; Farber et al., 2021; Gahan, 2002; Tridico, 2017). A case in point is represented by the evolution of the unions in Italy over the 1950s where the emphasis on *income distribution* has been progressively substituted by that on *aggregate income and productivity growth*. Since then, the role of the union has been increasingly that of expanding national wealth by taking care of dynamic efficiency. This has culminated in the agreement of 1993 between the Italian government, the industry associations and the trade unions, when the latter agreed to curb real wages to keep inflation low in order to increase overall economic efficiency, competitiveness and economic growth.

A similar argument can be made as far as the business associations are concerned. Comparative political economy has shown that employers have played an active and supportive part in the development of coordinated capitalism and the welfare state. A key distinction is made in the Varieties of Capitalism approach which shows how liberal market economies tend to have weakly regulated labour markets, smaller welfare states, and shorter investment horizons; by contrast, coordinated market economies are characterized by *cooperative* industrial relations and wage bargaining (Hall and Soskice, 2001). Business organizations have also acted in favour of social security and skill formation systems within a collective agreement with workers and the

government, particularly to nurture (e.g. insure) specific skills in the labour force (Thelen and Culpepper, 2007; Dobbins and Busemeyer, 2015).

A positive relationship between associations and economic performance has been put forward also in the research on social capital. In brief, social capital improves institutional performance and ultimately economic growth by favouring civic networks and interpersonal trust (Andriani and Christoforou, 2016; Putnam, 1993). The presence of social capital enhancing CSOs will therefore favor long-term investment policies. Communities rich with social capital prefer long- to short-run political-economic strategies (Andriani and Sabatini, 2015). Social capital is associated with public investment for the implementation of socio-economic and sustainable forward-looking public policies in favor of public safety, public health, public education, and environmental protection (Pierce et al., 2016; Schneider, 1987). Social capital also helps explaining individuals' attitudes towards planning capacity and forward-looking decision making: individuals holding social capital tend to prefer decisions forward-looking oriented (Anand and Poggi, 2018). When this turns into political pressure it encourages forward-looking policy, favoring long-term public investments (Batinti et al., 2019).

Summing up, as documented in the next section, since the 1980s a decline in the presence of CSOs in the making of public policies has occurred. This has been contextualized within the major structural changes that have characterized the economies since then, coupled with a major rethinking in the realm of the political economy. We contend that the weakening of the involvement of CSOs in policy-making has affected the policy agenda. In particular, we hypothesize that a reduction of the presence of CSOs in policy-making is associated to policies whose benefits are limited to specific sets of constituencies (*particularistic spending*).

3. CSOs and public policies: descriptive evidence

Our measure of CSOs is retrieved from the 2019 edition of the Varieties of Democracy (V-Dem) Project, which proposes a new approach to conceptualize and measure democracy (Coppedge et al., 2019). CSOs include “interest groups, labor unions, religiously inspired organizations (if they are engaged in civic or political activities), social movements, professional associations, and classic nongovernmental organizations (NGOs), but not businesses, political parties, government agencies, or religious organizations that are primarily focused on spiritual practices. A CSO must also be at least nominally independent of government and economic institutions” (Coppedge et al., 2019, p.179). The measure captures the relative influence of large mass constituency CSOs versus smaller, more local, or narrowly construed CSOs, in shaping public policies. The variable is a dichotomy variable where 1 suggests *absence* of CSOs and 0 suggests *presence* of CSOs.¹

The next chart (Figure 1) shows the remarkable drop of the share of countries where large CSOs play a significant influence in the public policy agenda. The drop began at the begin of the 1990s to then stop in the years of the financial crisis and shows some signs of reversal in the most recent years (see Tab. A1 for the countries included in the sample).

¹ Note that we take 1 equal to *absence* since we aim to investigate whether the absence of large CSOs is associated to particularistic spending.

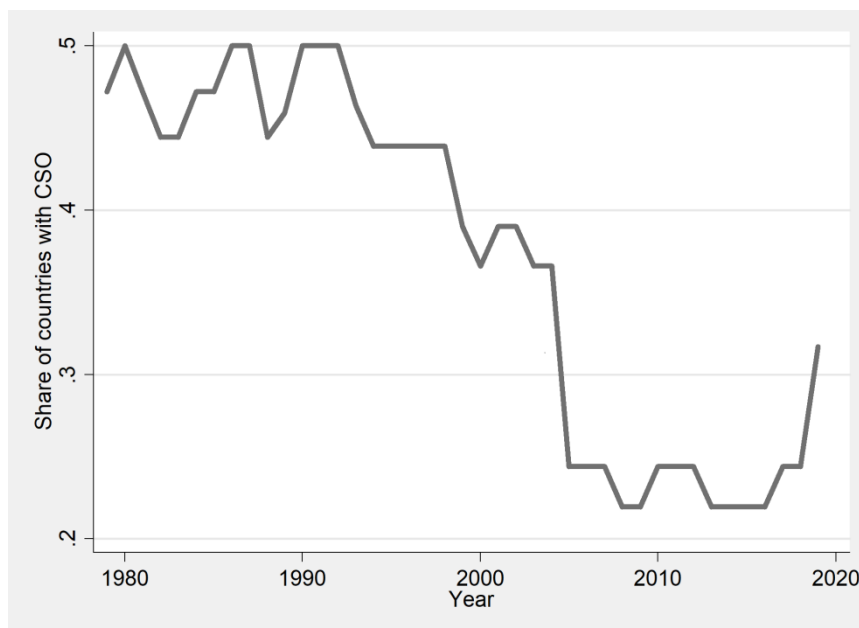


Figure 1: *Share of countries in our sample with large CSOs over time*

Note: the list of countries can be found in the Appendix, Table A1.

Back in 1979, in about 50% of the countries considered large CSOs played an active role in policy making; in the first part of the 2000s this share has dropped to nearly 20% to then recover in the latest years included in the analysis. The significant drop in the preferential role of large and encompassing constituencies in the policy-making process has been mainly driven by European countries.²

This evidence is consistent with the overall decline in civic society engagement in public policy discussed above. It is within this framework that we study the evolution of public policies in our sample of advanced countries.

The left panel of Figure 2, reports the evolution over time of our measure of general vs. particularistic spending. This is our dependent variable in the empirical analysis, and it is derived from the following question: *considering the profile of social and infrastructural spending in the national budget, how "particularistic" or "public goods" are most expenditures?*. Particularistic

² Countries for which large CSOs lost their preferential role in policy-making during the period considered are: Belgium, Spain, France, United Kingdom, Hungary, Iceland, Israel, Italy, Netherlands, Portugal.

spending is narrowly targeted on a specific corporation, sector, social group, region, party, or set of constituents; public-goods spending is intended to benefit all communities within a society. To assess countries polity characteristics, V-DEM collects surveys from different experts whose responses are aggregated using Bayesian item response models to account for possible inconsistencies in their perception. We measure the generality of *Public goods* both using the point estimates of the Bayesian models (a continuous variable, from particularistic to general) and the derived ordinal variable (5 classes).

The right panel of Figure 2, shows a positive correlation between general public policies with *GDP per capita*. This is consistent with Wagner Law-type effects where public expenditure rises as income expands (Milesi-Ferretti et al., 2002), but hinting to a change in their composition toward general goods such as investments in education, research or large infrastructures (e.g., broadband). The chart also shows significant differences among countries with similar levels of *GDP per capita*, as in the case of Hungary and Chile (HUN, CHL), Czech Republic and Portugal (CZE, PRT), or Ireland and Norway (IRL, NOR).

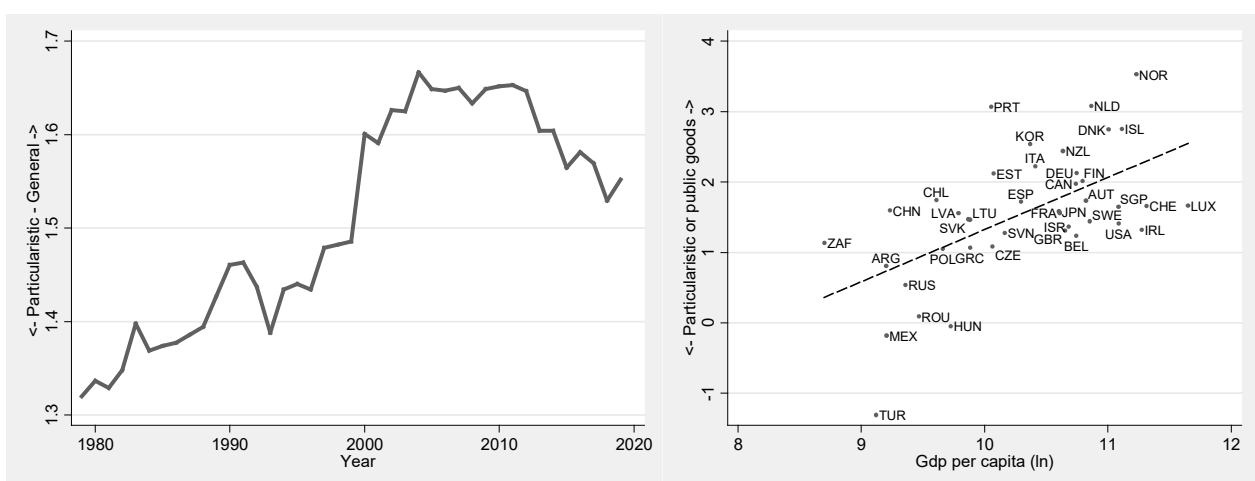


Figure 2: Public Good over time and versus GDP per capita (2019)

Note: the left panel report the yearly average value of general vs particular public expenditures across countries.

By looking at Figure 1 and Figure 2 we observe an increase in the provision of general policies during the first two decades, somehow overlapping with the period in which CSOs are more present. A flattening and then a sizeable drop of generalist spending in favour of an increase in particularistic spending is somehow visible from the begin of the 2000s. In fact, a preliminary average test (see Table A2 in the Appendix) shows that countries with CSOs have higher levels of provision of general policies. In the next section we employ econometric analysis to test whether the relationship between large CSOs and general public spending still holds true in a multivariate framework and when using an instrumental variable approach to control for the possible endogeneity of large CSOs with respect to the distribution of public expenditure. In particular, we aim to highlight whether the lack (presence) of CSOs is associated to particularistic (general) spending in public policy.

4. Data

As explained above, our dependent variable measures whether public expenditure is more oriented toward *general spending* rather than *particularistic spending* and it is built using the point estimates of the Bayesian models developed by V-Dem (Pemstein et al., 2020).

Our first set of control variables includes the institutional characteristics of countries as customary in political economy research.³ In particular, the following features are included: the form of government (*Parliamentary* vs. *Presidential*), the electoral rule (*Proportional* vs. *Majoritarian*); the presence of a two-chamber system (*Bicameral*), and the presence of elected sub-national governments (*Decentralization*). We expect parliamentary form of government, proportional electoral rule, and bicameralism to be positively associated with a more general profile

³ Institutional variables are drawn from the 2021 edition of the Varieties of Democracy (V-Dem) Project (<https://www.v-dem.net/en/>).

of public spending (Lijphart, 1999; Trigilia, 2022; Persson and Tabellini, 2002). Regarding *Decentralization*, we expect a negative association with a more general profile of public spending in that a larger fraction of public expenditure is allocated at the sub-national level and therefore more narrow in scope. An additional variable, labelled *Check and balances*, considers the possible role of institutions monitoring and controlling the actions of the executive power, particularly public spending. We include the level of *GDP per capita* as public expenditures are related to the level of a country development. Moreover, we also retrieve from the World Bank indicators (WDI) a country share of GDP deriving from manufacturing (*Manufacturing VA*), a proxy of its participation to GVCs (*GVC*) and its openness to more general trade (*Trade openness*); as discussed in the following, these three variables are used as instruments to account for the possible endogeneity of our main explanatory variable. Finally, we retrieve the percentage of employees who are union members (*Union density*) from the OECD statistics, this variable is used as an alternative proxy of civil engagement to check the consistency of the main results. The dataset covers 41 advanced economies over the 1979-2019 period, see Table 1 for a detailed description of the variables.

Table 1: Variables used in the empirical analysis

Variable name	Dataset	Original items in the dataset	Description
<i>Public Good</i>	V-DEM	v2dlencmps	Considering the profile of social and infrastructural spending in the national budget, how "particularistic" or "public goods" are most expenditures? <i>Experts answers aggregated with a Bayesian item response theory measurement model. Higher values indicate public expenditures of a more public good nature.</i>
<i>No Encompassing CSO</i>	V-DEM	v2csstruc	Civil societies inevitably involve a mix of larger and smaller organizations, it characterizes the absence of a relative influence of large mass constituency CSOs versus smaller, local, or narrowly construed CSOs. <i>No Encompassing CSO = 1 if more than 50% of experts state that large encompassing organizations is not recognized and accorded with a special weight in policy-making; 0 otherwise.</i>
<i>Gdp capita (log)</i>	WDI (World Bank)	NY.GDP.PCAP.PP.CD	This indicator provides per capita values for gross domestic product (GDP) expressed in thousands of international dollars, converted using the purchasing power parity (PPP).
<i>Proportional</i>	V-DEM	v2elparlel	What was the electoral system used in this election for the lower or unicameral chamber of the legislature? <i>Proportional = 1 if proportional; 0 if majoritarian or mixed</i>
<i>Parliamentary</i>	V-DEM	v2ex_elechos	Is the head of state HOS directly elected? <i>Parliamentary = 1 if not; 0 if yes.</i>
<i>Bicameral</i>	V-DEM	v2lgbicam	How many chambers does the legislature contain? <i>Bicameral = 1 if 2 chambers; 0 otherwise.</i>
<i>Check and balances</i>	V-DEM	v2xlg_legcon	To what extent are the legislature and government agencies (e.g., controller general, general prosecutor, or ombudsman) capable of questioning, investigating, and exercising oversight over the executive? <i>It is a numeric variable with range (0,1). It is formed in V-DEM by taking the point estimates from a Bayesian factor analysis model of a series of indicators.</i>
<i>Decentralization</i>	V-Dem	v2elsrgel	At the regional level, are government offices elected in practice? <i>Decentralization = 1 if yes; 0 if not.</i>
<i>Manufacturing VA</i>	WDI	NV.IND.MANF.ZS	Share of a country GDP related to the manufacturing sector
<i>GVC</i>	WDI	TM.VAL.MANF.ZS.UN TX.VAL.MANF.ZS.UN	Manufactures ⁴ import + exports as % of GDP
<i>Trade openness</i>	WDI	NE.IMP.GNFS.ZS NE.EXP.GNFS.ZS	Import + exports of good and services as % of GDP
<i>Union density</i>	OECD	UD_hist	Percentage of employees who are union members

⁴ Manufactures comprise the commodities in the standard international trade classification sections 5 (chemicals), 6 (basic manufactures), 7 (machinery and transport equipment), and 8 (miscellaneous manufactured goods), excluding division 68 (nonferrous metals).

5. Econometric analysis

In order to explore the relationship between CSOs and the profile of public expenditure we test the following model:

$$Public_good_{it} = \alpha + (No_encompassing_CSOs_{it})\beta + X_{it}\Phi + c_i + \delta_t + u_{it} \quad (1)$$

where i and t are country and time indicators, and *No_encompassing_CSOs* is our main variable of interest. X_{it} is the set of control variables discussed above and presented in table 1, while c_i and δ_t are meant to capture time invariant country idiosyncrasies and unobserved determinants that vary commonly across countries during the period of observation.

In Table 2 we present the results of the estimation of equation (1) using different specifications. In particular, in the first column we report the results of ordinary least squares not including country fixed effects, in the second column country fixed effects are included in the estimation, the third and fourth columns display instead the results from an instrumental variable (IV) approach that account for the possible endogeneity of large CSOs with respect to the composition of public expenditure. To instrument *No_encompassing_CSOs* we consider the share of a country GDP accruing to the manufacturing sector and its degree of integration into global value chains (GVCs). The raise of GVCs and the relative decline of the manufacturing sector have been connected to the reduced role of CSOs in the public policy sphere (Pariboni and Tridico, 2019; Baccaro and Howell, 2011). Our underlying assumption is that the relationship between the pressures coming from globalization and the decline of the manufacturing sector, and general vs. particularistic spending is fully mediated by the decreasing importance of large CSOs. An alternative IV specification, reported in the last column, replaces a country participation to GVCs with its openness to trade.

The negative coefficient associated to our main variable of interest, *No_encompassing_CSOs*, suggests that the reduction of the role of large civil society organizations in our sample of advanced

economies is accompanied by a reduction of general public policies *vis-à-vis* more particularistic ones. In other words, the removal of a preferential role for large CSOs in policy-making has led to an increase in the particularistic scope of public policies whose benefits tend to accrue targeted parts of the society. When using instrumental variables we find that OLS and the two-way fixed effect were eventually underestimating the influence of CSOs on the type of public spending. In fact, the negative role attached to *No_encompassing_CSOs* increases significantly in magnitude.

Table 2: Public goods and institutional setting: regression results

	Public good (high = general low = particular)			
	OLS	Two-way Fixed effects	IV (GVC)	IV (Trade openness)
NO Encompassing CSOs	-0.323*** (0.043)	-0.147*** (0.038)	-0.905** (0.365)	-1.074** (0.520)
Gdp capita (log)	0.333*** (0.026)	0.171*** (0.039)	0.117** (0.053)	0.196** (0.0863)
Proportional	0.133*** (0.038)	0.172*** (0.066)	0.154* (0.081)	0.358*** (0.0791)
Parliamentary	0.234*** (0.037)	0.438*** (0.086)	0.250*** (0.086)	1.221*** (0.197)
Bicameral	-0.115*** (0.044)	0.868*** (0.249)	1.164*** (0.209)	1.439*** (0.243)
Check and balances	0.936*** (0.125)	1.391*** (0.197)	1.497*** (0.217)	0.102* (0.0562)
Decentralization	-0.130*** (0.048)	-0.115 (0.096)	0.025 (0.150)	0.255** (0.128)
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes
<i>Country fixed effects</i>	No	Yes	Yes	Yes
Observations (<i>countries</i>)	1,559 (41)	1,559 (41)	1,243 (41)	1,269 (41)
F-stat	127.4	15.6	28.7	57.6
RMSE	0.668	0.355	0.358	0.390
Weak instruments (F-stat)			10.71	6.39
Underidentification (p-val)			0.000	0.002
Overidentification (p-val)			0.467	0.107

Note: robust standard errors in parenthesis, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. The tests reported at the bottom of column 3 indicates that the instruments are strongly correlated with *No_encompassing_CSOs*, have sufficient explanatory power and are likely to be exogeneous; in column 4 the explanatory power of the instruments is instead less satisfactory.

As expected, the provision of general public goods (versus particularistic ones) is positively associated with the level of GDP per capita. Regarding the institutional variables, both a

parliamentary form of government and a proportional electoral rule are positively associated with a more general public policy. This is consistent with theories arguing that the larger representation assured by parliamentary and proportional electoral rules increase the scope of public policies which benefit the society at large; by contrast, countries with presidential and majoritarian systems tend to be more inclined towards policies benefitting narrower fractions of the population (Lijphart, 1999). A similar type of reasoning apply to the other two institutional variables as discussed above, namely the presence of check and balances and bicameralism. By contrast the presence of a regional level of government does not show a clear relationship with the profile of a country public spending.

In table 3 we report the results of the first stage regressions for the IV estimates.

Table 3: Public goods and institutional setting: first stage of IV regressions

	NO Encompassing CSOs	
	Manufacturing VA + GVC	Manufacturing VA + Trade openness
Manufacturing VA	-2.031*** (0.455)	-1.559*** (0.436)
GVC	0.200*** (0.0680)	
Trade openness		0.0831 (0.0621)
Proportional	-0.0933** (0.0463)	-0.108** (0.0463)
Parliamentary	0.0228 (0.0507)	-0.0107 (0.0516)
Bicameral	-0.186*** (0.0484)	-0.171*** (0.0466)
Check and balances	-0.234** (0.116)	-0.250** (0.117)
Gdp capita (log)	-0.0256 (0.0360)	-0.0112 (0.0363)
Decentralization	0.115 (0.0715)	0.0623 (0.0715)
<i>Year fixed effects</i>	Yes	Yes
<i>Country fixed effects</i>	Yes	Yes
Observations	1,243	1,269

Note: robust standard errors in parenthesis, *** p < 0.01, ** p < 0.05, * p < 0.1.

The first step confirms our expectations: the increase in GVC participation is positively associated with a drop in the representativeness of large CSOs, while the share of value added accruing from the manufacturing sectors shows a negative association.

Differently, trade openness does not appear to be statistically related to the absence of large CSOs in policy making; this reinforces the idea that it is not international trade *per se* that may have eroded the role of the broad representatives of the civil society, but only the part related to intermediary goods deriving from the location of different stages of the production process in different countries (e.g., delocalization of production).

In table A3 in the appendix we report two robustness checks. In the IV regression we lose a number of observations due to the WDI data availability. We thus re-run the two-way fixed effect estimation on the same sample used for the IV to check whether the increase in magnitude of the coefficient attached to *No_encompassing_CSOs* is not only deriving from differences in the composition of the estimation samples. The results are in line with the two-way fixed effect estimations reported in column 2 of Table 2, confirming that the reinforced role for large CSOs resulting from the IV regressions depends on the fact that we account for endogeneity. Moreover, we use the variable *union density* instead of *No_encompassing_CSOs* to proxy the role of encompassing CSOs in that the former has historically represented an important intermediate actor in shaping several general public policies (e.g. education and training, productivity, research and innovation policies). Although we lose additional observations, the results are in line with the main ones, in that a stronger presence of trade unions is associated to a more general provision of public policies.

6. Discussion and conclusion

The aim of this paper was to test the relationship between the participation of encompassing CSOs in policy-making and the composition of public expenditure. The disengagement of the civil society and the fall back of intermediate structures has been studied and documented by different streams of research. These phenomena have been contextualized within the major processes of structural change that, starting in the 1980s and broadly associated to the neoliberal agenda, have deeply modified the structure of the economies, the international division of labour, the industrial relationships, as well as the approach to political economy (Baccaro and Howell, 2011; Crouch, 1993; Streeck and Yamamura, 2001).

Our evidence confirms the generalised reduction of the role played by the civil society in policy-making over the last decades in advanced and selected emerging countries. Furthermore, we show that the retrenchment of the civil society from the policy-making process has brought about implications in policy-making itself. In particular, a less relevant role for encompassing CSOs is associated to a rise in particularistic spending. Put in another way, when encompassing CSOs are not involved in policy-making, policy makers tend to substitute a general type of public investment with a narrow one.

In principle, this can have detrimental consequences on the overall aggregate economic performance, such as innovation and productivity. Our evidence does not allow us to claim that the reduction of CSOs in public policy making is worsening productivity and economic growth. However, there is a growing debate about the causes of the generalised slowdown in productivity, innovation and economic growth in the last decades in most advanced countries (Baldwin and Teulings, 2014). And there is also an argument which connects the decline of productivity with the fall of public and private investments (Jacobs and Mazzucato, 2016). Hence, we encourage further work investigating the possible effects of the retrenchment of encompassing civil society organisations from policy-

making. Our results uncover, taken together with other studies, a possible mechanism that passes through the relationship between encompassing CSOs and the composition of public investments.

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APPENDIX

Table A1: *list of countries included in the sample*

<i>Country names</i>			
Argentina	Germany	Mexico	South Africa
Austria	Greece	Netherlands	South Korea
Belgium	Hungary	New Zealand	Spain
Canada	Iceland	Norway	Sweden
Chile	Ireland	Poland	Switzerland
China	Israel	Portugal	Turkey
Czech Republic	Italy	Romania	United Kingdom
Denmark	Japan	Russia	USA
Estonia	Latvia	Singapore	
Finland	Lithuania	Slovakia	
France	Luxembourg	Slovenia	

Table A2: *Testing the difference in means of Public goods for No Encompassing CSO*

	Value	# obs.	Average Public Good	95% conf. Interval	t-test
<i>No Encompassing CSO</i>	Yes (1)	977	1.340	[1.291 -- 1.389]	<i> t = 10.983</i> <i>p-val = 0.000</i>
	No (0)	582	1.838	[1.764 -- 1.912]	

Note: the t-test does not assume equal variance across groups. In the last column we report the absolute values of the t statistic, and the p-value for the alternative hypothesis of different means.

Table A3: Robustness checks

	Two-way FE		IV	
	Restricted sample	Union density	Union density (First stage)	Public good (Second stage)
NO Encompassing CSOs	-0.183*** (0.035)			
Union density		0.349** (0.151)		1.110** (0.523)
Manufacturing VA			0.552*** (0.166)	
GVC			-0.212*** (0.020)	
Gdp capita (log)	0.133*** (0.050)	0.267*** (0.045)	-0.063*** (0.008)	0.357*** (0.074)
Proportional	0.201*** (0.067)	-0.072 (0.065)	-0.003 (0.008)	-0.058 (0.060)
Parliamentary	0.226*** (0.076)	0.136** (0.059)	-0.012 (0.013)	0.120 (0.094)
Bicameral	1.253*** (0.209)	1.498*** (0.097)	0.016 (0.045)	1.503*** (0.289)
Check and balances	1.699*** (0.171)	1.747*** (0.124)	0.026 (0.018)	1.861*** (0.172)
Decentralization	-0.041 (0.130)	-0.259*** (0.053)	0.050** (0.025)	-0.551*** (0.127)
<i>Year fixed effects</i>	Yes	Yes	Yes	Yes
<i>Country fixed effects</i>	Yes	Yes	Yes	Yes
Observations	1,243	1,211	1,011	1,011
Weak instruments (F-stat)				57.94
Underidentification (p-val)				0.000
Overidentification (p-val)				0.028

Note: *** p<0.01, ** p<0.05, * p<0.1. Robust standard errors in parentheses. The tests reported at the bottom of column 4 indicates that the instruments are strongly correlated with Union density, have sufficient explanatory power but do not pass the exogeneity test.