



Department of Political and Social Sciences

The Joint Impact of Party Politics and Institutional Constraints on Social Policy Reforms in Open Economies

Evelyn Hübscher

Thesis submitted for assessment with a view to obtaining the degree of
Doctor of Political and Social Sciences of the European University Institute

Florence, September 2010

EUROPEAN UNIVERSITY INSTITUTE
Department of Political and Social Sciences

The Joint Impact of Party Politics and Institutional Constraints on Social Policy Reforms in Open Economies

Evelyne Hübscher

Thesis submitted for assessment with a view to obtaining the degree of
Doctor of Political and Social Sciences of the European University Institute

Examining board:

Prof. Peter Mair (Supervisor), European University Institute
Prof. Alexander Trechsel, European University Institute
Prof. Evelyne Huber, University of North Carolina at Chapel Hill
Prof. Philip Manow, University of Heidelberg

©2010, Evelyne Hübscher
No part of this thesis may be copied, reproduced or
transmitted without prior permission of the author.



Abstract

This thesis addresses the question whether and how party governments in differing institutional settings are able to cope with the growing tension between rising demands and increasing constraints in social policy-making. The project is related to the wider debate in political science research about the room to maneuver of party governments in a globalized world and the challenges that welfare states are facing in times of scarce financial resources. My study contributes to the welfare state reform literature by proposing and testing a novel argument based on a multi-dimensional framework of social policy-making. In a nutshell, the results of the nested-analysis of social policy-making show that in institutional settings where political constraints are high, left-wing party government have an adverse effect on the very poor and unskilled in society and do not meet the general expectations that left-wing policy-making increases the outcome equality.

My thesis thus extends the standard welfare state research that generally focuses on a single dimension, e.g. the size of expenditure. Unlike previous research that mainly focuses on the size of spending, this project also takes into account compensatory and redistributive aspects of policies as relevant dimensions. A major shortcoming of the many studies on welfare state reforms is their one-dimensional approach. The empirical analysis is based on a nested analysis design, which combines a quantitative macro-analysis with three case studies. The macro-analysis shows that leftist governments increase compensation, particularly in political systems with high institutional constraints, whereas the size of expenditure is not affected by government partisanship. The case country case studies on a series of unemployment insurance and labor market reforms in Germany, Ireland, and Switzerland trace the underlying policy-making processes that led to these macro-level outcomes.

The overall results suggest that party politics in social policy-making still matters, especially in countries with high institutional constraints. However, the mechanisms work differently than generally assumed. The strong linkages between left-wing

parties and labor unions may have a partially adverse effect on outcome equality. A high level of political constraints combined with a leftist party government leads to redistributive effects that are predominantly beneficiary for ‘insiders’ which are represented by labor unions. The preferential outcome for the ‘insiders’ comes at the expenses of ‘outsiders’ (mainly unskilled, long-term unemployed and part-time employees), which are not represented by powerful interest organizations (Rueda 2007, 2005). My project thus integrates the apolitical institutionalist theory of welfare state development (‘New Politics’ approach by Pierson) with theories that assign more importance to political struggles, such as the ‘power resource’ approach by Korpi (1989), Korpi and Palme (1998, 2003).

Acknowledgments

The process of writing and finishing this thesis was characterized by different phases, not all of them equally positive. If I would have the chance to start all over again, most likely, a completely different piece of work would be written. However, a thesis being what it is, a qualifying piece of work, submitted with the view to obtain an academic degree, has to be finished at some point (and this is good!). Having said that, my thesis has benefited from the academic guidance provided by my supervisor Peter Mair. His style of supervision matched my need for freedom in choosing the topic, approaches and methods used to examine the questions my work is based on. However, also an independently working person needs support and advice, which is what I received from Peter Mair when ever I asked for it. His encouraging words and scholarly advice certainly helped me to complete the final manuscript. My work also benefited from comments and suggestions I got at the various seminars and workshops I have participated in during my time at the EUI and during my time as a visiting scholar at the Harvard Kennedy School within the ‘Multidisciplinary Program for Inequality and Social Policy’ and I would like to thank the various people who were involved in organizing these workshops and seminars. Special thanks go to Prof. Jaap Dronkers, who was responsible for the ‘European Network on Inequality’ at the EUI and who supported my application for the visiting fellowship at Harvard. In the final phase of this process, the jury consisting of Professor Evelyne Huber, Professor Philip Manow and Professor Alexander Trechsel provided important and constructive comments and suggestions which helped me to improve the final manuscript and will certainly be even more important to guide future work on the manuscript when I start to turn this dissertation into a proper book.

In addition, and equally important as academic guidance, I (and therefore indirectly my thesis) also benefited from the support I got from many friends and people whom I have known for years and whom I managed to stay in touch with despite the fact that I’ve been traveling a lot. In Florence several people contributed to the fact that I never got sick and tired of the institutional bubble EUI. I am glad to have found good friends such as Kaat Smets, Ann-Christine Hartzen, Joachim Wentzel and David Scherrer. It was tremendously helpful to laugh and vent about similar experiences, to chat about nothing and everything (such as soccer, politics, or the EUI) while eating the best pizza in the world (thanks Strapizzami!!), or simply have a coffee and relax on the beautiful terrace at the Badia.

Away from Florence, it is Kathrin Frey and Nadya Gökbas who have to be mentioned and deserve special thanks. I am glad to have found them at different stages in my life and grateful to call them ‘good old’ friends. Thanks to new means of communication, it was (relatively) easy to stay in touch and exchange our experiences, anger, frustration but also joy and good news. Though my visits to Zurich became less frequent, I always enjoyed (and still enjoy) the fact that there are two great friends to rely on, who not only make time to meet up for coffee, extended lunch breaks or dinners but also have a spare bed to crash on. They are the main reason why Zurich is still a place worth calling ‘home’ and I hope this will not change in the future.

In addition to my friends, I am deeply grateful to my family; my parents Rosmarie and Georges Hübscher and my brother Roger. They provided me with a stimulating environment and raised me with lots of love. The boundaries they set me never curbed my will or interfered with my plans and equipped me with the confidence and strength to leave their house at the age of seventeen to pursue my education as a primary school teacher. Despite the fact that I did not become the primary school teacher my dad would have loved to see, they always supported my decisions and offered their help when I needed it. The reason, why I got interested in the subject of my studies certainly has its origins at my parents place. I will never forget the heated discussions I had (and still have) with my dad from my teenage age at countless occasions and on various topics, often related to social policies in Switzerland. The discussions usually evolved over a delicious meal and now, as a grown up, accompanied by a good bottle of wine.

Special thanks go to Thomas Sattler, whose bright intellect and perfectionism challenged the work on my thesis from the beginning. He was not only the critical reader everyone wishes to have, more importantly, he supported me through the most difficult phases of this project by encouraging me and making sure that I still enjoyed my life next to the thesis. It still makes me happy and thankful to have a person at my side whose support is unconditional and who has made my life even richer than as it already is. I hope this will not change, despite the fact that our common interest in various aspects of political science seems to drive us apart rather than closer together. :)

Evelyne Hübscher

Zurich, August 2010

Contents

1	Introduction	1
1.1	Summary of the Argument	4
1.2	Main Contributions of the Study	5
1.3	Outline and Summary of Empirical Results	6
2	Literature Review	9
2.1	From Welfare State Growth to...	9
2.2	...Mature Welfare States Under Pressure to Reform, Retrench and Modernize	12
3	Theoretical Argument	19
3.1	Background: Challenges to Social Policy-Making in Industrialized Democracies	21
3.1.1	Changing Demands for Social Policies and Social Protection	21
3.1.2	Constraints to the Supply Side of Social Policy-Making	26
3.2	Political Responses to Social and Economic Changes	27
3.2.1	The Role of Social Policy in Political Competition	27
3.2.2	Social Policy in a Two-Dimensional Social Policy Space	29
3.3	Institutional Constraints and Veto Points	32

CONTENTS

3.4	Joint Impact of Partisan Politics and Institutional Constraints	35
3.5	Summary	39
4	The Impact of Party Governments on Two Dimensions of Aggregate Welfare State Output	43
4.1	Macro-Level Implications for Reforms	44
4.2	Method and Data	45
4.2.1	Estimation Technique and Basic Empirical Model	45
4.2.2	Data	48
4.3	Discussion of the Results	56
4.3.1	Basic Empirical Model – Unconditional Effects	56
4.3.2	Changing Patterns of Partisan Effects over Time	62
4.3.3	Interaction Effects (Conditional Effects)	68
4.3.4	Sensitivity Analysis	81
4.4	Conclusion	83
5	Case Selection and Analytical Framework	87
5.1	Combining Large-N and Small-N Studies	87
5.1.1	Assessment of the Statistical Model	90
5.1.2	Institutional Setting, Political Constraints and Variation in Party Government	93
5.2	Selection of Countries	97
5.2.1	Switzerland	99
5.2.2	Germany	101
5.2.3	Ireland	105

5.3	Policy Field and Actors	109
5.4	Period of Analysis and Data Sources	110
5.5	Reform Issues in Labor Market and Unemployment Insurance Reforms	112
6	Switzerland	117
6.1	Introduction	117
6.2	Institutional Framework and Political Actors	117
6.3	Economic Environment From the 1970s until the Mid-1990s	123
6.4	Welfare State Development	128
6.5	Empirical Analysis of Recent Labor Market Reform	131
6.6	Switzerland: 3 rd Partial Reform of the Unemployment Insurance Law	132
6.6.1	Actor Positions on Redistributive Issues	136
6.6.2	Actor Positions on Expenditure Issues	140
6.6.3	Political Constraints	143
6.6.4	Discussion	144
7	Ireland	147
7.1	Introduction	147
7.2	Institutional Framework and Political Actors	148
7.3	Economic Environment From the 1970s until the Mid-1990s	153
7.4	Welfare State Development	157
7.5	Empirical Analysis of Recent Labor Market Reforms	159
7.6	Financial Act and Social Welfare Act 1996	163
7.6.1	Actor Positions on Redistributive Issues	166

CONTENTS

7.6.2	Actor Positions on Expenditure Issues	169
7.6.3	Political Constraints	172
7.6.4	Discussion	173
7.7	Financial Act and Social Welfare Act 2001	175
7.7.1	Actor Positions on Redistributive Issues	177
7.7.2	Actor Positions on Expenditure Issues	179
7.7.3	Political Constraints	181
7.7.4	Discussion	182
8	Germany	185
8.1	Introduction	185
8.2	Institutional Framework and Political Actors	185
8.3	Economic Environment From the 1970s until the Mid-1990s	190
8.4	Welfare State Development	195
8.5	Empirical Analysis of Recent Labor Market Reforms	198
8.6	Beschäftigungsförderungsgesetz (BeschfG1994)	200
8.6.1	Actor Positions on Redistributive Issues	203
8.6.2	Actor Positions on Expenditure Issues	205
8.6.3	Political Constraints	208
8.6.4	Discussion	209
8.7	Gesetz zur Reform der Arbeitsmarktpolitischen Instrumente 2001 (JobAQ-TIV)	211
8.7.1	Actor Positions on Redistributive Issues	214
8.7.2	Actor Positions on Expenditure Issues	217

8.7.3	Political Constraints	220
8.7.4	Discussion	221
9	Conclusion and Discussion	225
9.1	Main Findings and Implications	226
9.2	Concluding Remarks on the Results and Alternative Approaches to Ex- amine the Impact of Party Politics	235
9.3	Future Research	240
	Bibliography	247
	Appendix	281
A-1	Macro-Model	281
A-2	Case Selection	326
A-3	Switzerland	326
A-4	Ireland	327
A-5	Germany	329

CONTENTS

List of Tables

3.1	Labor Market ‘Insiders’ and ‘Outsiders’ in a Globalized Economy	25
3.2	Summary of the Theoretical Argument	39
4.1	Change of the Government Ideology Score over Time (by Country)	53
4.2	Summary Statistics	56
4.3	Regression Estimates for Determinants of Δ in Decommodification as a Measure of Redistributive Generosity	58
4.4	Regression Estimates for Determinants of Δ in Social Spending as % of GDP	61
4.5	Impact of Government Partisanship over Time, Dependent Variable: Δ in Decommodification as a Measure of Redistributive Generosity	65
4.6	Impact of Government Partisanship over Time, Dependent Variable: Δ in Social Spending	67
4.7	The Modifying Effect of Political Constraints; Dependent Variable: Δ in Decommodification as a Measure of Redistributive Generosity	71
4.8	The Modifying Effect of Political Constraints; Dependent Variable: Δ in Social Expenditure	74
4.9	The Modifying Effect of Globalization (Trade Flows); Dependent Variable: Δ in Decommodification as a Measure of Redistributive Generosity	78

LIST OF TABLES

4.10	The Modifying Effect of Globalization (Trade Flows); Dependent Variable: Δ in Social Expenditures	80
5.1	Partial Regression Plots for the Whole Sample (18 Countries)	92
5.2	Variation in Political Constraints (by Country)	95
5.3	Overview of the Institutional Features	96
5.4	Party Governments over Time	98
5.5	Seat Share in the Swiss Parliament, 1969-2002 (Lower Chamber)	102
5.6	German Party Governments (1969-2002)	104
5.7	Irish Party Governments (1969-2002)	107
5.8	Reform Issues	114
6.1	Reform Processes in Switzerland	131
6.2	Reform Issues and Direction of Changes for ‘3 rd Partial Reform of the Unemployment Insurance Law’	145
7.1	Reform Processes in Ireland	161
7.2	Relevant Reform Issues Financial and Social Welfare Bill 1996	166
7.3	Reform Issues and Direction of Changes for ‘Financial and Social Welfare Bill 1996’	174
7.4	Relevant Reform Issues Financial and Social Welfare Bill	177
7.5	Reform Issues and Direction of Changes for ‘Financial and Social Welfare Bill 2001’	183
8.1	Reform Processes in Germany	198
8.2	Relevant Reform Issues Employment Promotion Law 1994	202
8.3	Reform Issues and Direction of Changes ‘ <i>Beschäftigungsförderungsgesetz</i> ’	210

8.4	Relevant Reform Issues JobAQTIV 2001	212
8.5	Reform Issues and Direction of Changes ‘Job-AQTIV 2001’	223
9.1	Distribution of Reform Issues Based on Bonoli’s ‘Ideal Types’ of ALMP	238
A-2	Levin-Lin-Chu Test for Panel Unit Roots	282
A-3	Im-Pesaran-Shin Test for Panel Unit Roots	282
A-4	Fisher-test for Panel Unit Roots	283
A-5	Comparative Manifesto Party Ideology Categories	283
A-6	Cross-Correlation Table: Variables in First Differences	285
A-7	Regression Estimates for Determinants of Δ in Government Expenditure	286
A-8	The Modifying Effect of Political Constraints; Dependent Variable: Δ in Expenditure	287
A-9	The Modifying Effect of Globalization (Trade Flows); Dependent Vari- able: Δ in Expenditure	288
A-10	Impact of Government Partisanship over Time, Dependent Variable: Δ in Expenditure	289
A-11	The Modifying Effect of Political Constraints; Dependent Variable: Δ in Social Spending as % of GDP (1980-1991)	290
A-12	The Modifying Effect of Political Constraints; Dependent Variable: Δ in Social Spending as % of GDP (1992-2002)	291
A-13	The Modifying Effect of Globalization; Dependent Variable: Δ in Social Spending as % of GDP (1980-1991)	292
A-14	The Modifying Effect of Globalization, Dependent Variable: Δ in Social Spending as % of GDP (1992-2002)	293
A-15	Sensitivity Analysis: Regression Estimates for Determinants of Δ in Decommodification as a Measure of Redistributive Generosity	294

LIST OF TABLES

A-16 Sensitivity Analysis: Regression Estimates for Determinants of Δ Social Spending as % of GDP	300
A-17 Sensitivity Analysis: Regression Estimates for Determinants of Δ Social Spending as % of GDP (1980-1991)	306
A-18 Sensitivity Analysis: Regression Estimates for Determinants of Δ Social Spending as % of GDP (1992-2002)	312
A-19 Sensitivity Analysis: Regression Estimates for Determinants of Δ in Public Expenditure as % of GDP	318
A-20 Regression Estimates for Determinants of Decommodification as a Measure of Redistributive Generosity	324
A-21 Regression Estimates for Determinants of Social Spending as % of GDP (level values)	325
A-23 Unemployment Insurance Reforms (Source: <i>Année Politique Suisse</i>)	326
A-24 Names and Abbreviations of Irish Interests Organizations	327
A-25 Reform Processes in Germany (overview including the data of implementation and the official document number assigned by the archive of the ‘ <i>Bundestag</i> ’)	329
A-26 Documents examined for the ‘ <i>Beschäftigungsförderungsgesetz 1994</i> ’	332
A-27 Documents examined for the JobAQTIV legislation 2001	334
A-28 Most Important Participants in the Consultation Process (Beschäftigungsförderungsgesetz 1994): Unions	335
A-29 Most Important Participants in the Consultation Process (Beschäftigungsförderungsgesetz 1994): Employer	335

List of Figures

3.1	Two-Dimensional Conceptualization of Welfare State Reforms	30
3.2	One-Dimensional Conceptualization of Welfare State Reforms	31
4.1	Macro Model of Social Policy-Making	44
4.2	Development of World Trade (1970-2003)	63
4.3	The Intervening Effect of Political Constraints/Globalization	68
4.4	The Modifying Effect of Political Constraints on the Redistributive Generosity of Core Welfare State Programs	72
4.5	The Modifying Effect of Political Constraints on Social Spending	75
4.6	The Modifying Effect of Political Constraints on Social Spending (Separate Periods)	76
4.7	The Modifying Effect of International Trade on Redistributive Generosity	79
4.8	The Modifying Effect of International Trade on Social Expenditure	81
5.1	Partial Regression Plots for Switzerland	100
5.2	Partial Regression Plots for Germany	103
5.3	Partial Regression Plots for Ireland	106
6.1	Annual Economic Growth Rates in Switzerland: 1970-2005	126

LIST OF FIGURES

6.2	Unemployment Rate in Switzerland: 1970-2005 (as % of Total Labor Force)	127
7.1	Annual Economic Growth Rates in Ireland: 1970-2005	154
7.2	Unemployment Rate in Ireland (as % of Total Labor Force): 1970-2005	155
8.1	Annual Economic Growth Rates in Germany: 1970-2005	191
8.2	Unemployment Rate in Germany (as % of Total Labor Force)	193

Chapter 1

Introduction

This thesis addresses the overarching question as to whether or not party politics and party government still matter in industrialized countries with open economies. The role of parties and their impact on public policies in contemporary industrialized democracies has been the subject of major debates in the fields of political science and comparative politics in recent years. Many researchers conclude that economic, social and political developments nowadays impose serious constraints on political competition among political parties. Following their argumentation, party positions have converged and competition among parties for political issues is no longer taking place (see e.g. [Mair, 1995, 2008](#)). By implication, party governments are unable or unwilling to implement distinct public policies, at least in important policy areas.

The changing role of political parties and party governments is fundamental to democratic politics. Democratic rule is only meaningful if political actors have the ability to propose and implement diverging solutions to social, economic and political problems, and if citizens can choose between these potentially divergent policies. If such true political competition did not exist and voters could only choose among similar or identical policy positions, the significance of elections, a core institution in democracies, would diminish considerably. Such a development can be the reason for the decreasing interest and trust in political institutions, parties and governments that we have observed in many industrialized democracies.

One of the most important policy fields in this context is social policy. Social policy affects a vast majority of people. It may reduce or increase inequality within society and it is a highly politicized policy field in all countries. Although approval for social welfare institutions is generally high (see [Brooks and Manza, 2007, 2006](#); [Larsen,](#)

2008), the interests of citizens with respect to social policy and their ideas about how social policy should be designed differ significantly. The ability of parties and party governments to offer and implement distinct social policies is thus an essential component of political competition and democratic politics. Accordingly, the development of differing welfare state regimes and social policy schemes across countries can be viewed as an exemplar of democratic political competition. In the so-called ‘power resource’ approach, social democracy and the labor movement are the driving force behind generous and comprehensive welfare states. In places where these power resources were small, less inclusive and egalitarian societies developed.¹

With increasing globalization and the structural change of domestic economies, some scholars raised the concern that party politics and government partisanship in social policy has become meaningless and insignificant. They argued that the political left in particular has lost the room to promote and implement social policies in line with the parties’ ideologies. This is because social policy is among the political areas that are most affected by changing economic and social circumstances. On the one hand, globalization and the tertialization of industrialized economies led to new demands for social policies. Increasing international competition and the growing service sector have significantly affected the structure of the labor market, which ultimately influences the distributive patterns of the mature welfare state. Party governments are thus confronted with the challenging task of adjusting and reforming core social insurance schemes. On the other hand, increasing capital mobility due to globalization puts pressure on taxes and thus constrains social spending. Whether and how party governments are still able to shape social policy-making and redistributive issues in modern societies is therefore highly important in times of increasing economic interdependence and decreasing fiscal revenues.

Research on comparative welfare states can be broadly divided into two categories: studies explaining welfare state expansion and growth; and research on welfare state retrenchment and persistence. In short, the former studies explained welfare state developments with the gradual industrialization of Western countries and increasing social risks (functionalism) and linked the existence of strong welfare states to dominant social democratic parties (power-resource approach). Later, the scholarly debate shifted towards the surprising persistence of mature welfare states in times of fiscal austerity. Most theories in this research area focused on the role of institutions in order to explain why fairly generous social programs continued to exist eventhough governments face serious budgetary problems.

¹Countless empirical studies showed the significant and positive impact of social democratic government on social spending up to the 1980s.

Existing research, however, yields ambiguous results with contradictory implications for the role of political parties in social policy-making. Although the pressure to reform social welfare institutions has been consistently high during the past decades, social policies continue to differ substantially across countries. Even though it is widely acknowledged that international economic interdependence and domestic structural changes affect industrialized democracies in a similar way, the reform paths and directions that the various countries have chosen are quite diverse. Institutional theories emphasizing path dependency, for instance, are unable to explain why some countries, have actually reduced social spending. They also fail to explain why some governments provide new policies directed at newly emerging social needs, such as child care, or why they fail to do so. This thesis offers an explanation for the pursuit of these distinct reform paths.

A major shortcoming of many studies on welfare state reform, besides the exclusive focus on institutions, is their one-dimensional approach. Most existing research on welfare state reform considers the size of social spending and retrenchment as the key reform dimension. It therefore excludes other important dimensions, particularly the possibility of compensating those who do not benefit from certain reform on the redistribution dimension. My study contributes to the welfare state reform literature by proposing and testing an argument based on a multi-dimensional framework of social policy-making.

The framework that I will present establishes the logic concerning the manner in which party governments jointly with institutional constraints determine the outcome of welfare state reforms. An important aspect of this process is the ability of party governments to build broader reform coalitions or to obtain the support of interest groups, mainly that of labor unions, in order to overcome institutional barriers. The argument is centered on the idea that social policy encompasses two main dimensions, specifically, an expenditure dimension and a redistribution dimension. Unlike in the commonly used one-dimensional framework, party governments that are constrained on one dimension have the possibility to shape social policies according to their preferences on the other dimension. Thus, party governments can gain the support of pivotal societal actors and overcome institutional constraints by partly compensating them for social cuts through greater redistribution.

The empirical analysis is based on a *'nested analysis'*-design. This combines a quantitative macro-level analysis with subsequent country case studies concerning unemployment insurance and labor market reform processes – in Germany, Ireland and Switzerland. Overall, the results suggest that party politics still matter in times

of austerity and welfare state retrenchment. Left-wing governments are better able to gain the political support for a reform project from labor unions, which have a particularly strong interest in social policy. However, results also suggest that the strong linkage between left-wing parties and labor unions may also have adverse effects. In countries with high institutional constraints, strong labor unions representing the well-educated and high-skilled labor force may achieve compensation for retrenchment that comes at the expense of the very poor.

1.1 Summary of the Argument

The theoretical framework of my thesis is grounded in the growing tension between changing demands for and constraints upon the supply of social policies in Western industrialized countries. The reorganization of production due to economic globalization and structural changes has created a more heterogeneous labor force with diverging needs that expresses new demands for social security coverage. Broadly, governments today face a workforce that is divided into well-trained workers with permanent contracts ('insiders') and low-skilled, part-time employees ('outsiders'). The former are generally well organized in labor unions, while the latter often lack representation by interest groups in the political arena.

When governments design social policy reforms, they have to take these diverging needs into account. At the same time they are under pressure to cut social spending. The manner in which a government reforms social policy then depends on the combination of its partisan agenda with the institutional constraints that it faces. Institutional constraints determine whether a party government has to gain support from opposition parties (e.g. in a bicameral system) in order to implement a reform. They also determine the extent to which interest groups can access the policy-making process and block a reform proposal.

In a nutshell, a right-wing government that does not face high institutional constraints will mainly cut social spending, but does not offer any compensation for the losers of the reform through redistribution. The situation is different for a right-wing government in a country where institutional constraints are high. These governments tend to end up with social policy reforms that bring little change both in terms of retrenchment and redistribution because of the pressure that interest groups – mainly labor unions and employers' organizations – exert on the government. Labor unions demand compensation for their constituencies while employers, who are closely con-

nected to the conservative party in power, oppose this. The result is a failed reform or one with little impact on social policies.

The reform outcomes differ when a left-wing government is in power. Left-wing governments in countries with few institutional constraints tend to implement welfare state reforms that reduce spending and at the same time compensate workers through greater redistribution. Both insiders and outsiders benefit in a similar manner from the compensation measures. When a left-wing government faces high institutional constraints, however, it has to accommodate conservative forces and thus has to offer greater retrenchment to reach an agreement. The left-wing government also has to make sure that ‘insiders’, who are represented by labor unions, are not too greatly affected by the reform. At the same time, compensation cannot come from the wealthy because this would provoke the resistance of the right-wing parties. The solution is a disproportionate retrenchment on the side of ‘outsiders’ to satisfy the needs of the ‘insiders’ and simultaneously achieve a sufficient reduction in social expenditures to accommodate the opposition.

This claim also implies that social democratic governments have a different view of how societies should ideally look. This view is captured in the following quotation of Joschka Fischer, former German Foreign Minister, who defined being leftist as follows: *‘Ich kann Ihnen auch genau sagen, wie ich ‘links’ definiere: Die Überzeugung, an einem egalitären Gesellschaftsbild festzuhalten’* (in: ‘Die Zeit’, 14. August 1998, Nr. 34, p. 16).²

1.2 Main Contributions of the Study

The study’s main contribution to the existing literature is twofold. From a theoretical point of view, it systematically links the policy-making capacity of party governments with the institutional constraints of a country. It therefore offers a general framework for the analysis of social policy-making in times of austerity. Moreover, the two-dimensional approach yields different results from those yielded by the one-dimensional approach that exclusively focuses on social spending. It implies that party politics continues to matter, but in a way that the many macro-studies that solely examine social spending size are unable to capture.

²Quote in English: *‘I can tell you exactly how I define being ‘leftist’: The conviction to hold on to an egalitarian view of the society’.*

Empirically, the study provides a comprehensive picture of social policy reforms by combining an encompassing quantitative analysis with multiple case studies. It covers core welfare state policies, specifically pension, sick-pay, and unemployment insurance (in the quantitative macro part), and unemployment insurance/active labor market policies (in the country case study part). The choice of these policy-fields is justified because the aforementioned social security schemes are seriously affected by internationalization and structural change.

While the empirical analysis of this dissertation focuses on traditional welfare state policies, I believe that the theoretical framework based on the multi-dimensionality of social policies, and party governments' interaction with the institutional setting, has broader implications. The systematic interconnection of government partisanship and institutional constraints in a multi-dimensional policy space has not been examined, especially in studies that combine quantitative and qualitative approaches and investigate policy-making on multiple levels of analysis. To shift the focus of comparative welfare state research away from aggregated spending data (for quantitative research) and various forms of retrenchment (in case studies) allows us to evaluate party competition in a new light.

1.3 Outline and Summary of Empirical Results

The remainder of this study can be divided into three parts. The first part provides the theoretical basis of my dissertation. **Chapter 2** presents a review of the literature concerning the recent developments in the welfare state. It focuses on the competing explanatory frameworks that aim at resolving the puzzle of welfare state retrenchment coupled with the persistence of party politics. It briefly illustrates the results of the most relevant studies of the past years. I will also discuss how the literature on welfare state reforms is related to the earlier research on welfare state expansion. The theoretical part in **Chapter 3** first describes the tension that governments face because globalization leads to new demands and at the same time constrains the supply of social policies. The second part presents the logic of partisan social policy-making in which actors can choose both the size of spending and the amount of redistribution. The theoretical argument also presents the mechanism by which institutions interfere with party politics in the two-dimensional social policy space.

The second part consists of **Chapter 4** and **Chapter 5**, which present a quantitative empirical analysis of the macro-level relationship between party govern-

ment and the two dimensions of social policy-making. The empirical analyses explore the impact of party government on welfare state policy using pooled cross-section time-series analysis for a period of 30 years. The findings of the statistical analyses suggest that party governments still matter for redistributive policies, with leftist governments pursuing redistributive policies more vigorously than their right-wing counterparts. International constraints as well as domestic structural factors do not have a statistically significant impact on redistributive policy. The contrary is true for the size of public expenditure though. This implies that government partisanship does not influence the size of the public household. Structural factors and the openness of the economy are constraining party governments room to maneuver and this is making it impossible to implement their preferred policy choices.

The empirical part of the thesis is based on a ‘*nested analysis*’ design that combines quantitative work with qualitative evidence. **Chapter 5** prepares the ground for the case studies, which assess the causal mechanisms described in the theoretical argument. This chapter uses the research strategy proposed by [Lieberman \(2002\)](#) to justify the selection of countries studied and it outlines the manner in which I examine these cases. The three countries – Ireland, Germany and Switzerland – are chosen because governments in these countries face differing institutional constraints. The reforms that I will analyze were implemented by different party governments. Chapter 5 also lays out how each reform is categorized into different reform issues, which are assigned to the dimension of compensation or of expenditure.

The third part includes **Chapter 6 to 8**, which consist of the three country case studies with regard to recent labor market and unemployment insurance benefit reforms in Ireland, Germany and Switzerland. The analysis of the underlying reform processes shows how different party governments draft reform proposals to find a majority and overcome potential veto points, depending on the institutional constraints they face. The findings show that institutional constraints jointly with government partisanship affect the design and content of reform proposals. As an example, the conservative German government in 1994, facing a social democratic majority in the second chamber (the ‘Bundesrat’), ended up with a de facto small-scale reform of the labor market and limited retrenchment. This occurred because it did not want to offer more compensation for further retrenchment (**Chapter 6**). In contrast, the subsequent left-wing government imposed greater retrenchment measures, but, at the same time, accommodated labor unions more than originally planned. The main losers were low-skilled labor and poor who are less able to organize efficiently and are only marginally represented by the large and powerful unions.

In Ireland (**Chapter 7**), the situation for the left-wing ‘rainbow’ coalition government in 1996 was different. The lack of powerful veto points enabled the government to implement labor market policy reforms that were mainly directed towards ‘outsiders’. The emphasis on the re-integration of long-term unemployed and the improvement of the social insurance coverage for part-time employees are two examples that show how party governments are able to direct and link policy changes with their ideological preferences. The study of Switzerland (**Chapter 8**) shows that with exceptionally high institutional constraints, especially direct democratic instruments, compensation occurs independently of party politics. In this system, a reform must always be conceptualized such that it finds a majority, which automatically requires some compensation for the labor force. The thesis ends with **Chapter 9** which includes a summary of the combined evidence, the presentation of the potential implications of the study, and the conclusions.

Chapter 2

Literature Review

The economic and social environment that party governments and policy-makers face has changed considerably over the last decades. New challenges such as the continuing internationalization of the economy and domestic structural and demographic changes call for policy adjustments and reforms (see e.g. [Scharpf, 2000b](#); [Schwartz, 2001](#)). The same holds true for scholarly work on welfare states. In general, theoretical approaches aiming at explanation of welfare state changes fall into two main categories. First, there are approaches that try to explain welfare state growth, and second, there are theories that address welfare state retrenchment. Within these two broad categories, we can distinguish between approaches that emphasize the role of partisanship or that focus on the impact of particular institutions. The following pages present a short overview of the most important developments within theories of comparative welfare state research, with a major focus on theories that emphasize the importance of politics.

2.1 From Welfare State Growth to...

The early studies within comparative welfare state research focused on explaining the development of differing welfare state systems and the growth of welfare states as such. An important strand in this area examines the impact of party politics and class struggle, emphasizing the importance of strong social democratic parties and labor movements to the development of an encompassing welfare state. The *'power resource approach'* ([Korpi 1978, 1983](#); [Pampel and Williamson 1989](#); [Korpi 1989](#); [Esping-Andersen 1985](#); [Stephens 1980](#); [Huber and Stephens 2001](#)) traces the development of differing welfare states back to the struggles over the distribution of resources in in-

dustrializing/capitalist countries and the diverging interests between the bourgeoisie and the working class. According to the power resource approach theory, the gradual development of welfare states occurred because of a growing working class on the one hand and the implementation of universal suffrage on the other hand. One of the main hypotheses rooted in the power resource approach is that wage earners (the working class) have a greater interest in political interventions that modify market processes than other groups in society, such as capital holders (Korpi, 1989, p. 313). In industrialized democracies, these conflicting interests (state interventions vs. no state intervention) are channeled to a significant extent through electoral outcomes and partisan control over the government. Inequalities generated by class structure and reflected in partisan politics are therefore considered to be the driving forces behind welfare state development (see Korpi, 1989, p. 312). Through partisan control over the government, these resources will be translated into the establishment of particular (social) policy systems.

Differences in the class structure lead to different designs of welfare states. As an example, the generous welfare states in Nordic countries emerged because the social democrats together with labor unions were influential, and social democratic governments have been in power during important periods of welfare state formation. The ‘*power resource approach*’ with its focus on the size and strength of social democratic parties and unionization within a given country is also the basis of Esping-Andersen’s (1990) typology of welfare state regimes, which distinguishes between Scandinavian, liberal and conservative welfare states. The limited focus on social democratic parties and their impact on welfare states has provoked critique, however.¹ Van Kersbergen (1995) extended the approach by exploring the role of the Christian democrats in the advancement and design of welfare states. His research also triggered a growing interest in the role of religion in the development and design of welfare states and social policies (see van Kersbergen and Manow, 2009). It also led to a stronger focus on the characteristics and particularities of continental (conservative) welfare states. In their influential contribution to the literature concerning the development and crisis of the welfare state, Huber and Stephens (2001) also emphasize the importance of both social democrats and Christian democrats to the expansion of different welfare state regimes.² The argument that ‘partisanship matters’ in welfare state growth is

¹Esping-Andersen’s typology distinguishes between social democratic (or Scandinavian) welfare states, liberal welfare states and conservative welfare states. According to his framework, the impact of social democracy – together with the labor union movement – was strongest in the social democratic welfare states and weakest in liberal welfare states. Ideal types are Sweden and the United States, while Germany represents the conservative regime type.

²Research inspired by Esping-Andersen’s typology of welfare state regimes and the ‘*power resource theory*’ often focused on two antipodes emerging from the theoretical framework – the Scandinavian

supported by numerous quantitative empirical studies. Social democratic government, but also Christian democratic administrations, have been associated with an increase in public and social expenditure between the late 1960s and the 1990s (e.g. [Castles and McKinlay, 1979](#); [Hicks and Swank, 1992](#); [Hicks and Misra, 1993](#); [Huber, Ragin and Stephens, 1993](#); [Kittel and Obinger, 2003](#)).

In addition to the *'power resource approach'*, other strands emphasized different mechanisms of welfare state development. Early work was based on the *'logic of industrialism'* ([Wilensky, 1975](#)). This suggests that the development of welfare states was the logical consequence of the industrialization process that created new needs for social assistance among specific groups in society, and especially among the labor force. In a manner similar to the later *'globalization thesis'*, the *'logic of industrialism'* also implies that social policies will converge in the long run. The third noticeable approach that shaped the greater debate concerning welfare state development is the *'state-centric approach'*. This focuses on the combined effect of the role of (bureaucratic) institutions, state officials, and the nature of existing welfare state programs on the further development of that welfare state (e.g. [DeViney, 1983](#); [Skocpol and Ikenberry, 1983](#); [Skocpol and Amenta, 1986](#); [Flora and Alber, 1981](#)). Unlike in other theories, where the state is seen as the agent of political actors, this approach conceives of the state as an autonomous actor, independent of general social-structural characteristics or the distribution of economic resources ([DeViney, 1983](#), p. 152). This literature largely ignores political struggle and social forces, and the importance of political actors is marginalized.³ The most important actor in this literature is the bureaucracy, which administers the social policy schemes and has vested interests in their expansion. The role of the state bureaucracy is crucial to the design of (social) policies because it is in control of information and has the ability to mobilize and reward supporters while limiting the activities and resources of opposition groups ([DeViney, 1983](#), p. 154).

or social democratic welfare states and the liberal welfare states. The growing interest in the specific characteristics of continental welfare states and the varieties within this category is rather recent. Important contributions to a refined typology of welfare states are [Ferrera \(1996\)](#) who wrote extensively on the southern European welfare states; and [Bonoli \(1997; 2000; 2007a\)](#) who regrouped the different types of welfare states according to different dimensions and significantly contributed to the study of the development of the Swiss welfare state. Recently, the Bismarckian welfare states and in particular the German welfare state attracted a lot of attention (see e.g. [Natali and Rhodes, 2004](#); [Manow and Seils, 2000a,b](#); [Seeleib-Kaiser, van Dyk and Roggenkamp, 2008](#); [Seeleib-Kaiser, 2003](#); [Schulze and Jochem, 2007](#)).

³The work by Skocpol is highly influenced by the American 'exceptionalism' and the fact that development of social policies in the United States was delayed. Therefore, the state-centrist approach that she adopts might not be applicable to other systems.

By and large, the determinants of welfare state development are well established and grounded in sound theories. With the ongoing internationalization and deregulation of domestic economies, the focus in comparative welfare state research has moved from explanation of the establishment of varying types of welfare state regimes, towards attempts to understand welfare state retrenchment.

2.2 ...Mature Welfare States Under Pressure to Reform, Retrench and Modernize

During the past decades, the mature welfare states in western democracies came under pressure, and the focus in social policy research shifted from the study of development towards analysis of retrenchment and reform of costly welfare state policies.⁴ The reasons for the impetus to reform are the increasing economic interdependence of countries and domestic factors, such as aging societies and the structural change of domestic economies (de-industrialization), which have been widely discussed in the political economy literature (see e.g. [Frieden, 1991](#); [Berger, 2000](#); [Clark et al., 1998](#); [Dehejia and Genschel, 1999](#); [Iversen, 1998, 2001](#); [Schwartz, 2001](#); [Genschel, 2004](#)). But even though exogenous and endogenous pressures on welfare states were persistently high, welfare state institutions seemed to be extraordinarily resilient, and extensive reforms and retrenchment have proved difficult to achieve. This observation was mainly based on the fact that the size of the public sector in Western democracies did not shrink noticeably in most countries.

Different explanations were developed to account for the stability and persistence of welfare states in times of fiscal austerity. First, the ‘compensation approach’ suggests that globalization is positively related to social expenditures in industrialized democracies, but it does not explicitly examine how particular welfare state institutions are affected. The ‘*compensation thesis*’ suggests that globalization exposes employees to greater risk of losing their jobs and income due to increasing economic interdependence and competition, which requires greater insurance against these risks (see e.g. [Garrett and Lange, 1991](#); [Garrett, 1998b](#); [Garrett and Lange, 1995](#)). This theoretical claim rests on a two-sided causal mechanism. On the one hand, trade and capital market integration expose the domestic economy to greater risks originating in

⁴Prior to the current wave of research and theorizing on ‘welfare states in crisis’, there was a first wave of ‘crisis literature’, which also claimed that welfare states in industrialized countries are facing difficulties. The expected problems of welfare states during the 1990s were also related to the economy and linked to the expansionary tendencies of democratic politics, and the negative impact of modern economies on policy-making (for an overview see [Moran, 1988](#); [Castles, 2004](#)).

world market turbulences. This leads to higher risks of unemployment and a potential loss of income for workers. On the other hand, greater labor-market risks generate political demands that governments expand spending in order to cushion against and compensate for such risks.⁵ Governments have to compensate societal groups for this risk and hence are unable to cut social policy schemes, e.g. unemployment insurance. For instance, when the exposure to economic risk increases the probability of unemployment, then governments have to provide social security to shield citizens against that risk.

Garrett and Mitchell (2001, p. 152), for example, suggest that '*globalization increases the demands that governments cushion market-generated inequality and insecurity by welfare state expansion [...]. Increasing welfare state effort [...] helps maintain public support for openness*'. Adserà and Boix (2002) even argue that expansion of the public sector is not a mere derivation of the trade openness, but a truly political pre-condition that is needed to secure the liberalization of the economy (Adserà and Boix, 2002, p. 230) and that more openness does not automatically constrain the spending capacity of states (ibid., 255). This '*compensation thesis*' further suggests that left-wing parties would benefit from globalization and the rising need for social policies, mainly because social democratic parties generally support the provision of social policies.

An opposing view to the '*compensation thesis*' is the so-called '*globalization approach*' that predicted a race to the bottom and a strong downward pressure on taxes and therefore converging and significantly lower social security standards across industrialized countries (e.g. Mishra 1998; Tanzi 1997 and for a comprehensive discussion of the globalization debate Swank 2002, Ch. 2). Even though the '*globalization thesis*' and the related 'race to the bottom' argument attracted a lot of attention among critics of globalization, empirical research did not confirm its implications (e.g. Starke, Obinger and Castles, 2008; Swank, 2002; Swank and Steinmo, 2002).⁶ The '*compensation thesis*' and its counterpart, the '*globalization thesis*', have their origins in the literature on party politics and welfare states in the sense that both formulate

⁵The argument that increasing trade openness has to be backed up by social policies and the further development of the welfare state was first developed by Cameron (1978), Ruggie (1982), and Katzenstein (1985). Newer literature by Garrett (1998*b,a*) and Rodrik (1998) adopted and extended the argument. Whereas Rodrik mainly refers to the exposure of domestic economies to world trade, Garrett also includes the growing integration of the financial and capital market in the argument.

⁶The theoretical case against policy convergence was made by the advocates of the '*varieties of capitalism*' literature Hall and Soskice (see 2001); Hall and Gingerich (see 2009). The '*varieties of capitalism*' approach argues that the multiple and highly interlinked economic institutions (defined as sets of regularized practices) present in a country hinder policies and processes of convergence. Besides making an argument against convergence, the '*varieties of capitalism*' literature also emphasized the importance of employers to the development and restructuring of welfare states.

clear hypotheses on the importance and impact of partisan politics but come to different conclusions about the role of parties for welfare state reforms. This distinguishes them significantly from the *'New Politics' approach*, which largely ignores the role of political parties.

The *'New Politics'* approach (see Pierson, 1994, 1996, 1998, 2001) assigns little importance to the role of political parties and class struggle, and mainly draws on the significant impact of welfare state institutions to explain welfare state change or rather, the resiliency of mature welfare states. The primary focus of this work is the question as to why welfare state retrenchment is so difficult and expansive social security systems are so persistent. Based on the empirical observation that welfare states endure reform pressure despite serious fiscal constraints, researchers concluded that the logic of retrenchment is different from the logic of welfare state expansion and that policy-making processes work differently in times of fiscal austerity.⁷ Despite the suggestion of its name and in a manner similar to the state-centrist approach, the *'New Politics'* literature omits an explicit discussion of the role and importance of partisan politics. Its proponents argue that retrenchment is difficult or impossible for the following reasons (see Pierson, 1994, p. 18f):

1. The retrenchment of existing welfare state programs is always unpopular, and politicians generally aim at blame avoidance in order to prevent electoral losses in future elections;⁸
2. Welfare state programs are very popular among the electorate and have created their own constituencies, which are difficult for any party government to overcome;
3. The well-established programs are subject to path-dependency and policy legacy, which makes it difficult to alter the inherent logic of a social policy.

The little emphasis that the *'New Politics'* approach puts on (party) politics on social policy-making was partly supported by findings of quantitative empirical studies, which produced contradictory results regarding the impact of partisanship

⁷The omission of politics in this strand of literature is also related to the commonly accepted assumption that welfare state reforms are politically risky undertakings (see Starke, 2006; Huber and Stephens, 2001) and that parties will be punished by their electorate if openly promoting and implementing retrenching reforms.

⁸The 'blame avoidance' argument was already brought forward by Weaver (1986) in a more general manner. Vis and van Kersbergen (2007) refined the argument of 'blame avoidance' in the context of social policy-making and also introduced various types of blame avoidance strategies, previously described by Weaver.

on public expenditures when more recent periods were included in the analysis (e.g. Castles, 1998; Kittel and Obinger, 2003; Kwon and Pontusson, 2005).⁹

The new perspective brought to bear by the ‘*New Politics*’ school, which concentrated on the importance of policy legacies and the use of blame-avoidance strategies by political actors, also provoked criticism. The ‘depoliticization’ of social policy-making was challenged by scholars who offered alternative theoretical explanations for the observed empirical changes. One line of research suggests that welfare states persist because they enjoy high support in the public (see work by Brooks and Manza, 2007; Larsen, 2008; Matthews and Erickson, 2008; Rehm, 2005; Boeri et al., 2001; Svallfors, 1997).¹⁰ Other critiques of the ‘*New Politics*’-literature refer to the fact that, even though welfare states have not been dismantled during the past decade, significant policy changes and (in some countries major) cuts occurred. Party politics, and the ideology of the incumbent government played an important role in these reform processes and significantly shaped their outcome. Moreover, changes to the labor market and demography of countries have created demands for new social policies even though their establishment is costly and creates new policy legacies.

With regard to cuts in social policies, it has become evident that mature (especially continental) welfare states are not frozen landscapes and that existing social policies are sometimes subject to major reforms. The claim by adherents of the ‘*New Politics*’-approach that retrenchment is hard or impossible to achieve has to be refuted. Mostly, in-depth case studies on core welfare state policies, such as pension, healthcare and unemployment, have shown that a number of European countries implemented significant cuts. The work by Häusermann (2007); Green-Pedersen and Haverland (2002); Seeleib-Kaiser, van Dyk and Roggenkamp (2008) shows that continental welfare states such as France, the Netherlands, Switzerland and Germany, cut social rights in several policy fields, especially with regard to pensions (Germany, Switzerland, France), but also in the area of unemployment insurance schemes (Netherlands). Cutbacks also occurred in social democratic welfare states such as Sweden, where social democratic

⁹These results, however, are partly grounded in the particular conceptualization of welfare state change and retrenchment in these studies, especially in the strong focus on (public) expenditure as the main dependent variable used in quantitative welfare state research. The discussion concerning the manner in which theoretical concepts of retrenchment and welfare state output are translated into empirically measurable variables has attracted considerable attention during the past years (see e.g. Green-Pedersen, 2004; Clasen and Siegel, 2007; Shalev, 2007). The main criticism of this literature is that aggregated spending data only partially capture welfare state output.

¹⁰By trying to disentangle the ties between welfare state policy-making (in his case he tested the implications of the ‘compensation thesis’) and globalization, Burgoon (2001, p. 546) did not find systematic correlation between globalization or economic openness and compensation. Burgoon concluded that one of the reasons might be that the result ‘partly reflects an oversimplification of the politics involved’.

governments, with the help of labor unions, implemented retrenching measures (see [Anderson, 2001](#)). In a recent book, [Starke \(2008\)](#) discusses the development of welfare state policies in New Zealand (a ‘liberal welfare state’) as an extreme case with regard to retrenching measures. These examples show that it is not only one particular family of welfare states that is under pressure to reform its social policies. Huber and Stephens (2001) also suggest that most recent welfare state policy-making has mainly focused on cost containment and/or retrenchment. They demonstrate this by using both quantitative and qualitative evidence, but continue to rely on the commonly used indicators for retrenchment and cuts in expenditure.¹¹ These studies all present strong empirical evidence against the claim that immovable objects, vested interests and policy liabilities will prevent party governments from implementing painful but necessary social policy reforms.

Besides the reforms of core social welfare policies, governments in mature welfare states also implemented new social policies despite budgetary constraints. Whereas retrenchment measures were implemented in some policy areas, in other areas other so-called ‘new social policies’ were implemented. The newly established policies should protect recipients from new social risks generated by the transformation of the economy and mainly relate to the increased entry of women into the labor force; the growing service sector; and to changing family structures (see [Bonoli, 2005](#); [Häusermann, 2006](#), for an exhaustive definition and reflection). Whereas traditional (or old social policies) were directed towards the male-breadwinner, new social policies increasingly benefit women and children.¹² More generally, the new social policies are directed towards women and the low-skilled workforce and aim at preventing these vulnerable groups from exclusion from the labor market. They also target the growing number of elderly people and, among other matters, provide different models of (health) care. Not all types of welfare states have been equally in need of new social policies (see [Taylor-Gooby, 2004a](#), p. 4f). The conservative (continental) welfare states were most affected because women entered the labor force comparatively late

¹¹A recurrent topic in the quantitative study of the welfare state is the issue of measurement of the key concepts. While the most quantitative studies still rely on aggregate public (or social) expenditure data to show whether cuts in social welfare have occurred or not, a few scholars rely on more elaborated measures of welfare state cuts. Hicks and Zorn (2005), for example, specify retrenchment events, others, such as Clayton and Pontusson (1998) use data on transfer (pre-and post tax indicators) or disaggregated spending data ([Breunig and Busemeyer, 2008](#)) to conceptualize cuts and retrenchment. Korpi’s and Palme’s (2003) contribution indicates similar findings. By using a more accurate conceptualization of welfare state change than spending, they showed the ‘*power resource*’ theory still holds.

¹²The only exception to the rule that ‘old social policies’ addressed men only, was the widows’ pension. In case of death, the social rights of the men were transferred to their wives.

and the infrastructure for comprehensive child care and support for working mothers was underdeveloped.

Recent research emphasizing the relevance of party politics moved away from the black and white picture of the ‘*globalization*’ and ‘*compensation*’ thesis and takes a more nuanced approach to the impact of partisanship. Scholars increasingly link different theoretical approaches in order to provide an explanatory framework for the most recent welfare state developments and to evaluate the capacities of party governments to influence social policies. With regard to the theoretical framework of this project, the literature that combines party politics with the role of institutional constraints is especially relevant. Green-Pedersen (2001), for instance, suggests that party competition and consensus among pivotal parties affect the possibilities that party governments have in order to reform welfare state policies. In particular, the position of a party within the party system is crucial to the formation of a consensus with regard to reform plans. In a similar vein, Ross (2000a; 2000b) argues that party governments can create reform opportunities by framing reforms so as to avoid blame or by framing reform issues in such a way that it convinces opponents and the public of its necessity. This research mostly focused on continental welfare states.

While some authors acknowledge that the institutional design of a country interferes with party and welfare state politics, they rarely combine the literature relating to party politics with theories of institutional constraints and the systematic reform of social policies (exceptions are Bonoli, 2001 and Kitschelt, 2001, who partly incorporate mechanisms of institutional constraints or party competition). It is likely, however, that governments with different partisan ideologies vary in their abilities to build reform coalitions that include pivotal (extra-) parliamentarian actors across countries with differing institutional constraints. For instance, left-wing governments more easily gain the support of labor movements because a left-wing government should be closer to the positions of a trade union than a right-wing government. While Green-Pedersen’s (2001) argument goes in this direction, he only analyzes a small number of countries and does not examine the role of parties in building coalitions and overcoming constraints on a broader scale and across different institutional settings. Moreover, different party governments may try to gain political support from distinct societal groups to find a majority that will support a reform proposal. The *combination* of partisan preferences of governments with the institutional design of a country should thus have an important effect on whether or not a reform occurs and on the appearance of the final outcome.¹³

¹³Even though institutional variables are often included in quantitative research, the effect of partisanship and institutional design are mostly analyzed separately, even in cases where the work explicitly

The above literature review only touched upon the most prominent strands and discussions within the large body of literature aiming at explaining the emergence, resilience and retrenchment of mature welfare states in post-industrial democracies. Although the factors leading to the establishment of more or less generous welfare states are relatively uncontested, the discussion of factors that significantly contribute to the reform of welfare states, cutbacks and the foundation of new social policy programs, is still ongoing. Whereas research during the late 1990s and early 2000 was heavily influenced by Pierson's 'New Politics' approach, more recent scholarship has begun to re-integrate party politics into the retrenchment debate and has also widened the scope of interest to other dimensions of social policy-making besides those that shape spending. This thesis aims at tying together these strands of literature by combining partisan theories with institutional approaches and examining the joint impact of partisan and institutional effects on welfare state reforms in industrialized countries. The next chapter establishes the theoretical framework that will guide the subsequent empirical analyses.

focuses on institutional effects on policy-making (see e.g. [Crepaz and Moser, 2004](#); [Crepaz, 2002, 1996](#); [Castles, 2001](#); [Huber and Stephens, 2001](#)).

Chapter 3

Theoretical Argument

A significant part of the literature that has been published during the last years suggests that party governments have lost their ability to design policies according to their ideological preferences, especially in the area of social policy. This implies that competition over policies among parties has been declining, and that the policy positions and the formerly distinct ideologies of governing parties have converged. Countries that are facing comparable economic and structural challenges, should thus react with similar policy changes and innovations to meet these difficulties. Empirically however, policies across different welfare states have not converged as predicted by many researchers. Although the pressure to reform social welfare institutions has been consistently high during the past decades, social policies continue to differ substantially across countries. Even though it is widely acknowledged that international economic interdependence and domestic structural changes affect industrialized democracies in a similar way, the reform paths and directions that the various countries have chosen are quite diverse.¹

This chapter presents one possible explanation for these distinct reform paths. It develops the theoretical framework of this thesis that establishes the logic concerning the manner in which party governments, jointly with institutional constraints, determine the outcome of welfare state reforms. It also discusses the effects of these reforms upon various groups in society, especially upon labor market ‘insiders’ and ‘outsiders’. The theoretical argument will lay out the causal chain that leads to social policy outcomes in times of fiscal austerity and there will be a focus on the interplay between structural changes, party politics and institutional constraints. The theoretical argument covers three levels of analysis: constituents’ interests; the policy positions of

¹For a more detailed discussion and critique of the relevant studies, please consult the previous chapter.

parties and how they differ across political systems; and the resulting outcomes on the macro-level. It is centered on the idea that social policy encompasses two main dimensions, specifically expenditure and redistribution dimensions. In contrast with the approach of the commonly used one-dimensional framework, this theoretical framework will demonstrate that party governments that are constrained on one dimension still have the ability to shape social policies according to their preferences on the other dimension.

In short, the argument suggests that parties have lost their ability to shape social policies on the expenditure dimension – this is mainly true for parties that wish to expand spending on welfare policies. However, parties are able to distinguish themselves from competing parties on other dimensions of (welfare state) policy-making, such as the redistributive dimension. Based on their partisan preferences, social democratic governments aim at increasing the redistributive effect of welfare state policies while trying to cut expenditures. The mediating effect of high political and institutional constraints that interfere with party governments’ preferences lead to policy outputs that disproportionately favor labor market ‘insiders’.

My theoretical argument therefore extends the existing literature by:

- *examining social policy reforms in a multi-dimensional framework, which yields different implications than the commonly used one-dimensional approach;*
- *exploring how partisan politics vary across institutional settings because organized interests influence social policy in different ways;*
- *generating implications concerning when and how some societal groups (labor market ‘insiders’) are able to influence social policy in their favor at the expense of other groups in the labor force (labor market ‘outsiders’);*
- *contributing to the literature on political mechanisms influencing labor market dualization.*

The argument will be developed by degrees. First, I discuss the changing demands and new constraints to the supply of social policy-making. This section also presents a micro-foundation for the theory as it lays out the manner in which individuals’ interest – with respect to social policy – have changed during the last decades. Second, I present a meso-level model of social policy-making that represents the policy formulation process for welfare state reforms. This part presents a two-dimensional conceptualization of social policy-making and highlights its importance

for political competition between parties. The joint impact of political institutions and party politics in this two-dimensional policy space is outlined at the end of the second section. In the third part, I derive the macro-level implications from the theoretical argument.

3.1 Background: Challenges to Social Policy-Making in Industrialized Democracies

3.1.1 Changing Demands for Social Policies and Social Protection

One reason why welfare states in industrialized countries have come under reform pressure is the changing demand for social policies resulting from increasing trade and the associated worldwide reorganization of production. During the period of embedded liberalism, international trade was limited through trade barriers such as high taxes and tariffs.² The economies of Western countries were characterized by a broadly diversified and (often) labor-intensive industrial sector, a substantive agrarian sector and a rather marginal service sector, which mainly provided services for the domestic market. The domestic labor faced homogenous risks in the sense that the danger of losing employment was mainly related to domestic macro-economic trends, which could be influenced by domestic politics. Social policies mostly covered the core workforce against temporary loss of employment, old age poverty and sickness.³ The specific interests of employees, who were similar across groups within the workforce, mostly related to unemployment insurance for temporary job loss, safety at work, old age benefits and sector specific issues. They have traditionally been represented by trade unions that aimed at influencing social policy-making processes at the national level.

Increasing international trade in combination with the liberalization of capital flows led to a worldwide reorganization of production. Labor-intensive industries, which employed a large number of low-skilled workers, took the opportunity to relocate

²Polanyi (1954, p. 132) characterized the principle of embedded liberalism as a double movement with two components: *‘One component was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely laissez-faire and free trade as its methods. The other component was the principle of social protection, aiming at the conservation of man and nature as well as at productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market, and using instruments of intervention as its methods.’*

³In continental and conservative welfare states, such as Germany and Switzerland, the core workforce consisted of the male population. In other countries, e.g. those of Scandinavia, welfare states attended to the needs of women who participated in the labor force more often than the traditionally conservative countries did.

production to countries where labor is cheap and taxes are low. The movement of industrial production sites led to a shrinking industrial sector and the demand for labor, especially for unskilled labor and for workers with a low degree of education, decreased in Western industrialized democracies. Substantial productive parts of the industrial sector in post-industrialized countries nowadays rely on highly specialized and skilled workers. Even though the service sector has been growing – albeit at a slow pace – it could not absorb all workers formerly employed in the industrial sector. The decreasing demand for labor thus raised unemployment and increased job-insecurity among those still employed. This development also augmented the pressure on collective agreements and wages.⁴

Global competition and international trade led to employment relations that are less stable and less predictable than before. For instance, the growing service industry increasingly offers temporary and part-time jobs for low qualified personnel (such as employees in shops and restaurants, call-centers and automated production). Similarly, the relocation of technologically simple, labor-intensive production to developing and emerging market economies forces low-skilled labor in Western countries to find new employment opportunities on a regular basis. In addition, growing competition from developing and emerging market economies also put the relatively high wages paid in industrialized countries under a downward pressure. These patterns generally apply to skilled and unskilled employees across all economic sectors and in all industrialized Western countries.

Most importantly, the changing work relations alter the risk of employees to lose their jobs and increase the threat that an individual may experience extended periods unemployment. However, greater international competition does not affect individuals equally, and not all occupational groups are affected negatively by these developments. Even though highly educated people also tend to change their jobs more often and experience greater competition, the labor market for most of these people offers more flexibility, and they are able to go where their skills are needed most. Also, if a skilled worker loses her job, she can more easily adjust to the qualification requirements of a different job by means of additional education and training. Generally, highly skilled and well-educated people do not face significantly higher risk exposure in open economies because they often have the possibility to work in different sectors of the economy. Moreover, in many industrialized countries, there is a shortage

⁴In addition to the competition from low-wage countries, the decline in manufacturing was also caused by a saturation of the domestic markets with consumer goods (see [Iversen and Wren, 1998](#)).

of highly-trained and specialized labor.⁵ Less skilled workers are left with significantly less options because they can only meet low employment requirements. Finally, industrialized countries often display an oversupply of unskilled labor, implying that individuals in these groups experience greater difficulties in the avoidance of job loss and long-term unemployment.

Overall, the reorganization of production and the following domestic changes resulted in an increased diversification of the labor force. Whereas the interests of the workforce were fairly homogeneous in closed industrialized economies, international trade and the integration of domestic firms in the international market affected the degree to which particular workers were exposed to various risks, especially that of unemployment. These differences in risk exposure have led to diverging social policy preferences among workers, which depend on an individual's work relationship (e.g. part-time, full-time, unlimited contract or free-lancer) and economic outlook (the degree of vulnerability of the sector to the increasing internationalization or the general business cycle). On the basis of these insights and the developments of the economy, the assumption that the working force is equally affected by structural changes and the increasing international interdependence of domestic economies has been challenged and revised which led to the development of theories on labor market dualization (see [Lindbeck and Snower, 1988, 2001](#); [Blanchard, 2006](#)). Consequently, the work force was divided into two major groups, the so-called labor market 'insiders' and labor market 'outsiders'.⁶

At first, these approaches mainly focused on the micro-level and firm-level and assessed wage-setting mechanisms and the costs of labor turnover for firms. [Rueda \(2005; 2007\)](#) integrated politics into the literature on labor market dualization. Based on the 'insider'-'outsider'-divide, he assumes that the work force is not a homogeneous *political actor* with similar preferences regarding social policies and labor standards anymore, but rather that the political interests of labor market 'insiders' regarding the provision of social policies significantly diverge from the preferences of labor market 'outsiders'.⁷ This 'insider' – 'outsider' categorization distinguishes between people

⁵This is particularly apparent in countries with mass unemployment, like Germany. Even during times when employment peaked in the late 1990s and early 2000, employers were unable to fill a substantial number of positions that required very specialized skills and a high level of training.

⁶[Lindbeck and Snower \(1988; 2001\)](#) defined 'insiders' as '*experienced incumbent employees whose positions are protected by various job-preserving measures that make it costly for firms to fire them and hire someone else in their place*'.

⁷Traditionally, scholars in comparative political economy started with the assumption that the working class has homogeneous interests which are represented by labor unions. During the past years the understanding of social classes and especially of the working class has changed substantially. One of the most prominent class schemes has been suggested by [Erikson and Goldthorpe \(1992\)](#) and further in [Chan and Goldthorpe \(2007\)](#) and [Goldthorpe \(2002\)](#). They distinguish different social classes on the

with a secure employment status ('insiders') and workers without secure employment ('outsiders'). It is important to note that the structural changes of the economy and the impact of globalization on the labor market did not only increase pressure to reform traditional social policy schemes but also increased the demand for so-called 'new social policies', such as maternity/parental leave, childcare and elderly care. One reason for these new social policy demands is the increasing participation of women in the labor market. These developments further reinforce the diversification of the workforce as described above and thus are in line with the general developments described in this thesis. They are also in line with the argument that social policy-making has become a more contested area. I will not further elaborate on these additional mechanisms because the central focus of this thesis is the interaction between party politics and institutional/political constraints and its affect on core welfare state policies such as pension, unemployment insurances (labor market) and sick-pay programs. For literature concerning these complementary developments and welfare state change, see e.g. [Taylor-Gooby \(2004b\)](#); [Häusermann \(2006\)](#); [Bonoli \(2007b, 2005\)](#).

Whether or not a person is a labor market 'insider' or an 'outsider' not only depends on his qualifications and employment relationship. It also to some extent depends on his/her age and gender.⁸ Under some circumstances, women belong to the group of 'outsiders' because their preferences are not represented (or much less well represented) by organized interests (see [Huber and Stephens, 2001](#), p. 317). Women are often considered to be 'outsiders' because they often only work part-time. In addition, in most conservative welfare states a disproportionately high number of women have a very fragmented and short employment history because they often give up their job to care for the family, which makes them more vulnerable. Similarly, young workers can also be among the losers to the circumstances created by the greater pressure on the labor market. As with many women, they have a short employment history because they have little professional experience and often are laid off first. The following table summarizes which groups within the workforce are considered to be 'insiders' and 'outsiders'.⁹ The joint effect of party politics and political constraints on

basis of working relationship and therefore define 'economic' rather than 'social' classes ('social class' schemes differ between groups that share similar identities). In a more recent attempt to categorize the 'working class', [Oesch \(2006a\)](#) addresses the changes within the work force (mainly the entrance of women into the labor market) and proposes a refined class scheme that distinguishes between 17 categories within the 'economic class' scheme.

⁸The literature distinguishes between different facets of 'outsiderness': 'outsiders' to the labor market, who do not enjoy the same degree of social protection as 'insiders'; and 'outsiders' in the light of political representation (mainly the foreign work force) (see e.g. [Kalleberg, 2000](#); [Palier, 2005](#); [Davidsson and Naczyk, 2009](#)). Often these dimensions are related.

⁹Table 3.1 only presents a rough categorization of 'insiders' and 'outsiders'. Whether an individual falls in one or the other category is also dependent on the institutional context and the structure of the labor market. The Netherlands, for example, has a large share of part-time employees (46.8% of

labor market ‘insiders’ and ‘outsiders’ will be examined in the empirical part, with the quantitative empirical part focusing on the implications for labor market ‘insiders’ and the subsequent qualitative country studies focusing more on labor market ‘outsiders’.

Table 3.1: Labor Market ‘Insiders’ and ‘Outsiders’ in a Globalized Economy

<i>‘Insiders’</i>	<i>‘Outsiders’</i>
unionized workers with unlimited contracts	part-time workers
public service employees	contractors/fixed-term employees (low-skilled)
pensioners	long-term unemployed / people relying on social assistance
highly skilled workers	<i>young people/elderly workers</i> <i>women</i>

Whether or not a person benefits from the changes or whether or not the changes negatively affect someone’s chances within the labor market is likely to have an impact on their political preferences and party choice. The diversity in the labor market thus leads to a similar diversity of policy preference on the part of the labor force than was exhibited in the past. The preferred policies of ‘insiders’ are social policy reforms that strengthen their position in the labor market. These are policies that make their jobs more secure or measures which, in case of unemployment, help them to find new employment or guarantee the maintenance of their social status by means of fairly generous temporary unemployment insurance benefits.¹⁰ Labor mar-

the total labor force in 2007). These people share equal social rights as full-time employees. This is not the case in Germany or (to some extent) in Switzerland. The same is true for women, women more often work part-time, consequently, their status within the labor market is dependent on the legislation and the social rights concerning part-time employees.

¹⁰Examples of measures to secure employment are the existence of high hurdles to dismiss employees with permanent contracts (job protection) or regulations that ensure that permanently-employed workers who have reached a certain age cannot be fired at all. Policy-measures that secure jobs are not necessarily directly related to classical social policies but can have an impact on the companies’ competitiveness. Governments can pay subsidies to firms to secure jobs in an import-competing sector which is threatened by international competition, or to increase the competitiveness of an exporting company on the international market. An example for the former strategy is the immense government expenditure on the coal mining sector in Germany. This is a highly organized sector and has defended its interests very successfully eventhough it has been unprofitable for decades. An example for the latter strategy is the grant of high subsidies in high-technology sectors, e.g. in the aircraft industry in

ket ‘outsiders’ prefer social policies that offer them the possibility to re-enter the labor market (e.g. active labor market policies) or compensate them if they accept employment where job-insecurity is high. Measures to assist the re-entry of the labor market by ‘outsiders’ are often related to professional training. Since many ‘outsiders’ have very little initial vocational training, the training measures should offer basic training and should address a variety of people with various backgrounds. An important characteristic of ‘insiders’ is that, unlike ‘outsiders’, they are very well organized and represented by powerful interest groups, mainly labor unions. ‘Outsiders’ usually do not have powerful lobbying groups that play a major role in the policy-making process. Although labor unions often raise the problems of the low-skilled workforce in public debates, their primary lobbying activities naturally concerns the interests of their main constituents and members, who are mostly ‘insiders’ [Huber and Stephens \(2001\)](#) for example mentions that women are underrepresented in labor unions and therefore have little leverage.

3.1.2 Constraints to the Supply Side of Social Policy-Making

A second rationale for the reform pressure on social welfare states is the restrictions that governments face in the supply of social benefits due to the increasing mobility of capital. Together with the reduction of trade barriers, the capital restrictions preventing the free cross-border movement of capital assets and investments also fell. This development was triggered by the end of the ‘Bretton Woods System’ in 1973. The purpose of this system was to allow the exchange of goods and services while ensuring that governments retain substantial control over domestic economic developments ([Eichengreen, 2008 \(2nd Edition\)](#)). When the Bretton Woods System collapsed, governments all around the world started to reduce restrictions on capital flows in the belief that free movement of goods and capital would increase the wealth of industrialized countries.

This reduction of capital controls was accompanied by a loss of government autonomy in certain policy fields. Since mobile capital flows to areas where returns are high and therefore taxes are low, governments came under pressure to decrease tax rates. Lower taxes mean that fiscal revenues decrease, which inhibits the further growth of social expenditures and leads to a declining capacity to maneuver for party

Europe and the United States. This is to guarantee that jobs continue to exist in these areas. These are very costly measures which can be considered to arise from the social concern that members of the labor force in these industries – who can be classified as ‘insiders’ – not be made unemployed. These policies are thus related to social policy.

governments. Although the exact impact of capital mobility on taxation in general has been subject to considerable debates, there is evidence that taxes on mobile assets and statutory corporate tax rates have been declining (see e.g. [Swank and Steinmo, 2002](#)). Although the race to the bottom in fiscal policy predicted by some studies (e.g. [Tanzi, 1995, 1997](#)) has not happened, governments do engage in a strategic competition for capital with other countries ([Basinger and Hallerberg, 2004](#)). Moreover, productivity growth in the growing service industry is low and therefore generates less fiscal revenues than the shrinking industrial sector.¹¹

The literature thus suggests that, whereas the tax base has not been eroded and the amount of fiscal revenues is still substantial, the effects of globalization significantly constrain social-policy-making in mature welfare states. Further welfare state expansion to meet the new social demands discussed in the previous section is not possible. How the government spends the available funds for social policies thus should become more contested. A workforce with diverse interests competes for scarce social policy resources, which means that social policy is getting even more politicized than it was in the past. How policymakers respond to the demands by these different groups and how they distribute the scarce social resources will be discussed in the next sections.

3.2 Political Responses to Social and Economic Changes

3.2.1 The Role of Social Policy in Political Competition

Great tension subsists between the new demands for social welfare provisions and the ability of the government to satisfy these demands. While the new social needs of some societal groups call for political reactions and new policy solutions, pressure on welfare states from the internationalization of the economy constrains social policy-making. The question is, which policy solutions do political actors propose, and how do governments design social policies and welfare state reforms in this environment?

On the one hand, many studies suggest that social policies as defined by social expenditures have converged across party governments (e.g., [Kittel and Obinger 2003](#); on converging social policies in general, see [Alber and Standing 2000](#); [Bouget 2003](#)). The pressure on taxes resulting from capital mobility means that the traditional

¹¹The phenomenon of lower productivity of the service sector is known as ‘Baumol’s disease’ and is described in greater detail in [Schwartz \(2001\)](#).

differences between party governments, which characterized the period of welfare state expansion, should have disappeared. All governments, left- or right-wing, try to keep social spending fixed or even attempt to cut social expenditures.

On the other hand, social policy-making is highly politicized and often dominates public debates, which allows political parties to acquire a distinct political profile and gain votes from particular societal groups. Although the welfare states in Western democracies are under reform pressure, the social policy institutions still enjoy a very high level of approval and trust among the public. Public opinion concerning welfare state policies is generally positive and even though most social policies have been reformed during the past years and some social insurances are very costly for the individual tax payer, the level of approval has not decreased (Brooks and Manza, 2007; Kenworthy and McCall, 2008; Rehm, 2005; Kenworthy, 2009).¹² Social policy issues are perceived as salient issues by voters and therefore are important to political competition in general.

Social policy thus continues to be an important political playground, especially for social-democratic parties, because they, to some respect, ‘own’ the welfare state issue (Budge and Farlie, 1983). This means that they possess more credibility to seriously care about welfare issues than conservative parties.¹³ This strong connection between partisanship and social policy competence is an important asset for social-democratic parties in electoral competition that they cannot easily relinquish. Citizens voting for left-wing parties expect a social-democratic government to translate their social policy preferences into policies that correspond to their interests. Kitschelt and Rehm (2004), for instance, show that people’s preferences about redistribution are the single best predictor of partisan preferences. Party governments, once elected, thus are responsive to the attitudes and preferences of their electorate. Cusack, Iversen and Rehm (2006, p. 366), for instance provide evidence for a strong linkage between redistributive preferences, partisan support, and government policies. They show that economic cleavages and government partisanship continue to matter for public policy-

¹²According to recent findings by Larsen (2008), approval of welfare states varies across countries. His study shows that the attitudes towards social policies and the welfare state in general is less positive in liberal welfare state regimes than in conservative and Scandinavian welfare states. This finding, however, make sense since services provided in liberal welfare states are much less comprehensive and therefore approval rates are lower.

¹³See also Ross (2000a) and Green-Pedersen (2001) on the argument that social democratic governments have more credibility in welfare state policy-making. Recently, this argument has been challenged by Schumacher, Vis and van Kersbergen (2009) who show that parties with a positive welfare state image (such as social democrats) lose votes after implementing retrenching reforms.

making.¹⁴ In short, constituencies expect and elected party governments formulate distinct social policies with respect to *redistribution*.

The focus of the welfare state reform literature on social expenditures thus misses an important aspect of welfare states, namely redistribution. Such a two-dimensional view of social policy implies that party governments have more options in social policy-making than the one-dimensional view focusing exclusively on expenditures would suggest. Similarly, the expenditure and redistribution dimensions are not independent of one other, but rather are linked because changes on one dimension can be compensated by adjustments on the other. The next section discusses how party governments should position themselves on these two different dimensions and examines how the implications from the two-dimensional framework yield different results from the one-dimensional approach that has been generally used in the literature.

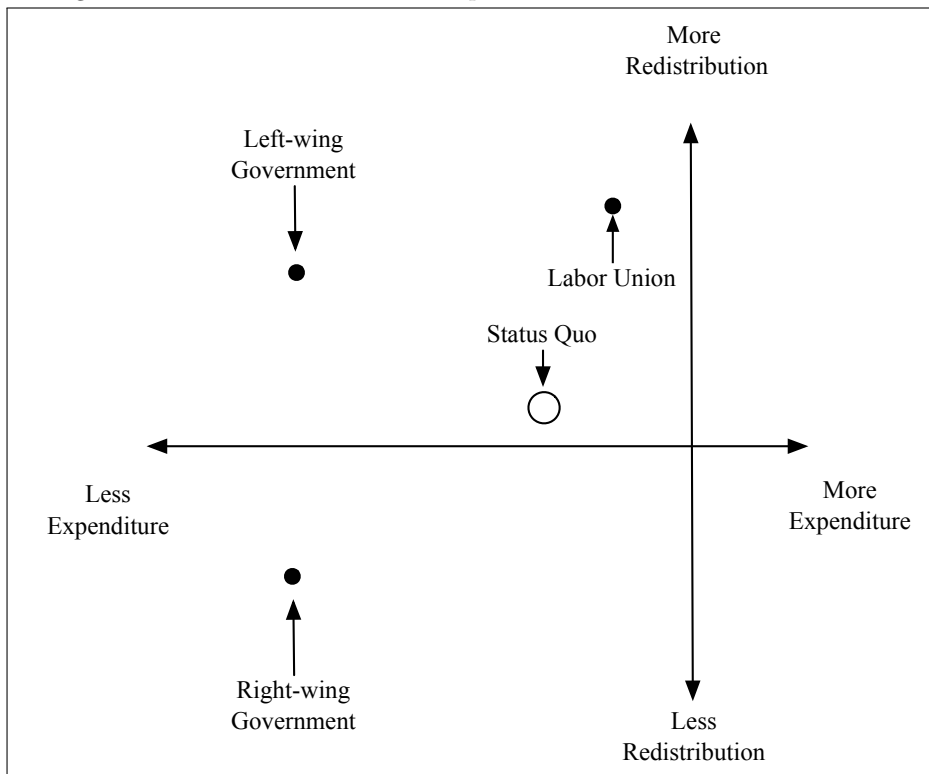
3.2.2 Social Policy in a Two-Dimensional Social Policy Space

The following stylized example, taking into account policy positions of the relevant political actors in the reform process, illustrates the mechanism that leads to distinct outcomes on the two social policy dimensions. Figure 3.1 shows the hypothetical policy positions of the relevant actors graphically. Each axis represents a separate policy dimension.¹⁵ The vertical axis reflects the size of redistribution, while the horizontal axis shows the traditional dimension of more or less public expenditure. Suppose governments experience high reform pressure due to the economic developments mentioned above, and thus have to cut social expenditures. Governments of both right-wing and left-wing partisanship are similarly affected by these constraints and have to position themselves on the left-hand side of the expenditure-axis in Figure 3.1. Although the two party governments may differ with respect to their desired amount of spending, both party governments support cuts in social expenditures. This is the case because the external constraints simply do not leave room for alternative choices on this particular dimension. This mechanism reflects the findings of the last decade and is widely accepted (e.g. [Huber and Stephens, 2001](#); [Kittel and Obinger, 2003](#); [Kwon and Pontusson, 2005](#)).

¹⁴Their analysis shows that redistributive preferences are excellent predictors of partisan affiliation. Whereas individuals voting for right-wing parties prefer less redistributive policies, individuals voting for left-wing parties prefer more redistributive policies ([Cusack, Iversen and Rehm, 2006](#), p. 378).

¹⁵As mentioned at the beginning of this paragraph, Figure 3.1 is a highly stylized and simplistic visualization of the policy space. It does not show how the dimensions represented in the graph are related to each other and how they mutually influence each other.

Figure 3.1: Two-Dimensional Conceptualization of Welfare State Reforms



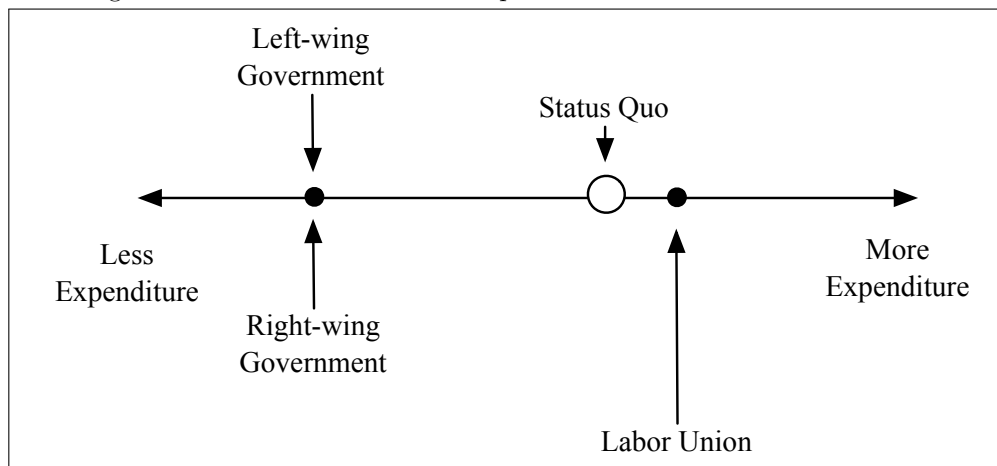
It is plausible, however, that party governments with different ideologies have different views as to how the available resources should be spent, i.e. the manner in which these resources are distributed within the society and which societal groups should benefit from policy changes and reforms. To focus on redistribution as the second dimension of interest is justified by the fact that redistributive policies are highly politicized and the actors often have strong ideological beliefs, which implies that political actors adopt clearly distinguishable positions (see [Lowi 1964](#)).¹⁶ Left-wing governments may wish to redistribute more in an attempt to help those groups within the society that are most affected by globalization and the structural changes to the economy. Right-wing governments tend to be less interested in guaranteeing outcome equality and trust that the market will solve problems resulting from globalization. [Bradley et al. \(2003, p. 195\)](#) come to a similar conclusion when they write: ‘Governments do not spend money just to spend money but rather do so to effect an outcome – and certainly one of the most important political outcomes is redistribution.’ I therefore conclude that left-wing governments should be more likely to implement

¹⁶According to [Lowi \(1964, p. 691\)](#), redistributive policies are strongly connected to ideology: ‘The nature of a redistributive issue is not determined by the outcome of a battle over how redistributive a policy is going to be. Expectations about what it can be, what it threatens to be, are determinative.’

reforms that increase redistribution while right-wing governments tend to do the opposite. While positions on the expenditure axis should be similar across actors, I expect to find clearly distinguishable positions on the redistributive axis.

If we ignore the second dimension (more redistribution vs. less redistribution) and simply focus on retrenchment, Figure 3.1 collapses to a one-dimensional figure as illustrated in Figure 3.2. This one-dimensional conceptualization of welfare state change blurs the differences between the policy positions of parties even though the positions may differ considerably as the two-dimensional conceptualization in Figure 3.1 shows. If we only look at the retrenchment-expansion axis, there is no difference between the left-wing government and the right-wing government with respect to their policy position. Moreover, both governments are equally close to or distant from the relevant interest group in this example. In the two-dimensional illustration, however, the left-wing government is much closer to the relevant reform partner.

Figure 3.2: One-Dimensional Conceptualization of Welfare State Reforms



The focus on the expenditure axis thus makes it difficult to draw valid conclusions about the probability that a particular reform will take place, especially in political systems where interest groups are essential coalition partners. Unlike the one-dimensional model, the two-dimensional approach predicts that left-wing governments are more likely to reform a particular social policy because they are more closely positioned to the relevant interest group.¹⁷ The two-dimensional classification of social policy (encompassing both expenditure and redistribution) suggests that governments differ from each other in their positions much more than can be inferred from a one-dimensional classification. The dimension on which party politics makes a difference

¹⁷To keep the example simple, I assume that labor unions are crucial for social policy reforms. The issue of which interest groups are relevant in which context will be discussed in detail below.

is redistribution. Reforms then take place only when the policy positions of the key actors involved in the process are close enough and when it is therefore possible to find a compromise among the actors.

This meso-level approach of policy change captures the policy formulation process. The policy formulation process is characterized by competing ideas and actors who try to find support for their policy proposals. The policy formulation process (and my analysis) ends when the key actors participating in the process agree on a reform proposal.¹⁸ Depending on the institutional setting, i.e. the number and characteristic of institutional veto points, the relevant supporting actors have to be found within the government coalition, the parliament, or in the wider political sphere (in political systems where strong veto players are present). The next section discusses these institutional constraints and their implications for social policy-making in detail.

3.3 Institutional Constraints and Veto Points

The theoretical discussion so far neglects an important factor that considerably influences the ability of party governments to impact social policies. Whether party government has a significant impact on the further development of welfare states is not only contingent on economic growth and the macro-economic situation in general, but also on the institutional setting of a country. The claim that ‘institutions matter’ is well established in comparative political economy and many scholars have contributed to the understanding of how politics is influenced by the particularities of the institutional setting of a country.¹⁹ The presence or absence of institutional constraints in a country enables or hinders parties in opposition and organized interests to pressure the incumbent to move closer towards their preferred policies.

The institutional constraints that are important for this research are federalism, direct democratic elements and strong bicameralism (which often goes hand in hand with the existence of sub-national units in a country). Institutional constraints shape the ability of organized interests and parties in opposition to influence the design of social policies and affect the likelihood that the incumbent’s policy proposal will be implemented. In countries, where political decisions require agreement in more than just one policy-making arena (e.g. if legislative proposals need to be approved by two parliamentary chambers), interested actors may have the potential to intervene and

¹⁸I will not include the agenda setting period in my analysis.

¹⁹See, e.g., Esping-Andersen 1990; Steinmo and Tolbert 1998; Ebbinghaus and Visser 1998; Hall 1997; Steinmo 1989.

influence the political outcome. In countries where legislative proposals have to be approved by actors in multiple decision-making arenas, policy-making is complicated and requires more negotiations among actors. As Immergut (1992a; 1992b) also points out, these institutions do not constrain all party governments in the same way. It is the configuration of party governments, together with the presence of strong interest groups in a particular institutional setting, that opens up opportunities for organized interest to influence policies or – in the most extreme cases – to block a reform completely. Whether or not a ‘veto point’ is present is dependent on the constellation of the institutional setting together with the party in power.

The institutionalist approach helped to explain the different developments and levels of social security across countries with more or fewer veto points. This framework suggests that countries with less veto points are more likely to have higher levels of social security. This is because interest groups opposed to high levels of social security have no access to the policy-making arena. Countries with a high number of veto points have less developed social security systems because interest groups were able to delay or block the establishment of encompassing social security systems. The related ‘New Politics’ approach (Pierson, 1996, 1998) examines the role of institutions for welfare state reforms, particularly retrenchment, instead of welfare state development. In short, ‘New Politics’ researchers predict that in countries where institutional constraints are high (or political power is fragmented), retrenchment and reform are less likely than in countries with low constraints. The reason for this is that the new constituencies that were created by welfare state expansion can act to prevent the implementation of social policy reform that would result in a reduction of their privileges.

An important question concerns the manner in which interest groups are able to impact upon social policy-making and the issue of which groups are the most important players. The most important interest groups in social policy-making that make use of the access points offered by the institutional framework are labor unions and employers’ organizations. Generally, the former try to defend the existing social securities schemes that mostly benefit well-trained workers, while the latter try to reduce the financial burden that firms have to carry when social security remains at a high level. Both interest groups have a long tradition and are well organized in most industrialized democracies. Naturally, employers’ organizations are close to the policy preferences of conservative and liberal parties which generally favor market-friendly policies. Labor unions usually have strong ties to social democratic parties. With the exception of direct democratic institutions, these organized interests have an indirect impact on the policy-making process. Often, labor unions are linked to social

democratic parties, and social democratic parties therefore mediate and translate the interests of labor unions.²⁰

A crucial aspect within this context is that labor unions mostly represent labor market ‘insiders’, i.e. workers who are in a regular work relationship (Rueda, 2005, 2007). The main concern of labor unions is usually the security of workplaces and the guarantee that employees who lose their positions receive adequate social insurance. Labor unions mostly defend the interests of well trained people with permanent contracts who are well integrated in the production process. This part of the labor force is the prime constituency of labor unions simply because they form the majority of their membership base and therefore finance the organization. Although labor unions often articulate the needs of the very poor, they usually do not strongly defend the interests of these people. I thus assume that the major constituency of labor unions is not people who have a minor standing on the job market, such as low-skilled, part-time workers and to some extent also young employees, but the well integrated labor force, which is protected by resilient and relatively generous core social policy programs, mainly unemployment insurance.

Although institutional analyses of social policy-making have become very popular, they usually do not take into account the manner in which the roles of parties differ across institutional settings. In particular, the ‘New Politics’ school is often considered to be apolitical because it omits discussion of how parties cope with the existing constraints and simply neglects party politics. Two exceptions are Green-Pedersen (2002; 2001) and Bonoli (2001) who offer a partial framework concerning the contingent effects of particular party governments and an institutional framework for the politics of retrenchment. Bonoli (*ibid.*), for instance, suggests that retrenchment and reforms are possible in countries with high constraints if governments compensate organized interests for the retrenching measures. His argumentation thus implicitly relies on a two-dimensional framework like that presented in the previous section.

Mostly, theories on the politics of welfare state reforms and retrenchment are tested with case study research and qualitative work. Quantitative comparative welfare state literature rarely examines how the impact of party government is contingent on certain institutional configurations, even though the institutional setting is often

²⁰In Germany for example, approximately 80 percent of the members of parliament of the social democratic party (SPD) were also members of a labor union during the 14th legislative period. This figure was increasing constantly from roughly 60 percent since the first legislative period. Christian Democrats show the reverse development. Roughly 15 percent of Christian Democratic members of parliament held a union membership. Until the 14th legislative period, this number decreased to only one percent (see Trampusch, 2003).

taken into account as an individual explanatory factor.²¹ The lack of an encompassing examination of institutional constraints in quantitative comparative welfare state research that focuses on the impact of politics on retrenching reforms was criticized by Korpi and Palme (2003). They call for further exploration of the effect of institutions (constitutional veto points) in the context of retrenchment.

Even though the recent comparative political economy literature on welfare state retrenchment and reform acknowledges that political institutions are crucial and have an impact on policy outcomes, research in general assumes that institutional constraints are the same for social democratic and conservative party governments. The next section extends this view by discussing how party politics and institutional constraints jointly influence retrenchment and redistribution.

3.4 Joint Impact of Partisan Politics and Institutional Constraints

This section discusses how party governments with varying ideological backgrounds are affected differently by the institutional setting because institutions enhance or decrease the ability of particular interest groups to influence the design of the reform proposals. By combining the three relevant factors - party government, institutional setting and interest groups - I aim at presenting a coherent and encompassing framework of welfare state policy-making. Even though party governments with differing ideological backgrounds operate within the same institutional setting, the options they have to reform social policies vary and the implications of these policy changes differ across various groups in society. I will discuss the implications for the four different situations starting with a right-wing government in a country with low institutional constraints (no veto points), where powerful organized interest have little access to the policy-making arena. The other situations are a right-wing (left-wing) government that faces strong (few) institutional constraints. The presented framework comes closest to Immergut's (1990; 1992a) notion of veto-points. It differs from Tsebelis' veto-player framework (1995; 1999) because the capacity to produce political change is not solely dependent on the political system but also on the partisanship of the incumbent. The mechanisms proposed in this paper also differ from the 'New Politics' literature, which is heavily based on institutionalist arguments. However, the factor crucial to Piersons'

²¹The quantitative work of Crepaz and his various co-authors (Crepaz and Moser, 2004; Crepaz, 2002; Birchfield and Crepaz, 1998) singles out the influence of institutional constraints. However, he neglects the joint effects of institutional constraints and party government.

framework (2001; 1996; 1994) is the institutional stickiness of existing social security schemes that influence their further development and also has an effect on how easily these social security systems can be influenced and reformed by political actors. The reform paths of existing social security schemes in Pierson's 'New Politics' approach is heavily influenced by path-dependency. The formal institutional setting and political constraints, as crucial to my argument are of limited importance as are political struggles and party politics.

The initial situation is the same for all governments. The pressure to reform welfare state policies is high due to the structural changes discussed previously and the need of mature welfare states to implement retrenching reforms. However, the incumbent can still shape the policy on dimensions other than expenditure, namely the redistributive dimension. In addition, party governments also have the ability (or are forced) to compensate particular groups in society while reforming social policies. The character and design of the reform is on the one hand influenced by the government's ideology and on the other hand by the institutional setting in which the government is acting. Depending on whether or not institutional constraints are high or low, the constituencies that have been built by welfare state programs need to be compensated more or less.

Right-wing governments that face few institutional constraints tend to decrease spending without compensating the losers of the reform. It is widely acknowledged that right-wing governments – during the times of welfare state expansion and development – preferred less expansive social policies than social democratic governments. Similarly, in times of fiscal constraints, conservative governments still prefer less expansive policies. Therefore, right-wing parties continue to prefer policies that generate relatively low expenditures compared to policies of left-wing parties because they intend to lower the tax burden for firms and capital owners. With regard to the second dimension, right-wing governments in an institutional setting with few constraints do not have much interest in compensating particular groups in society, but mainly focus on retrenching policies. In countries with little institutional constraints and few or no access points to the decision-making arena for extra-parliamentarian actors, right-wing governments can implement their preferred policy without the consideration of special interests. This situation allows a direct translation of the governments' policy preferences because the government does not face a veto power in parliament or from interest groups outside parliament, such as labor unions and employer organizations.

The situation is different for a right-wing government in a country where institutional constraints are high. These governments tend to end up with social pol-

icy reforms that bring little change both in terms of retrenchment and redistribution because of the pressure that interest groups – mainly labor unions and employers’ organizations – exert on the government. Again, the right-wing government will attempt to reduce social spending because the economic situation requires retrenchment and because lower spending corresponds to the party’s policy preferences. However, in order to implement the necessary retrenching measures, the government also needs to compensate special interest groups in society, mainly organized labor. Labor unions demand measures which alleviate the effect of the retrenching measures of the reform on their constituencies. An example is employment regulations that make it difficult for employers to set off workers. Alternatively, labor unions can demand the continuation of generous temporary unemployment benefits by proposing greater retrenchment measures for fairly wealthy people.

These compensation measures are against the interest of employers organizations that are closely connected to the conservative party in power. Thus, the government is fairly restricted on the compensation dimension, but it needs the support from labor unions to implement a far-reaching reform. Pressure from labor unions can work through its influence on left-wing parties which possibly have a majority in the second parliamentary chamber. These parties can block encompassing reforms if the measures are too radical for their constituencies. The most likely result in this situation is no reform or a minor reform that does not have serious consequences on any dimension.

The interplay between party politics, institutional constraints and interest groups differs for left-wing party governments. Left-wing governments in countries with few institutional constraints tend to implement welfare state reforms that reduce spending and at the same time compensate workers through greater redistribution. The left-wing government cuts expenditures because changing economic constraints require greater retrenchment even though it would prefer not to reduce spending. Social democratic/left-wing governments often are better able to cut expenditures than right-wing governments because the electorate tends to trust left-wing government more with regard to social policy reforms.²² Workers assume that the left-wing government does not cut social spending more than necessary. By offering compensation for those who lose from the retrenchment measures through greater redistribution, left-wing governments can also signal their concern for the interests of the workforce. A left-wing

²²This logic has become known as ‘Nixon goes to China’-logic. In a recent contribution by Schumacher et al. (2009), this mechanism could not be confirmed empirically. The authors did not find empirical evidence that would support the assumption that social democratic party governments are more trusted when reforming welfare state institutions.

government thus can gain politically even from a reform that includes retrenchment – if it offers enough compensation.

When they face high institutional constraints, left-wing governments have to accommodate conservative forces and thus are likely to design social policy reforms differently. The left-wing government will have to offer greater retrenchment to the opposition in order to reach an agreement. This will be against the interests of the workforce and labor unions representing the core workforce will take action against such a plan. Thus the government has to offer greater compensation to the constituencies of labor unions. In other words, in order to achieve greater retrenchment, the left-wing government must make sure that ‘insiders’, who are represented by labor unions, are not too greatly affected by the reform. At the same time, compensation cannot come from the wealthy because this would provoke the resistance of the right-wing parties.

The solution is disproportionate retrenchment on the side of ‘outsiders’ to satisfy the needs of the ‘insiders’ and, at the same time, achieve a sufficient reduction in social expenditures to accommodate the opposition. Excessive retrenchment that affects the organized labor force is difficult for left-wing governments because of the close ties between the unions and social-democratic parties, especially in political systems where labor unions are strong. Moreover, if labor unions take a strong position against a social-democratic government because the unions consider the reform measures too harmful to their constituencies, this would damage the party’s social credibility among the public. Since ‘outsiders’ are not the prime constituency of the unions, they will accept greater retrenchment as long as the ‘insiders’ are affected relatively less and the ‘outsiders’ are affected relatively more.

This implies that left-wing party governments in systems with less institutional constraints are able to propose and implement reforms that redistribute the available resources in a more egalitarian way. In such a system, the compensation measures are directed towards more segments of the labor force than just the labor market ‘insiders’ that are well represented by powerful organized interest. In a setting where organized labor has a strong influence and the left-wing government has to accommodate opposition parties because institutional constraints are high, social democratic governments have to alter the design of the social policy reform by privileging labor market ‘insiders’ at the expense of ‘outsiders’.

Based on the theoretical framework outlined in the previous paragraphs, the empirical chapters will assess the following hypotheses:

- *Left-wing governments are more likely to design reforms that increase the redistributive generosity of core welfare state programs than right-wing governments.*
- *Left-wing governments exhibit a greater tendency to increase redistributive generosity that privileges the core workforce in countries where political constraints are high.*
- *Conservative governments tend to compensate ‘insiders’ when constraints are high.*
- *When political/institutional constraints are low, conservative party governments focus their reforms on retrenchment without accommodating labor market ‘insiders’.*

The following two-by-two table (Table 3.2) summarizes the combined effects of political constraints and party governments for the outcome of social policy reforms for the two dimensions of social policy-making.

Table 3.2: Summary of the Theoretical Argument

	<i>Low Institutional Constraints (no veto points)</i>	<i>High Institutional Constraints (veto points)</i>
<i>Conservative/Liberal Government</i>	Retrenchment (\uparrow), Compensation (\rightarrow / \searrow)	Retrenchment (\nearrow), Compensation (\nearrow)
<i>Left-wing Government</i>	Retrenchment (\nearrow), Compensation (\uparrow)	Retrenchment (\nearrow/\uparrow), Compensation (\nearrow)

3.5 Summary

The theoretical framework of my thesis is therefore grounded in the growing tension between changing demands for and constraints upon the supply of social policies in

Western industrialized countries. The reorganization of production due to economic globalization and structural changes has created a more heterogeneous labor force with diverging needs that expresses new demands for social security coverage. Broadly, governments today face a workforce that is divided into well-trained workers with permanent contracts ('insiders') and low-skilled, part-time employees ('outsiders'). The former are generally well organized in labor unions, while the latter are often not represented by interest groups in the political arena. When governments design social policy reforms, they have to take these diverging needs into account while at the same time they are under pressure to cut social spending. How a government reforms social policies then depends on its partisanship in combination with the institutional constraints that it faces. Institutional constraints determine whether a party government has to gain support from opposition parties (e.g. in a bicameral system) to implement a reform, and the extent to which interest groups can access the policy-making process and block a reform proposal.

In a nutshell, a right-wing government that does not face high institutional constraints will mainly cut social spending, but does not offer any compensation for the losers of the reform through redistribution. The situation is different for a right-wing government in a country where institutional constraints are high. These governments tend to end up with social policy reforms that bring little change both in terms of retrenchment and redistribution because of the pressure that interest groups – mainly labor unions and employers' organizations – exert on the government. Labor unions demand compensation for their constituencies while employers, who are closely connected to the conservative party in power, oppose this. The result is a failed reform or one with little impact on social policies. The reform outcomes will differ when a left-wing government is in power. Left-wing governments in countries with little institutional constraints tend to implement welfare state reforms that reduce spending and at the same time compensate workers through greater redistribution. Both labor market 'insiders' and 'outsiders' benefit in a similar manner from the compensation measures. When a left-wing government faces high institutional constraints, however, it has to accommodate conservative forces and thus must offer greater retrenchment to reach an agreement. The left-wing government also has to make sure that 'insiders', who are represented by labor unions, are not too much affected by the reform. At the same time, compensation cannot come from the wealthy because this would provoke the resistance of the right-wing parties. The solution is a disproportionate retrenchment on the part of 'outsiders' in order to satisfy the needs of the 'insiders' and, simultaneously, achieve a sufficient reduction in social expenditure to accommodate the opposition.

The theoretical framework that has been presented on the previous pages is rigid in the sense that it proposes causal mechanisms and processes that yields to clear cut predictions about the policy choices of varying party governments in varying institutional settings. An encompassing empirical test of these theoretical propositions makes great demands on the data and the empirical material in general. The empirics presented in this dissertation aim at approximating the rigorous framework. The discussion of the results in each chapter happens in the light of the presented framework, the concluding chapter (see section 9.2), however, critically challenges and scrutinizes the collected evidence and also provides alternative explanations and points at deficiencies of the collected empirical evidence and the theoretical framework.

The following empirical chapters of this dissertation consist of two complementary parts. The first part focuses on the macro-level and examines the correlations between party governments and redistributive generosity, respectively expenditure and whether or not government partisanship and constraints jointly affect the ‘insider’-‘outsider’ divide on an aggregate level. The second part consists of three country case studies concentrating on labor market reforms under varying party governments. The in-depth analysis of labor market reforms will on the one hand substantiate the macro-level evidence and on the other hand focus more closely on how labor market ‘outsiders’ are affected by these reforms.

Chapter 4

The Impact of Party Governments on Two Dimensions of Aggregate Welfare State Output ¹

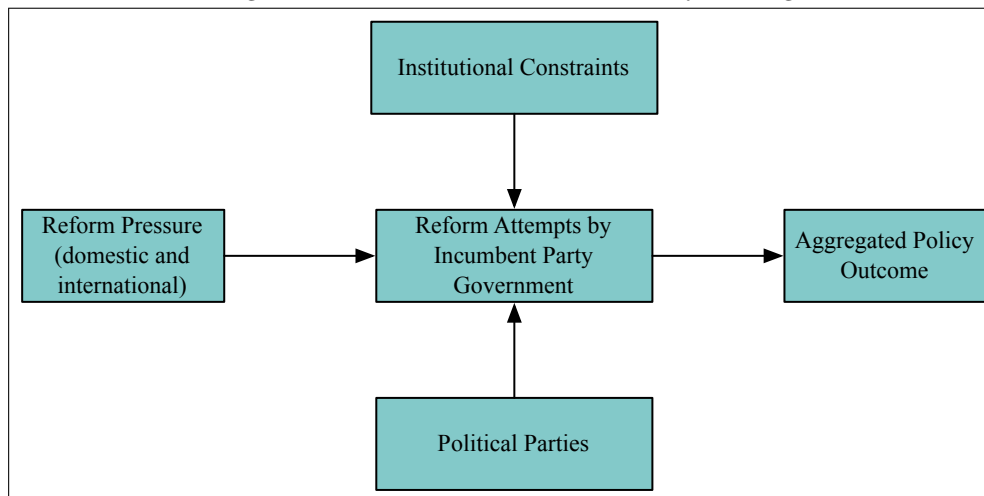
In this chapter I evaluate the impact of government partisanship on the redistributive generosity of core welfare state programs and expenditure over time and across countries. The chapter is structured as follows: First, I discuss the econometric properties of my empirical model. Second, I present the variables and the concepts they represent. The third part discusses the statistical analysis in three steps: Firstly, I estimate and discuss the result of the basic model. Secondly, I introduce two multiplicative terms, and thirdly, I separately estimate the impact of party governments for three sub-periods.

¹Earlier versions of this chapter have been presented at the Annual Conference of the Midwest Political Science Association (2007) in Chicago and at the ECPR General Conference in Pisa (2007) and within various workshops and seminars at the European University Institute, the University of Zurich, and during my stay as a visiting scholar at the Kennedy School of Governance and at the Government Department at Harvard University (2007/2008). For criticisms and suggestions I would like to thank the participants of the workshop 'Evolution of the Welfare State' organized by Prof. Sven Steinmo and Prof. Martin Kohli at the EUI (2007).

4.1 Macro-Level Implications for Reforms

The theoretical discussion yields specific implications for macro-level outcomes, specifically aggregated social policies, and their determinants over time and across countries. Once policy decisions have been taken and the policies are implemented and adopted, they should change the overall redistributive output of welfare states. Figure 4.1 presents the macro-model of social policy-making and welfare state reform, which consists of three crucial steps that in the end alter redistributive generosity and expenditures over time. The first aspect of social policy-making is the extent to which external and internal factors allow for welfare state expansion or require adjustments to welfare state expenditures. Generally speaking, if the economy performs well and tax revenues are high, governments have the possibility to expand social welfare; whereas if the economy declines, the pressure to reform existing (social) policies increases (since tax revenues are decreasing). Some of the factors which contribute to an increase to reform pressure, are globalization (as an exogenous factor) and high unemployment, and demographic change as endogenous or domestic factors.

Figure 4.1: Macro Model of Social Policy-Making



The second aspect of social policy-making concerns the response of governments to the increasing reform pressure. Different governments react differently, even though they are facing similar external and internal pressures. The reason why governments choose different solutions lies in the different institutional settings that they face and their interaction with the different veto-players which are involved in the policy-making process. The ‘New Politics’ literature described above strongly empha-

sizes the influence of the existing institutional setting as well as the policy legacies that the government has to cope with. The third aspect of social policy-making is the influence of the political parties on the reform process. As described above, political parties which differ in their ideologies design different reform proposals and solutions to deal with the same problem. The design of the reforms then leads to changes in aggregated social policy, which is clearly observable in expenditure and redistribution. The aggregated policy outcome in Figure 4.1 thus takes two dimensions. It captures the degree of redistribution across societal groups and it reflects the size of a country's social spending over time.

4.2 Method and Data

4.2.1 Estimation Technique and Basic Empirical Model

In the following sections I statistically examine the determinants of redistribution and public expenditure using pooled cross-section time series analysis. Time series cross-section (TSCS) data sets are characterized by repeated observations over time across various units (usually countries). In comparative political economy the number of time periods (T) is usually larger than the number of cross-sectional units (N) included in the dataset.² My study is based on a pooled time series data set consisting of 18 post-industrial economies; Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States.³ The period of the analysis ranges from 1971-2002. This allows for a maximum of 533 observations (country-years) for the 'redistribution' models and 431 for the expenditure models. The substantially lower number of observations for the expenditure models is due to the fact that the availability of public expenditure data is limited. There are a min-

²This is contrary to panel datasets containing survey data, which have individuals as units and only include a limited number of observations over time. For a description of the characteristics and problems which occur with time series cross-section data see [Stimson \(1985\)](#).

³Macro-analyses and cross-national statistical comparison of countries face the problem that the cases included in the analysis are not a random draw of a wider population. The sample included in my analysis consists of developed industrialized economies with mature welfare state systems. The analysis does not allow for generalization or for the application of its results beyond the countries included in the sample. However, it is not the aim of the macro-analysis to detect patterns that hold for an extended set of countries (e.g. developing economies) but rather to understand major developments and trends within this particular group of countries. For an extended discussion on the problem of random selection and statistical inference in cross-country research see e.g. [Ebbinghaus \(2005\)](#); [Kittel \(2006\)](#).

imum of 6 and a maximum of 32 observations per country in each of the presented regressions with an average of 28 observations per country.

I start with OLS regression models with panel corrected standard errors (Beck and Katz, 1995, 1996) to analyze the pooled time series cross-section data.⁴ While using time series cross-section data, Beck and Katz suggest adjustment of the standard errors because the errors in a TSCS model are generally not identically and independently distributed (i.i.d.).⁵ The corrected standard errors account for the econometric problems that can occur when panel-specific heteroskedasticity is present.

There are different ways to correct for serial-correlation in the error structure. The inclusion of a lagged dependent variable (LDV) reduces the serial correlation in the errors. Alternatively, a Prais-Winsten correction can be used to take serial correlation into account.⁶ In the following empirical analyses I rely on the Prais-Winsten correction to account for serially correlated errors (AR(1)) because I analyze the changes to and not the levels of my dependent variables. There is little theoretical reason for a lagged dependent variable in a model relying on the differenced values of the variables because a change in one year is not necessarily related to a change in a subsequent year. In other words, a change in the dependent variable at year t is unlikely to be explained by a change in the dependent variable at $t-1$.⁷

A full set of country dummies (N-1 country dummies) is included in the models to account for country-specific characteristics. The country dummies allow the intercept to vary across the different units. However, the inclusion of fixed-effects also leads to certain problems. Country dummies are non-theoretical variables and increase the explained variance without adding substantive insights. In addition, the

⁴For an overview of the discussion concerning these types of models, see the special issue of ‘Political Analysis’ 2007 (Volume 15, Issue 2) and articles by Podestà (2003); Keele and Kelly (2006); Kristensen and Wawro (2003).. For a discussion which mainly focuses on the use of pooled cross-section time series analyses in comparative political economy and welfare state research see e.g. Kittel (2006); Kittel and Winner (2005); Scruggs (2007), and Plümpfer, Troeger and Manow (2005).

⁵Beck and Katz (1995) mention the following violations of the error assumptions on which an OLS is based on: panel heteroskedasticity; contemporaneously correlated errors; unit-specific serially correlated errors; and common serially correlated errors.

⁶Some scholars (e.g. Achen, 2000) have criticized the use of lagged dependent variables in panel models because the presence of an LDV leads to a simultaneity bias. Beck and Katz (2004), however, contend that lagged dependent variables are a valid solution to correct for serially correlated errors because the bias declines as T (the period of analysis) increases. According to their simulations, the bias for a time series of 30 years is close to zero.

⁷For sensitivity analyses, I also estimated the model using a lagged dependent variable. However, the inclusion of a lagged dependent variable in a fixed-effects model leads to biased estimations. Therefore, I included the LDV only in the model without fixed-effects. The results of the alternative specifications are substantially the same. For a discussion on dynamic panel models and LDV see e.g. Wilson and Butler (2007); Achen (2000); Keele and Kelly (2006); Beck and Katz (2004), and Judson and Owen (1999).

coefficients of fixed-effects models take into account the within-country variation only. I therefore estimated my model with and without country dummies and report the coefficients of both models.⁸

Because some of the data included in my model may be non-stationary I performed both the Levi-Lin Chu- and the Im-Pesaran-Shin-test for panel unit roots. Both indicate that at least some of the series included in the model are non-stationary (the test statistics are included in the Appendix). To avoid the problems associated with non-stationary variables, I estimate my model in first differences.⁹ The results generally are the same for specifications including the variables in levels. A model specified in first differences focuses on systematic associations between the annual changes in the variables while removing all level variations (see e.g. [Kittel and Winner, 2005](#), p. 278).¹⁰ Conceptually, the use of first differences is appropriate because, controlling for the impact of structural factors, changes in social policy measures should reflect social policy reforms, which is the focus of this analysis. The drawback with estimating the model in first differences is that the information on long-term processes that might be contained in the data is removed. I account for this by dividing my 30-year period into three sub-periods and estimating them separately.¹¹

The specification for my basic empirical model takes the following form:

⁸Dummy variables absorb explained variance, which could be explained by the variables which are of theoretical interest. In addition, they highly correlate with other variables (mostly institutional variables) which vary little over time. For recent critique on whether or not to include country fixed-effects in pooled cross-section time series model see [Plümper and Troeger \(2007\)](#); [Plümper, Troeger and Manow \(2005\)](#). In a related paper, [Kittel and Obinger \(2003\)](#) explicitly exclude country fixed-effects and justify this choice by asserting that one of their core explanatory variables is institutional rigidity which does not vary over time.

⁹In the long run, variables such as the decommodification index or public expenditure as % of GDP should move towards equilibrium and be stationary due to the fact that they are bound between 0 and 100. However, the period for which the data is available is too short. Therefore it is technically correct to use the first difference of the variables.

¹⁰If x_{t-1} corresponds to the level of a variable, the first difference is $\Delta x_t = x_t - x_{t-1}$.

¹¹Some authors (see e.g. [Iversen and Cusack, 2000](#); [Kwon and Pontusson, 2005](#); [Primo, 2006](#)) estimate error correction models that include the level and the first difference of all variables in the model. Error correction models allow estimation of the short- and long-term impact of the explanatory variables in one model. However, variables included in error correction modes should ideally be co-integrated. This is not usually the case for the data used in comparative welfare state research. Therefore, I refrain from estimating such a model.

$$\begin{aligned} \Delta DV_{i,t} = & \beta_0 + \beta_1 \times GovernmentIdeology_{i,t-1} + \beta_2 \times \Delta ActualFlows_{i,t} + \\ & \beta_3 \times \Delta FinancialFlows_{i,t} + \beta_4 \times \Delta Econ.Growth_{i,t} + \\ & \beta_5 \times \Delta Unemployment_{i,t} + \beta_6 \times \Delta Deindustrialization_{i,t} + \\ & \beta_7 \times \Delta Elderly_{i,t} + \beta_8 \times PoliticalConstraints_{i,t} + \\ & \left(\sum_{i=1}^n \times \beta_{i-1} CountryDummy_{i,t} \right) + \epsilon_{i,t} \end{aligned}$$

Where $DV_{i,t}$ is either Redistributive Generosity $_{i,t}$ or Expenditure $_{i,t}$ as indicated for the different analyses.

4.2.2 Data

Dependent Variables

Redistribution: The concept of redistribution is complex and manifold. The state redistributes through various channels. This redistribution is effected both across various income classes (horizontally) and across generations (vertically). Generally, party governments have the capacity to influence horizontal as well as vertical redistribution. Measuring all dimensions of redistribution in one concept is a difficult undertaking. Based on the theoretical framework presented in the previous chapter, the main interest in this project is to examine the (joint) impact of party governments and constraints on two main segments of the labor market. Therefore, I rely on the decommodification index by Scruggs and Allan (2005) as a measure of redistributive generosity towards labor market ‘insiders’. Decommodification – originally a concept by Polanyi (1954) and further developed by Offe and Esping-Andersen – ‘captures the degree to which welfare states weaken the cash nexus by granting entitlements that are independent of market participation’ (see Esping-Andersen (1990, p. 37f) and Esping-Andersen (1999, p. 43)). Scruggs and Allan argue that decommodification can be seen as a ‘more or less direct proxy of the redistributive profile of the welfare state’ (Scruggs and Allan, 2004, p. 21).

The decommodification index combines various dimensions of the three core welfare state programs; public pension, unemployment, and sick pay. Measures of redistribution based on household income data (such as the Luxembourg Income Study data) mainly include the financial capacities of an average household. In contrast with

this mode of analysis, the decommodification index is a composite index which also takes into account the regulative and institutional aspects of welfare policies such as the duration and level of an entitlement. It also takes into consideration the criteria a person must fulfill in order to receive this entitlement. The degree of decommodification is highest if an individual without employment earns as much as she would earn while having a job. The higher the value of the decommodification index, the more a government redistributes towards and among labor market ‘insiders’. [Scruggs \(2005\)](#) provide the measure for 18 countries over more than 30 years.

The measure thus includes particular aspects of redistribution. Obviously, the state has additional possibilities to redistribute wealth, especially by means of the taxation system. However, this study does not take taxation and alterations to the tax system by party governments into account. This form of vertical redistribution is an important pillar of redistribution within capitalist democracies. Redistribution can either be *horizontal*, meaning that resources are redistributed across different social strata, or *vertical*, which implies that the resources are redistributed among the members of a particular group. In the case of decommodification, this refers to the group of people within a society who have a job. The two forms of redistribution also represent two different views of the overall societal impact of redistribution. Whereas the increase of *horizontal* redistribution should make society more egalitarian, *vertical* redistribution is mainly a safety net for individuals who have access to this particular form of redistribution. Globalization and the further increase of international trade made the working population in industrialized democracies more vulnerable to job loss. Therefore, globalization could lead to a new ‘double movement’ as described in [Polanyi \(1954\)](#). Employees have to be compensated for potential job loss due to structural change in the economy and increased international competition. Still, the manner in which employees are compensated in case of job loss is likely to differ according to the partisan preferences of party governments.

While this index reflects the redistributive elements of a welfare state, it primarily indicates how redistributive welfare states favour ‘insiders’ because it demonstrates that resources are allocated to people covered by the main social security programs. For instance, pension schemes are most beneficial for those people who have been integrated into the labor market during most of their lives. To be eligible for unemployment insurance benefits, workers need to have made contributory payments over a certain period of time and this goes hand in hand with regular long-term employment. The same applies to the third scheme - sick pay - which is included in the decommodification index. The decommodification index thus primarily captures redistributive generosity towards people who are still integrated in the working process

or who have been integrated in the labor market in earlier stages of their lives, and such people should be considered as ‘insiders’.¹²

Social Expenditure: To test my hypothesis that party governments cannot influence the level of spending anymore due to various external and internal constraints, I rely on a popular variable in welfare state research – the share of social expenditure as percentage of GDP (see e.g. [Amable, Gatti and Schumacher, 2006](#); [Burgoon, 2001](#); [Huber and Stephens, 2001](#); [Brooks and Manza, 2006](#); [Castles, 2002](#); [Kittel and Obinger, 2003](#)).¹³

Explanatory Variables

Government Ideology Score: Even though government partisanship is one of the crucial variables used in quantitative comparative research on welfare state development, the operationalization of the concept is a rarely discussed issue in the comparative political economy literature. Most studies analyzing the impact of party government on various forms of welfare state outcomes use the strength of leftist or right-wing parties in governments as an indicator of government partisanship.¹⁴ However, this indicator does not take into account the multi-dimensionality of most party systems. Another problem is that variables based on the share of seats held by left-wing (and Christian democratic) parties do not represent the ideology of a party government, respectively its position on a left-right scale. Only recently scholars in comparative political economy started to decompose party governments and construct more meaningful measures of government ideology and policy positions of governments. Together with this development, the interest in measuring policy positions of parties (and other political actors) increased gradually during the last years. In addition to the mem-

¹²The decommodification index is avoiding a concern raised by [Bergh \(2005\)](#), namely that measures of redistribution which solely rely on data about pre- and post tax household incomes ignore the interdependence between the welfare state policies in general and their implication for tax systems. Welfare state policies affect the level of income before, but also after taxes. Bergh refers to this problem as the counterfactual problem and even argues that the pre-/post approach is inappropriate for comparative welfare state research.

¹³A number of scholars in comparative welfare state research use the share of total government spending as % of GDP in order to estimate the impact of politics on welfare state and (public) policy outputs and to test the ‘room to maneuver’ thesis (see e.g. [Brady, Beckfield and Seeleib-Kaiser, 2004](#); [Burgoon, 2001](#); [Iversen, 2001](#); [Rodrik, 1998](#)). I estimated my models using total social expenditure and total public spending. The estimates for the ‘public expenditure’ models can be found in the appendix.

¹⁴The missing critical discussion of the indicators used is criticized by [Schmidt \(1996, p. 196\)](#): ‘the choice of a particular indicator of the party composition of government can make a very large difference to estimates of partisan influence on public policy’ and that ‘the reductionism inherent in the choice of a unidimensional measure of party composition (or government composition (added EH) is difficult to justify’ ([Schmidt, 1996, p. 158](#)).

bers of the ‘Comparative Party Manifesto’ project several other scholars are trying to locate parties in the political space either using computerized text analysis of party manifestos, expert surveys or hand-coding of manifestos and/or newspapers (see for example work by [Kriesi et al. \(2006\)](#); [Slapin and Proksch \(2008\)](#) or the special issues of ‘Electoral Studies’ (Volume 26, Issue 1).

In order to address these drawbacks, I use the [Kim and Fording \(2002\)](#) measure of government ideology. Their measure is based on the Comparative Party manifesto data. This contains a range of policy positions and the attitudes of each party competing for votes in a country. The Comparative Manifesto Project extracts the ideological positions of parties towards various policy issues and areas by analyzing the texts of the party manifestos. Usually, the party manifestos of the election year are analyzed.¹⁵ Kim and Fording use the left-right scale contained in the CMP project data base. This index is essentially based on 26 categories (where 13 categories comprise leftist ideologies and 13 categories represent the ideologies of the political right) which have been developed by [Laver and Budge \(1993\)](#) (the 26 categories are listed in the appendix). The formula used to calculate the government ideology score is as follows:

$$\Sigma\{Ideology_i \times (\#Posts_i/TotalPosts)\}$$

Where party ideology (ID) = (IDLeft-IDRight)/(IDLeft+IDRight) and where $\#Posts_i$ = the total number of cabinet posts controlled by party i ; $Ideology_i$ = the ideology of party i ; and $Total Posts$ = the total number of posts in a given government.

This index has two advantages over the commonly used measures of party governments:

- It is a continuous measure of government ideology which allows for meaningful comparisons across countries and time.
- The government ideology score index also takes into account the relative share of power held by each party in the government (the share is higher when a party holds more seats in the cabinet).

Higher values on this index mean that the government is more left-wing. Kim and Fording’s index ranges from 1970 until 1994. I updated the index using

¹⁵The project has been launched in the 1980s by the ECPR manifesto group. Originally, 19 democracies were included. Recently however, the project integrated the Eastern and Central European Countries as well.

exactly the same formula and information using the newly released dataset by the Party manifesto Research Group (Klingemann et al., 2006) and the yearly ‘Political Data’ update included in the last issue of the ‘European Journal of Political Research’ where I extracted the information about the cabinet compositions.¹⁶

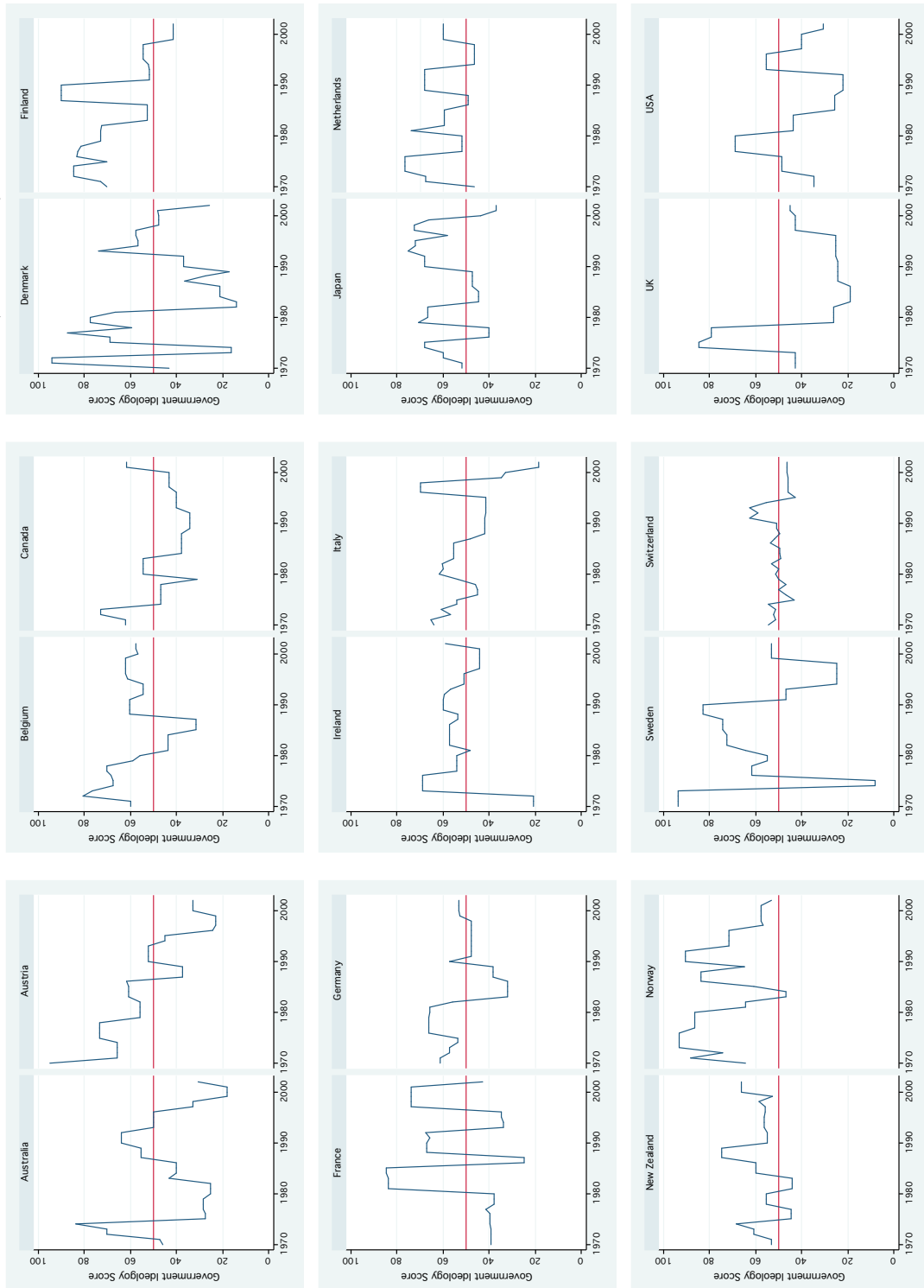
An alternative measure of government partisanship or government ideology would be to rely on expert surveys and experts’ perceptions of government ideology on a left-right scale. However, the use of expert surveys in a time series cross-country study is problematic. This is due to the fact that expert surveys on the countries included in my analysis are rare and they are usually only conducted once. The earliest survey available is the one by Castles and Mair (1984). This first available survey includes all countries but Switzerland. Following Castles’ and Mair’s seminal work, other scholars conducted expert surveys at different points in time (see Laver and Hunt, 1992; Huber and Inglehart, 1995). The survey by Huber and Inglehart is the most recent (to my knowledge) and is the only one that includes all countries included in my analysis. The validity of expert surveys is similarly contested just as the validity and reliability of other measures of government partisanship and government ideology are disputed.

The government ideology score is the core independent variable in my model. The graphs included in figure 4.2 show how government ideology varied over time and across the 18 countries included in my subsequent analyses. The scale on the y-axis is the same for all graphs (0-100), where 0 signifies the most conservative position a party can take and a score of 100 would represent a purely left-wing party government. I also included a reference line at 50-point mark of the scale. There is considerable variation in government ideology in all countries. The country with the least variation in government ideology is Switzerland. This is not surprising since the composition of the governing coalition did not change during the period of investigation.¹⁷ However,

¹⁶The data of the party manifesto project are also critically discussed. The critique mainly concerns the reliability and validity of the hand-coded manifesto data. The discussion is dominated by two main issues, one is of a substantive nature (whether or not the categories still capture what they intended to capture) the other is methodologically driven (whether or not the hand-coding of the party manifesto generates reliable results). These issues have to be taken seriously and scholars must be aware of potential pitfalls. Nonetheless, the political manifesto database is the only data set that combines exhaustive information on party ideology and government partisanship across so many countries and over such a long time period. The current discussion is well represented by the work of Mikhaylov, Laver and Benoit (2008); Benoit, Laver and Mikhaylov (2007); Volkens (2007); Keman (2007); Albright (2007). There is disagreement within the discipline as to whether the CMP data represent the salience of an issue or simply the position of parties concerning a given issue relative to one another. The data has been used for both as an indicator for the *salience* of particular issues (e.g. Green-Pedersen and Mortensen, 2010; Bräuning, 2005) but has also been used in connection with theories on the *spatial proximity* of parties (or policy positions) (see e.g. Becher, 2010; Finseraas, 2010; Pontusson and Rueda, 2010). Mikhaylov (2009) discusses the properties of the data as measures of proximity and salience.

¹⁷Between 1956 and 2002 the seven seats of the Swiss executive were distributed as follows. The Christian Democrats (CVP), the Liberal party (FDP) and the Social Democrats (SP) each had two

Table 4.1: Change of the Government Ideology Score over Time (by Country)



even without actual changes in the composition of the executive, the ideological position of the Swiss government became more leftist in the first half of the 1990s and experienced a shift to the right in the second half of the 1990s.

*Economic Globalization*¹⁸: I measure economic globalization using two different indicators. I include an index of capital openness by Chinn and Ito (2005) and a measure of trade flows.¹⁹ The index by Chinn and Ito is based on four binary variables that they extract from the ‘*Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER)*’ by the IMF. The index does not measure actual financial flows in and out of a country but captures legal restrictions inhibiting international capital flows (for an extensive discussion of the index see Chinn and Ito (2005), Appendix 2.) The less intense the control of financial flow, the more globalized the economy.

In order to complement the measure of the impact of globalization on redistributive generosity and government spending, I include a second variable which captures various measures of actual flow of goods and capital, mainly foreign direct investment, trade and income payments to foreign nationals (all measured as percent of GDP).²⁰ The higher a country’s exposure to international trade, the more vulnerable its domestic economy towards external economic shocks.

I did not include a dummy variable for EU-membership countries. On the one hand, globalization effects and Europeanization effects are strongly related, on the other hand, my main interest is social policies. In this particular case, the decommodification index includes unemployment, pension and sick-pay benefits. These are all policies that belong to the domestic realm of policy-making. In addition, the impact of the European integration process should mainly have an impact on the expenditure

seats and the Swiss People’s Party (SVP) had one seat. It was only in 2003 that the partisan composition of the executive changed for the first time since 1956. In 2003, the parliament elected the party leader of the SVP into government, the second seat for the SVP came at the expense of the Christian Democrats.

¹⁸In addition to economic globalization, scholars often also differentiate between political, cultural or legal globalization. The concept of economic globalization, however, is most helpful for this study. Moreover, it is directly measurable.

¹⁹For practical reasons I did not use a similar measure of financial openness by Quinn (1997) because Chinn and Ito provide longer time series. However, in order to test the consistency of the results of my empirical model, I estimated the model using the financial openness measure by Quinn (1997). The substantial implications of the results did not change. Both indices measure *de jure* financial openness. According to Chinn and Ito (2005, p. 8) the correlation between their measure of capital openness and the index by Quinn is found to be 83.9%.

²⁰This indicator is part of the KOF index of globalization, a project which operationalizes globalization as a multi faceted phenomenon where economic globalization is just one, albeit important, dimension. Other dimensions included in their overall measure of globalization are social globalization and political globalization. For an overview see: <http://globalization.kof.ethz.ch/>.

dimension (due to the budgetary constraints, which are set by the European Union). This is a dimension that – according to my theoretical argument – is outside the realm of the impact of party governments.

Domestic Factors: The ongoing change to the economic structure in western countries is often discussed as a source of pressure on party governments. In order to measure the impact of the changing economic structure on welfare generosity, I include a deindustrialization variable in my model that measures the people working in the industrial and agrarian sector as percentage of the total labor force (see for example [Iversen and Cusack, 2000](#)). A second source of domestic pressure is unemployment. The unemployment rate is also an indicator of structural change and negative economic performance. A third source of pressure on the ability of partisan government to influence the redistributive generosity of core welfare state programmes is demographic change. The higher the share of aged people relative to the total population of a country, the higher the redistributive efforts of a government. I operationalize change in the demographic structure of a population as percentage of the total population that is 65 years and older. In addition to the previously mentioned domestic factors, I also control for ‘economic growth’, measured as yearly change in GDP.²¹

Veto-Points/Political Constraints: The theory suggests that veto points have a significant impact on the policy-making capacity of the incumbent party government. Institutional settings and veto players can either facilitate or hinder social policy-making. I include Henisz’ measure of political constraints ([Henisz, 2004, 2006](#)). This measure of political constraints estimates the feasibility of policy change (the extent to which a change in the preferences of any one actor may lead to a change in government policy), or the extent to which a given political actor is constrained in his choice of future policies. Henisz’ uses the logic of spatial modeling to calculate the index for the various countries included in his dataset. The index ranges from 0 (no/low political constraints) to 1 (high political constraints). The index takes into account the various independent branches of government, such as the upper and lower chamber, an independent judicial agency and sub-federal governments. In addition, the index considers the degree to which the different potential veto players are aligned based on the party composition of the different branches of government.²² Table 4.2 shows the

²¹The source of these indicators is the OECD. The unemployment data is part of the OECD Main Economic Indicators and the demographic as well as the service employee variable is to be found in the OECD labor force statistic.

²²Henisz’ measure of political constraints is more comprehensive than the additive indices consisting of various institutional features because it is based on a spatial model of political interaction to derive the likelihood of policy change. For robustness checks, I also used the CHECKS variable included in the ‘Database of Political Institutions’ by [Keefer and Stasavage \(2003\)](#), the results were essentially

summary statistics of the variables that enter the model (cross-correlation coefficients of the variables can be found in the Appendix.)

Table 4.2: Summary Statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Δ Redistributive Generosity	0.137	1.016	-4.168	10.673	526
Δ Social Expenditure	0.163	0.900	-3.700	5.1	357
Government Ideology	0.529	0.179	0.079	0.941	526
Constraints	0.464	0.26	0	1	526
Δ Trade Flows	1.188	3.816	-20.88	20.98	526
Δ Financial Flows	0.062	0.291	-1.297	2.231	526
Δ Economic Growth	-0.096	2.419	-9.2	9.2	526
Δ Unemployment	0.115	1.013	-2.96	5.06	526
Δ Deindustrialization	-0.65	0.656	-5.998	2.919	526
Δ Elderly	0.125	0.161	-0.71	0.67	526

4.3 Discussion of the Results

In the following tables and graphs, I present the results for both dependent variables; redistributive generosity and government expenditure. The empirical part of this chapter consists of three sections. The first section establishes the baseline model, the second section adds the mediating effect of either political constraints or globalization; and the third part examines the long-term relationship between party government and the two dimensions of aggregate welfare state outputs.

4.3.1 Basic Empirical Model – Unconditional Effects

Table 4.3 presents the coefficients for the ‘redistribution model’ and Table 4.4 presents the coefficients for the ‘expenditure model’. Each table includes three different models. The first model (column 1 and 2) shows the coefficients of the model with the continuous government ideology scale. In the second and third model (column 3 - 6) the continuous government ideology variable is replaced by a dummy variable that

the same. The dataset available on the World Bank website (<http://econ.worldbank.org>, within the data repository). The drawback to this index is that it only starts 1975.

either represents a leftist government (columns 3 and 4) or a conservative government (column 5 and 6).²³

The basic models show a statistically significant and positive impact of government ideology on redistributive generosity. The estimated parameters of the models with and without country dummies are very similar. This means that governments with a higher score on the ideology scale reform social policy to bring about higher program generosity. In other words, when the share of leftist parties in a government is higher, the welfare state is more redistributive and more financial means are allocated to people covered by core social insurance programs such as pension schemes and unemployment insurance. Specifically, if government ideology changes from 0 to 1, i.e. from a fully right-wing to a fully left-wing government, the change in redistributive generosity on average increases by ca. 0.9 (when country dummies are included). If we assume that a government is in office over a standard legislative period of four years, the cumulated change in redistributive generosity during the legislative term is an increase of almost 4 (when country dummies are included) when a left-wing party is in government.

This result confirms the idea that leftist governments still have an impact on the redistributive dimension despite the constraints on the expenditure side. The parameters of the models with and without country dummies are nearly the same.²⁴ This implies that the association between the variables within a particular unit is the same as the association between the variables of the pooled model. The coefficients, however, only reflect a combined estimate over time and across all countries. In order to evaluate whether and how the impact of government partisanship has changed during the last three decades I divide the period into three sub-periods and re-estimate the same empirical model for each sub-period.

The results of the variable capturing political constraints are mixed. The variable has a statistically significant and negative impact only in the interaction model where country fixed-effects are excluded. In the other models, the coefficient is negative, but statistically insignificant. This would imply that political constraints decrease the redistributive activities of a state. It is not possible to draw some final conclusions concerning the impact of institutional veto points at this stage. Fixed-effects and institutional variables often capture similar effects because both are time invariant (country

²³The government dummy takes value 1 if the government ideology score varies between 66.09 and the overall maximum that is present in the sample. It takes 0 for every government with a score below 66.09. For the conservative government dummy variable, the opposite is true.

²⁴Country fixed-effects allow for different unit intercepts. This means that the estimation of the coefficients is mainly based on the variation of the variables *within* the units.

Table 4.3: Regression Estimates for Determinants of Δ in Decommodification as a Measure of Redistributive Generosity

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology $_{t-1}$	0.915*** (0.292)	0.725*** (0.281)				
Left Gov. $_{t-1}$			0.207** (0.094)	0.194** (0.091)		
Right Gov. $_{t-1}$					-0.207** (0.094)	-0.194** (0.091)
Pol. Constraints $_{t-1}$	-0.388 (0.774)	0.008 (0.150)	-0.368 (0.787)	-0.017 (0.148)	-0.368 (0.787)	-0.017 (0.148)
Δ Trade Flows $_t$	-0.016 (0.013)	-0.018 (0.013)	-0.015 (0.014)	-0.017 (0.014)	-0.015 (0.014)	-0.017 (0.014)
Δ Financial Flows $_t$	-0.313** (0.128)	-0.320** (0.128)	-0.304** (0.128)	-0.314** (0.128)	-0.304** (0.128)	-0.314** (0.128)
Δ Econ. Growth $_t$	0.028 (0.018)	0.028 (0.018)	0.029 (0.019)	0.029 (0.019)	0.029 (0.019)	0.029 (0.019)
Δ Unemployment $_t$	-0.016 (0.048)	-0.011 (0.048)	-0.010 (0.049)	-0.008 (0.049)	-0.010 (0.049)	-0.008 (0.049)
Δ Deindustrialization $_t$	-0.137* (0.074)	-0.125* (0.074)	-0.152** (0.075)	-0.140* (0.074)	-0.152** (0.075)	-0.140* (0.074)
Δ Elderly $_t$	-0.131 (0.299)	-0.092 (0.252)	-0.064 (0.304)	-0.032 (0.255)	-0.064 (0.304)	-0.032 (0.255)
Constant	-0.007 (0.634)	-0.276 (0.175)	0.301 (0.637)	0.002 (0.108)	0.508 (0.635)	0.196* (0.109)
R ²	0.07	0.05	0.05	0.04	0.05	0.04
χ^2	84.65	22.48	92.58	20.63	92.58	20.63
p-Value	0.000	0.004	0.000	0.008	0.000	0.008
ρ	-.00	.01	.01	.02	.01	.02
N	526	526	526	526	526	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

fixed-effects) or exhibit little variance over time (political constraints/institutional settings).²⁵

The variables measuring economic openness show signs that point in the expected direction and vindicate the hypothesis that greater openness has a negative impact on the overall redistributive generosity of core welfare state programmes. However, only the association between yearly change in financial openness and redistribution is consistently and highly statistically significant in all of the models. This supports the argument that globalization has, at least in the short run, a negative effect on the welfare state and on social policies. The structural variables have a negative impact on the redistributive generosity of core welfare state programs towards labor market insiders. However, the coefficient for unemployment is not statistically significant. Deindustrialization has a considerably strong negative and statistically significant impact. The models imply that high unemployment as well as a bigger share of people working in industry and agriculture suppresses the redistributive generosity of core welfare state programs such as pension, unemployment insurance and sick pay. The share of elderly people has a negative, statistically insignificant impact on the redistributive generosity. The negative sign can be theoretically justified, since, in a manner similar to the negative sign for the unemployment variable, the bigger the share of retired people in a society, the more resources the state requires in order to redistribute wealth. However, the redistributive generosity of the program does not necessarily increase when more people have to rely on it. Based on these first analyses we can draw a preliminary conclusion and confirm the hypothesis derived from the theoretical framework, namely, that leftist party governments have a positive and significant impact on redistributive generosity. The ongoing structural changes are only partly related to redistributive outcomes – measured as redistributive generosity – on the macro-level. This is true despite domestic and international constraints. The redistributive dimension is an important pillar of social policy making and leftist governments seem to pursue different paths to those followed by right-wing governments do.²⁶

²⁵I will particularly focus on the impact of the institutional framework and the effect of various veto points (competitive and collective veto points) on reform processes in the subsequent case studies.

²⁶The variance explained - with an R^2 between 4% and 7% - is low, however, it is important to keep in mind that the model is specified in first differences and that many other (unknown) factors have an impact on *change* in redistributive generosity. The size of the R^2 is generally in line with similar studies within the field. The correlation coefficients (ρ), which are slightly below or above zero indicate that there is no evidence of first-order autocorrelation (A correlation coefficient of 0 equals 2 on the Durbin-Watson test statistic, which signifies no autocorrelation).

Table 4.4 presents the findings for the analysis of yearly change in social spending using the same explanatory variables.²⁷ Contrary to the results presented above, the variables measuring government ideology are not statistically significant, with the exception of the continuing measure of government ideology included in the fixed effects model (Table 4.4 column 1).²⁸ However, the signs indicate the expected outcome, i.e., that leftist governments would have a positive impact on expenditure and that right wing parties (see model 3 and 4 (left-wing) and 5 and 6 (right-wing), in table 4.4) would suppress social spending. This implies that party governments in general have no statistically significant impact on government expenditure in the short run. This finding is in line with the theoretical framework presented in the previous chapter and the general literature on government partisanship relating to its impact on the expenditure dimension in times of fiscal austerity and economic interdependence. According to the ‘room to maneuver’ thesis, the impact of (leftist) party governments should have waned in more recent years. I will examine question in more details in the next section, where I divide the period of analysis into two sub-periods.

Interestingly, financial openness does not have a statistically significant impact on government expenditure (in addition, the sign of the coefficient is in the wrong direction). The variable measuring financial openness is a *de jure* proxy of financial flows across countries and does not measure real out- or inflow of capital. This might be one possible explanation. Another explanation may be the fact that the financial markets of leading OECD economies were already considerably open to capital flow in the 1980s (see [Quinn, 1997](#), p. 805). The same is true for the actual measure of trade flows and flows in foreign direct investment. The sign of the coefficients points in the expected direction (implying that more trade and economic openness leads to a downward pressure on government expenditure) and is consistent with the fixed-effects models as well as the models where fixed-effects are excluded. Hence, the coefficient is not significantly different from zero. This finding is in line with [Dreher, Sturm and Ursprung \(2006\)](#) and [Iversen and Cusack \(2000\)](#) who conclude that the various forms of globalization have not affected the composition of government expenditure.

²⁷Due to the fact that the expenditure series only start at 1980, the number of observations is considerably smaller than in the redistribution models discussed above. The time series for ‘total government outlay as % of GDP’ start slightly earlier, therefore, the models displayed in the appendix, which are based on ‘government expenditure’ as dependent variable rely on a higher N.

²⁸The sensitivity analysis shows a consistent difference between the model including the country dummies and the models without fixed effects (see Appendix Table A-16). Whereas the fixed effects model show a statistically significant effect of government ideology on social spending, the ‘government ideology’ coefficient never reaches statistical significance in the models without fixed effects. Compared to the models using total government spending as % of GDP as dependent variable, the social spending models are less stable and consistent.

Table 4.4: Regression Estimates for Determinants of Δ in Social Spending as % of GDP

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology $_{t-1}$	0.761** (0.314)	0.410 (0.270)				
Left Gov. $_{t-1}$			0.062 (0.099)	0.021 (0.087)		
Right Gov. $_{t-1}$					-0.062 (0.099)	-0.021 (0.087)
Pol. Constraints $_{t-1}$	-1.381 (0.918)	0.074 (0.106)	-1.189 (0.920)	0.036 (0.106)	-1.189 (0.920)	0.036 (0.106)
Δ Trade Flows $_t$	-0.040*** (0.012)	-0.038*** (0.012)	-0.040*** (0.013)	-0.039*** (0.013)	-0.040*** (0.013)	-0.039*** (0.013)
Δ Financial Flows $_t$	0.087 (0.151)	0.057 (0.153)	0.086 (0.153)	0.065 (0.154)	0.086 (0.153)	0.065 (0.154)
Δ Econ. Growth $_t$	-0.121*** (0.024)	-0.120*** (0.024)	-0.121*** (0.024)	-0.120*** (0.024)	-0.121*** (0.024)	-0.120*** (0.024)
Δ Unemployment $_t$	0.329*** (0.056)	0.331*** (0.057)	0.336*** (0.056)	0.338*** (0.057)	0.336*** (0.056)	0.338*** (0.057)
Δ Deindustrialization $_t$	-0.121* (0.062)	-0.113* (0.062)	-0.123* (0.064)	-0.113* (0.063)	-0.123* (0.064)	-0.113* (0.063)
Δ Elderly $_t$	0.115 (0.283)	0.160 (0.242)	0.087 (0.286)	0.169 (0.241)	0.087 (0.286)	0.169 (0.241)
Constant	0.949 (0.732)	-0.145 (0.162)	1.077 (0.739)	0.068 (0.117)	1.139 (0.752)	0.088 (0.127)
R ²	0.37	0.34	0.36	0.34	0.36	0.34
χ^2	200.12	97.63	222.99	97.30	222.99	97.30
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.05	.08	.05	.07	.05	.07
N	357	357	357	357	357	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

If we turn to the domestic structural factors, we find that increasing unemployment has a strong positive and statistically significant short-term effect on government expenditure. This finding is consistent with the work by [Kittel and Obinger \(2003\)](#) and [Kwon and Pontusson \(2005\)](#). Intuitively, this strong positive effect makes sense. Higher unemployment rates lead to greater expenditure on unemployment benefits and other related active labor market policies (such as training, public employment measures, wage subsidies etc.). These measures are often cost-intensive. Interestingly, deindustrialization has a statistically significant but negative effect on public expenditure in all models. This contradicts [Iversen and Cusack \(2000\)](#) but is in line with the work by [Burgoon \(2001\)](#) who also finds a negative association between deindustrialization and government expenditure in the short run. One possible explanation for this result might be that some countries heavily subsidize the traditional industrial sector (e.g. Germany still subsidizes coal mining and most OECD countries finance certain industrial sectors to some degree). With the expansion of the service industry, concurrently with the decline of the industrial sector, the volume of these subsidies may decrease as well. The demographic structure has no statistically significant impact on public expenditure in the short run.

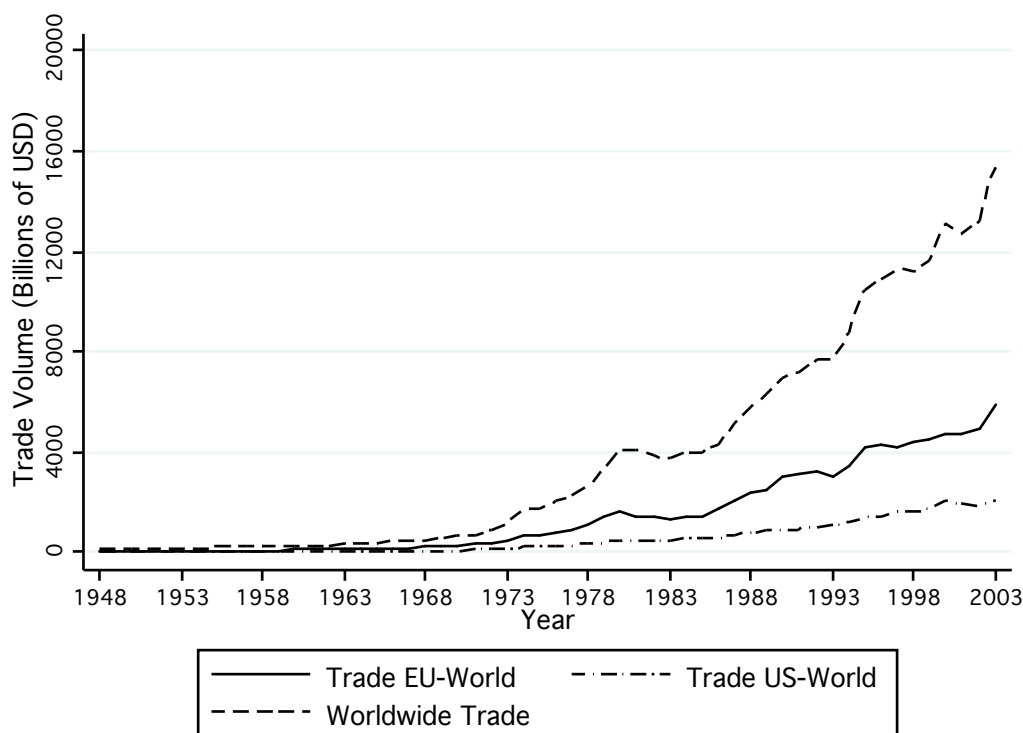
Unlike in the redistribution models discussed above, government ideology does not have a statistically significant impact on social expenditure. The two variables, which heavily affect social spending, are unemployment and deindustrialization. Both are domestic structural factors. In addition, and contrary to the ‘redistribution model’, economic growth has a statistically significant but negative effect on social spending. This is in line with the expectations. If the economy is well, social spending should be decreasing. In a manner similar to the redistribution model, the globalization variables have no statistically significant impact. In all but one model the results of the fixed effect model and the pooled model are consistent. The exception is the statistically significant and positive coefficient of the government ideology political constraints variable in the fixed effects model.

4.3.2 Changing Patterns of Partisan Effects over Time

Due to the fact that at least some of the time series included in my data set are non-stationary, I specified my model in first differences. However, even though this is the econometrically correct way to deal with the data I have at hand, the specification in first differences has the drawback that it is not possible to make statements about

the long term association between the variables.²⁹ This is an unsatisfactory outcome.

Figure 4.2: Development of World Trade (1970-2003)



However, dividing the time period in three sub-periods partially helps to solve this problem.³⁰ Therefore, I separately estimate the ‘redistribution’- model for the following three sub-periods: 1971-1982, 1983-1992, and 1993-2002.³¹ The first period ranges from 1980 until 1991, the second period covers the years from 1992 until 2002. The division into these three sub periods is guided by the way the world economy has changed during this period. Figure 4.2 shows how economic activities developed over the last 35 years. Between 1970 and 1982, world trade increased only very little. This period is characterized by high barriers on trade in goods and in capital. In the 1990s

²⁹However, [Kittel and Winner \(2005, p. 286\)](#) argue that the theoretical association between globalization, party government and welfare state development is stable over time. Therefore a specification in first differences is appropriate as well.

³⁰Another approach to analyze the long term association between the dependent variable and the explanatory variables is to estimate an error correction model (see e.g. [Iversen and Cusack, 2000](#); [Kwon and Pontusson, 2005](#); [Primo, 2006](#)). However, the estimation of error correction models requires that the individual time series in the data set be co-integrated, which is not usually the case with data used in comparative welfare state research. Critics therefore argue that researchers should refrain from estimating error correction models in comparative welfare state research.

³¹Due to the fact that the ‘social spending’ time series only start in 1980, I divide the 22 year period into two sub-periods.

world trade increased steadily and at a faster pace. The second period is coined by the Uruguay Round which took place between 1986 and 1994 and finally led to the creation of the World Trade Organization (WTO) in 1995. The negotiations, which included a great variety of issues (e.g. tariffs, non-tariff barriers, subsidies, agriculture, intellectual properties, and investment measures), had a huge impact on world trade. The volume of traded goods more than tripled during this period. Together with the increase in traded goods, capital markets have been liberalized significantly during this period. The third period encompasses the years between 1993 and 2002. New trade agreements were negotiated under the auspices of the WTO which resulted in further facilitation of trade. During this period, the trade in goods doubled. The following two tables (4.5 and 4.6) show the regression results for the separate periods for both dependent variables.

Some of the coefficients are stable over time, while others change. Stable over time is the negative, but not statistically significant impact of trade on the redistributive generosity of core welfare state programs. The impact of financial openness is negative and consistent over time. However, during the first period, the impact is statistically significant whereas during the later periods, the magnitude of the coefficients decrease and the statistical significance disappears. This result makes sense, due to the fact that the financial market of the OECD countries was already considerably open in the early 1980s. The statistically significant and negative impact of financial openness on redistribution during the first period might be a consequence of the ongoing adjustment process.

The impact of domestic structural changes on redistribution across time is mixed. Deindustrialization has no statistically significant impact during the first period. However, during the second and third sub-period, the impact is statistically significant and negative. This implies that the structural change of the domestic economy suppresses the redistributive generosity, especially from the mid 1980s. Change in unemployment negatively (and statistically significantly) affects redistribution only during the most recent period. During the first and the middle period unemployment has no significant impact on redistribution and the direction of the sign changes. The core explanatory variable, government ideology, affects the dimension of redistributive generosity as expected. During the 1970s as well as during the late 1990s (early 2000) leftist party governments had a statistically significant and positive impact on redistribution. It is only during the second sub-period that government partisanship did not have an impact on change in redistribution. These findings are in line with my theoretical argument, which emphasizes that party governments and especially leftist party governments successfully influence redistributive patterns of welfare states.

Table 4.5: Impact of Government Partisanship over Time, Dependent Variable: Δ in De-commodification as a Measure of Redistributive Generosity

	1971-1982		1983-1992		1993-2002	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology $_{t-1}$	1.661** (0.688)	1.189* (0.613)	0.028 (0.652)	-0.122 (0.467)	0.610* (0.368)	0.680* (0.392)
Pol. Constraints $_{t-1}$	1.738 (1.456)	0.170 (0.367)	-0.349 (2.088)	-0.019 (0.211)	-0.312 (1.186)	-0.116 (0.122)
Δ Trade Flows $_t$	-0.014 (0.033)	-0.014 (0.032)	-0.012 (0.025)	-0.010 (0.024)	-0.018 (0.011)	-0.017 (0.011)
Δ Financial Flows $_t$	-0.513** (0.241)	-0.514** (0.252)	-0.279 (0.234)	-0.332 (0.220)	-0.066 (0.286)	-0.014 (0.302)
Δ Econ. Growth $_t$	0.045 (0.029)	0.043 (0.030)	-0.004 (0.033)	-0.007 (0.033)	0.020 (0.025)	0.018 (0.026)
Δ Unemployment $_t$	0.071 (0.108)	0.075 (0.111)	-0.012 (0.054)	-0.018 (0.056)	-0.093* (0.050)	-0.129** (0.063)
Δ Deindustrialization $_t$	0.062 (0.162)	0.109 (0.161)	-0.232** (0.110)	-0.236** (0.109)	-0.212** (0.099)	-0.223** (0.108)
Δ Elderly $_t$	0.449 (0.490)	0.245 (0.687)	-0.323 (0.451)	-0.191 (0.412)	-0.558 (0.414)	-0.327 (0.302)
Constant	-1.987 (1.327)	-0.354 (0.400)	0.160 (1.651)	0.005 (0.240)	-0.061 (0.939)	-0.342 (0.221)
R ²	0.11	0.06	0.08	0.05	0.23	0.08
χ^2	468.25	11.28	125.56	9.17	415.14	33.20
p-Value	0.000	0.186	0.000	0.328	0.000	0.000
ρ	-.04	.04	.08	.13	-.00	.16
N	187	187	164	164	175	175

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

The results of the social expenditure model (see table ??) also show some associations between the independent and the dependent variable, which are consistent over time. The variable capturing the flows of goods has a statistically significant and negative effect in the first and in the second period. The effect, however, is marginal. Economic growth also has a statistically significant and negative effect during both periods. Unemployment has a consistently positive and highly significant relationship to government expenditures. The impact of structural domestic changes (deindustrialization) has a negative impact but is statistically significant only during the last period. The coefficients of the political constraints variable are not statistically significant. In addition, the sign varies from negative in the fixed effects model to positive in the pooled model. This might be related to the fact that the political constraints variable varies only little over time, which makes it difficult to come up with coherent estimates.

The effect, I am most interested in, however, is the impact of government ideology on social spending. The effect of government ideology on social spending was inconsistent in the basic model discussed in the previous section. According to the ‘room to maneuver’ thesis, I do not expect government ideology to have a statistically significant effect in the second sub-period because external and internal factors constrain party governments in their options on the spending dimension. The result confirms this expectation. Whereas during the first period government ideology has a statistically significant and positive effect on social spending, the statistical significance disappeared in the second period, which is in line with the theoretical expectations. The effect, however, is still in the expected direction.

The analyses show that government partisanship still has a significant impact on welfare policies in the short run. Party governments might have lost their ability to shape social expenditure but there are other dimensions on which political parties in power influence the development of mature welfare states in recent years. The room to maneuver on the expenditure dimension has significantly waned. Even though the sign of the effect goes in the expected direction (positive values for leftist party governments, negative values for right-wing party governments) the impact of party government is never statistically significant in the model for the second period (1992 - 2002).

Most surprisingly, the association between globalization and the welfare state is not as strong and clear-cut as expected. Even though the international environment changed greatly during the period of analysis, the effect of a more open economic system does not seem to linearly transform the welfare state. However, this finding is in line with [Brady, Beckfield and Seeleib-Kaiser \(2004\)](#) and [Burgoon \(2001\)](#) who also

Table 4.6: Impact of Government Partisanship over Time, Dependent Variable: Δ in Social Spending

	1980-1991		1992-2002	
	FE	No FE	FE	No FE
Gov. Ideology $_{t-1}$	0.229 (0.431)	0.603** (0.285)	0.554 (0.455)	0.139 (0.406)
Pol. Constraint $_{st} - 1$	-0.372 (1.734)	0.172 (0.187)	-1.535 (1.189)	0.069 (0.131)
Δ Trade Flows $_t$	-0.042*** (0.016)	-0.034** (0.015)	-0.042** (0.019)	-0.045** (0.019)
Δ Financial Flows $_t$	0.122 (0.144)	0.078 (0.148)	0.080 (0.228)	0.110 (0.241)
Δ Econ. Growth $_t$	-0.115*** (0.029)	-0.120*** (0.029)	-0.106*** (0.039)	-0.109*** (0.038)
Δ Unemployment $_t$	0.416*** (0.057)	0.385*** (0.059)	0.280*** (0.107)	0.246** (0.108)
Δ Deindustrialization $_t$	0.014 (0.071)	-0.028 (0.069)	-0.273** (0.126)	-0.252** (0.122)
Δ Elderly $_t$	0.136 (0.417)	0.203 (0.367)	-0.057 (0.656)	0.244 (0.392)
Constant	0.359 (1.436)	-0.197 (0.196)	1.142 (0.905)	-0.146 (0.269)
R ²	0.53	0.44	0.36	0.26
χ^2	490.71	82.69	440.87	36.85
p-Value	0.000	0.000	0.000	0.000
ρ	-.05	.04	.03	.12
N	166	166	191	191

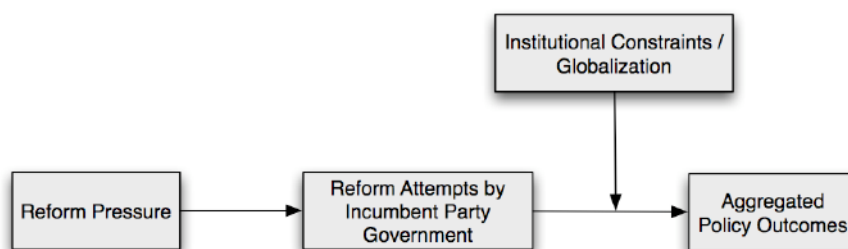
Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

conclude that the effect of globalization on aggregated welfare state outcomes is relatively small. Domestic structural change (in itself influenced by globalization) has a much stronger impact on welfare state outcomes, redistribution as well as government expenditure. However, the general (but in most cases not statistically significant) direction of the impact of globalization on welfare states is negative, as theory suggests. These findings confirm the need for more detailed analysis of domestic processes shaping welfare state reforms and outcomes. The following section examines whether and how political constraints and globalization condition the ability of party governments to shape the development of social policies in the desired direction.

4.3.3 Interaction Effects (Conditional Effects)

The basic models discussed in the previous section mainly assess the immediate association between the dependent and the independent variables. Often theory suggests that social phenomenon have an intervening effect and affect the relationship between a particular explanatory factor and the dependent variable. Econometrically, we can model these intervening effects using multiplicative terms. My theoretical framework strongly suggests that the impact of government partisanship on redistribution (as well as on expenditure) is shaped by the institutional setting on the one hand, and/or by the intensity of globalization on the other hand. The following figure (4.3) visualizes this intervening or conditional relationship.

Figure 4.3: The Intervening Effect of Political Constraints/Globalization



The inclusion of interaction effects does not affect the econometrics of the empirical model. However, it is crucial to bear in mind that the interpretation of the coefficients in an interaction model is not as straightforward as the interpretation of simple regression coefficients. Interaction effects are also called conditioning effects. The effect of a particular variable X is conditioned on the value of Z . Hence, the co-

efficients of multiplicative terms do not reveal whether variable X has a meaningful conditional effect on the dependent variable (Y) when the conditioning variable (Z) is different from zero. In order to show the impact of X on various values of Z it is necessary to present more than just the regression coefficient. I illustrate the conditional logic of multiplicative interaction term by means of graphs, which display the marginal effects. To illustrate the conditional effects is additionally important due to the fact that a seemingly statistically insignificant coefficient – which is not significantly different from zero on a 95% significance level – captures the coefficient of the multiplicative term at a single value of the variable. However, the significance of the coefficient is conditional and varies when the conditioning variable changes its value, which is not captured by the coefficient demonstrated in the regression table.³² In the following section, I first examine the modifying effects of political constraints and second the modifying effects of globalization, measured as international trade.

The Modifying Effect of Political Constraints

The institutional setting in which political processes take place has an important impact on the policy outcomes. The impact of party governments varies across institutional systems. Therefore, I evaluate the effects of political constraints (veto points) on redistribution and expenditure estimating an interaction model. Political constraints and political institutions significantly influence the ability of political actors to shape policy outcomes. According to [Birchfield and Crepaz \(1998\)](#) they can act as ‘transmission belts’ between various political actors and their preferred policies or they can slow down government activities and plans. I therefore argue that the impact of government partisanship varies significantly between countries where institutional constraints are low and countries where institutional constraints are high. The underlying hypothesis is the following:

A leftist government is more likely to increase the redistributive generosity benefitting the core work force when political constraints are high.

The rationale behind the hypothesis is that more political constraints also imply that more compromises among political actors must be made. This eventually leads to

³²The inclusion of interaction effects is common in social science literature. However, too often, the discussion and presentation of the coefficients is insufficient. In a recent literature survey based on leading political science journals, [Brambor, Clark and Golder \(2006, p. 78f\)](#) conclude that more than half of the articles which interpreted the interaction term did so without taking into account the conditionality of the interaction coefficient.

higher redistributive generosity/expenditure. This in turn leads to the following empirical model:

$$\begin{aligned} \Delta DV_{i,t} = & \beta_0 + \beta_1 \times GovernmentIdeology_{i,t-1} + \beta_2 \times PoliticalConstraints_{i,t} + \\ & \beta_3 \times (GovernmentIdeology_{i,t-1} \times PoliticalConstraints_{i,t-1}) + \\ & Controls_{i,t} + \epsilon_{i,t} \end{aligned}$$

Where $DV_{i,t}$ is either Redistributive Generosity $_{i,t}$ or Social Expenditure $_{i,t}$ as indicated for the different analyses.

The expected joint impact of government ideology and constraints on the dependent variables imply that the coefficients on the ideology variable, the constraints variable, and the interaction term take the following values. The coefficient on government ideology (β_1), which indicates how party government affects redistributive generosity when constraints are low, should be greater than zero. The coefficient on political constraints (β_2) describes how political constraints influence redistributive generosity when government ideology is right-wing (ideology = 0), and is expected to be zero. According to the theoretical argument, the coefficient on the interaction (β_3), indicating the effect of a more left-wing government on redistributive generosity when constraints increase is expected to be greater than zero. For the expenditure model, the respective coefficients should take the following values. Contrary to the earlier literature examining the effect of leftist party governments, the coefficient on government ideology (β_1) that captures the effect of ideology on the size of spending should be zero. The coefficient on constraints (β_2) is also expected to be zero. Similarly, the coefficient on the interaction terms (β_3) should be close to zero.

Table 4.7 shows the regression coefficients for the model capturing the impact on the redistributive dimension. The results for the specifications with the interaction term largely correspond to the theoretical expectations. The coefficient on government ideology is greater than zero, but not statistically significant. This indicates that left-wing governments engage in reater redistribution towards ‘insiders’ if constraints are small. However, the size of this effect is not that large. The coefficient on constraints is close to zero, which suggests that high constraints do not have an effect if a right-wing government is in power. This is consistent with the theoretical argument which implies that conservative party governments do not aim at increasing the redistributive generosity of core social security programs. As expected, the joint effect of ideology and constraints, as represented by the coefficient of the interaction term is greater than zero. This indicates that the impact of more left-wing governments on redistributive

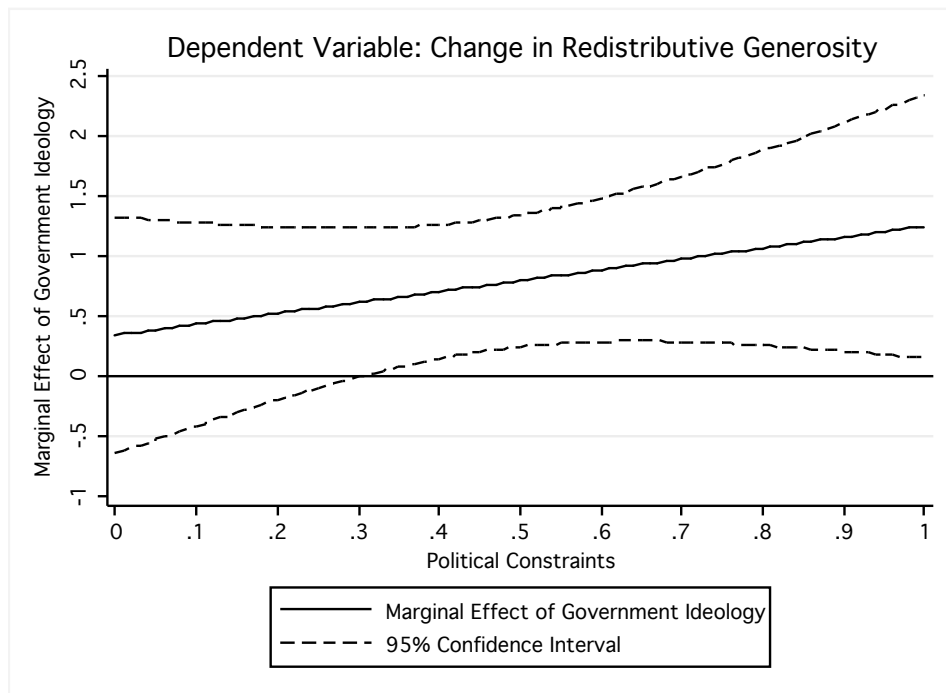
Table 4.7: The Modifying Effect of Political Constraints; Dependent Variable: Δ in Decommodification as a Measure of Redistributive Generosity

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology $_{t-1}$	0.512 (0.538)	0.310 (0.508)				
Gov. Ideology $_{t-1} \times$ Pol. Constraints $_{t-1}$	0.966 (1.012)	0.987 (0.915)				
Left Gov. $_{t-1}$			-0.019 (0.174)	-0.023 (0.167)		
Left Gov. $_{t-1} \times$ Pol. Constraints $_{t-1}$			0.504 (0.337)	0.471 (0.300)		
Right Gov. $_{t-1}$					0.019 (0.174)	0.023 (0.167)
Right Gov. $_{t-1} \times$ Pol. Constraints $_{t-1}$					-0.504 (0.337)	-0.471 (0.300)
Pol. Constraints $_{t-1}$	-0.806 (0.901)	-0.476 (0.493)	-0.494 (0.792)	-0.225 (0.208)	0.010 (0.835)	0.246 (0.212)
Δ Trade Flows $_t$	-0.015 (0.013)	-0.017 (0.013)	-0.015 (0.014)	-0.017 (0.014)	-0.015 (0.014)	-0.017 (0.014)
Δ Financial Flows $_t$	-0.315** (0.127)	-0.319** (0.128)	-0.310** (0.128)	-0.318** (0.128)	-0.310** (0.128)	-0.318** (0.128)
Δ Econ. Growth $_t$	0.029 (0.018)	0.029 (0.018)	0.029 (0.019)	0.029 (0.019)	0.029 (0.019)	0.029 (0.019)
Δ Unemployment $_t$	-0.016 (0.047)	-0.013 (0.048)	-0.013 (0.049)	-0.012 (0.049)	-0.013 (0.049)	-0.012 (0.049)
Δ Deindustrialization $_t$	-0.141* (0.074)	-0.128* (0.073)	-0.162** (0.075)	-0.146** (0.075)	-0.162** (0.075)	-0.146** (0.075)
Δ Elderly $_t$	-0.123 (0.299)	-0.084 (0.251)	-0.055 (0.303)	-0.025 (0.254)	-0.055 (0.303)	-0.025 (0.254)
Constant	0.169 (0.671)	-0.071 (0.273)	0.352 (0.638)	0.101 (0.121)	0.333 (0.650)	0.078 (0.138)
R ²	0.07	0.05	0.06	0.04	0.06	0.04
χ^2	76.25	25.56	89.42	23.24	89.42	23.24
p-Value	0.000	0.002	0.000	0.006	0.000	0.006
ρ	-.00	.01	.00	.02	.00	.02
N	526	526	526	526	526	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

generosity increases as political constraints become larger. However, the coefficients themselves do not tell us the whole story about the conditional relationship between political constraints and government partisanship. Further, they do not indicate how this interaction modifies the impact on change in redistributive generosity. To facilitate the interpretation of the interaction term, Figure 4.4 visualizes the effect of government ideology on policy-making which is conditional on political constraints. The graph shows the marginal effects of government ideology, i.e. the effect of a one-unit increase in ideology, or equivalently, a government change from right to left, for different values of political constraints. The solid line plots the estimated marginal effect; dashed lines indicate the 95% confidence interval.³³

Figure 4.4: The Modifying Effect of Political Constraints on the Redistributive Generosity of Core Welfare State Programs



The figure implies that the effect of government ideology on the redistributive generosity of the core social insurance programs increases with political constraints. When political constraints are very low, a government change from a right-wing to a left-wing government does not have any effect on redistributive generosity that is directed towards ‘insiders’. If political constraints increase, the impact of a government change on the dimension capturing the compensatory effort of party governments in-

³³The plot is based on the interaction model where the country fixed-effects have been excluded from the estimation. This is due to the fact that the *POLCON* variable varies little over time.

creases as well. However, the confidence interval includes zero for values below ca. 0.4 on the political constraints scale. This means that the marginal effect is statistically insignificant for low constraints. When political constraints are at their maximum value, a government change from right to left leads to an average increase in the index capturing the redistributive generosity towards labor market ‘insiders’ of ca. 1.5. Over a four-year legislative period, this effect accumulates to about 6. This impact is about one and a half times as large as the unconditional effect of ideology presented in table 4.3.

These results are consistent with the theoretical framework outlined at the beginning. The overall design of reforms proposed by leftist governments together with the general support and trust that a leftist party government enjoys when reforming social policies enables the government to implement the reforms in the first place. A left-wing government, however, is constrained in two ways. Firstly, the conservative parties in opposition have some leverage over the policy-making efforts of the government when constraints are high. Secondly, political constraints in the form of organized interest with strong ties to the left-wing government demand additional compensation when the government cuts spending more than expected in order to accommodate the conservative opposition. Therefore, left-wing governments in countries with high political constraints are obliged to engage in greater redistribution of the available resources among people represented by strong interest groups, mainly ‘insiders’, i.e. skilled people who are well integrated into the labor market.

When we look at the regression coefficients of the expenditure model (Table 4.8) we see that government ideology (the continuous measure as well as the unconditional effects of the government dummy variables) have no statistically significant effect on change in government expenditure. This corresponds to the findings discussed in the first section of this chapter. This implies that, on average, party governments do not have an impact on government expenditure. The same is true for the coefficients of the multiplicative term and the political constraints variable (with the exception of the coefficients in model 5 and 6).

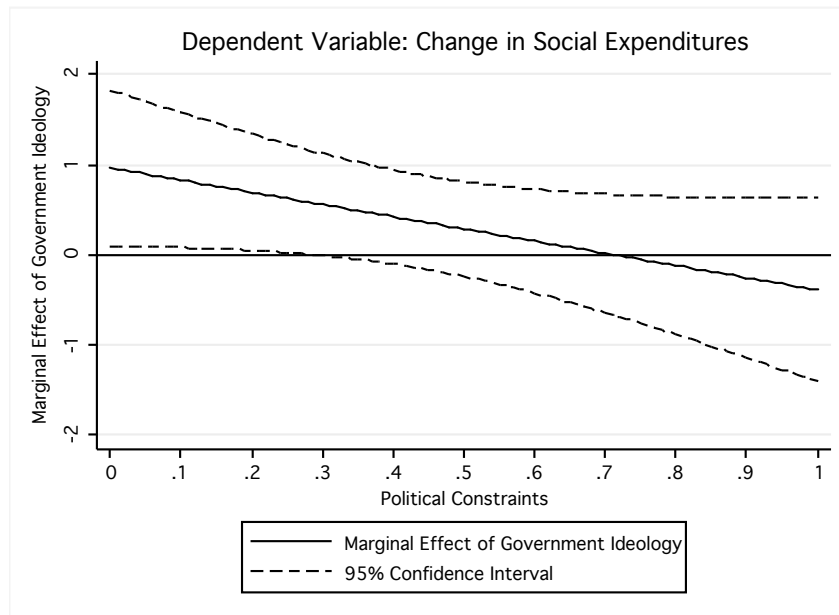
When we examine the graph visualizing the modifying effect of political constraints on social expenditure (Figure 4.5), we see that the two-tailed confidence interval of 95% is above zero at low levels of political constraints. The effect is only marginally statistically significant. This implies that a change from a left-wing to a right-wing government at low levels of political constraints would have a negative effect on social spending at very low levels of political constraints. This result would be in line with scholars who propose that left-wing governments are more success-

Table 4.8: The Modifying Effect of Political Constraints; Dependent Variable: Δ in Social Expenditure

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	1.532** (0.595)	1.002** (0.466)				
Gov. Ideology _{t-1} × Pol. Constraints _{t-1}	-1.774* (0.993)	-1.449* (0.853)				
Left Gov. _{t-1}			0.101 (0.205)	0.068 (0.173)		
Left Gov. _{t-1} × Pol. Constraints _{t-1}			-0.080 (0.305)	-0.102 (0.266)		
Right Gov. _{t-1}					-0.101 (0.205)	-0.068 (0.173)
Right Gov. _{t-1} × Pol. Constraints _{t-1}					0.080 (0.305)	0.102 (0.266)
Pol. Constraints _{t-1}	-0.446 (1.007)	0.751* (0.424)	-1.152 (0.914)	0.077 (0.159)	-1.233 (0.952)	-0.025 (0.180)
Δ Trade Flows _t	-0.040*** (0.012)	-0.039*** (0.012)	-0.040*** (0.013)	-0.039*** (0.013)	-0.040*** (0.013)	-0.039*** (0.013)
Δ Financial Flows _t	0.104 (0.150)	0.074 (0.152)	0.089 (0.154)	0.069 (0.154)	0.089 (0.154)	0.069 (0.154)
Δ Econ. Growth _t	-0.122*** (0.024)	-0.121*** (0.024)	-0.122*** (0.024)	-0.121*** (0.024)	-0.122*** (0.024)	-0.121*** (0.024)
Δ Unemployment _t	0.332*** (0.055)	0.335*** (0.056)	0.337*** (0.057)	0.340*** (0.057)	0.337*** (0.057)	0.340*** (0.057)
Δ Deindustrialization _t	-0.111* (0.063)	-0.107* (0.063)	-0.122* (0.065)	-0.111* (0.064)	-0.122* (0.065)	-0.111* (0.064)
Δ Elderly _t	0.123 (0.282)	0.155 (0.239)	0.086 (0.285)	0.167 (0.241)	0.086 (0.285)	0.167 (0.241)
Constant	0.456 (0.761)	-0.426* (0.250)	1.055 (0.734)	0.048 (0.135)	1.155 (0.763)	0.116 (0.149)
R ²	0.38	0.35	0.36	0.34	0.36	0.34
χ^2	191.70	102.57	228.10	98.33	228.10	98.33
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.04	.07	.05	.07	.05	.07
N	357	357	357	357	357	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

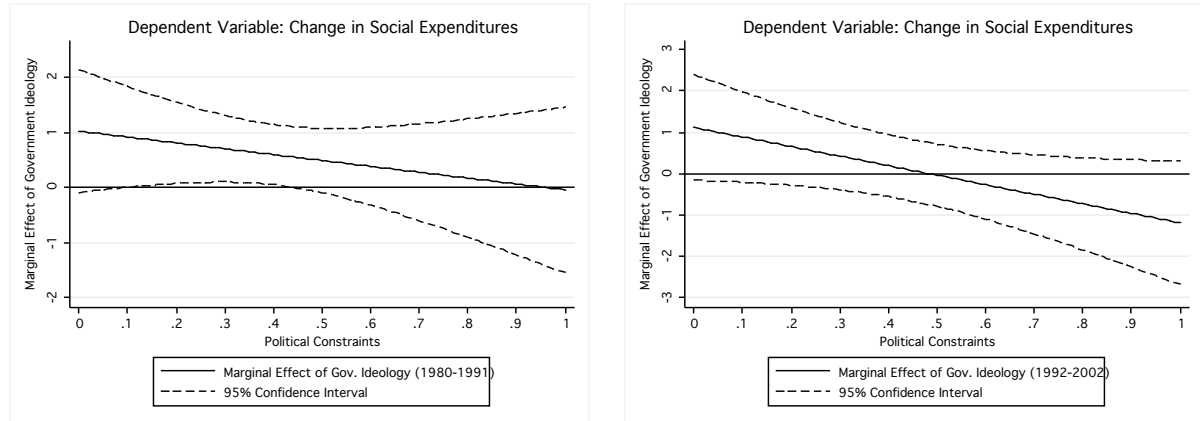
Figure 4.5: The Modifying Effect of Political Constraints on Social Spending



ful in cutting social expenditure because they enjoy a higher level of trust in society while reforming social security institutions. The question remains, whether this result also holds for later period (1992-2002) when the room to maneuver for party governments was increasingly constrained by fiscal austerity and other factors affecting social policy-making.

In order to answer this question, I examine this conditional effect for each period separately (Figure 4.6). The conditional effect graphs for the two separate periods show that the slope of the regression line is negative for both sub-periods. The starting point of the slope is at approximately point 1 in the first and in the second sub-period. However, the slope has a steeper negative turn in the second sub-period (1992-2002), where the point estimate of the impact of party government conditioned on the level of political constraints approximately -1 at the highest level of political constraints. In the light of the theoretical framework, this result would make sense since at high levels of political constraints, a left-wing government would be forced to cut spending more than at low levels of political constraints. The result is also in line with the general theoretical claim that in times of fiscal austerity, party governments are forced to retrench and cut (social) spending. The effect, however, is not statistically significant at any level of political constraints, which is in line with the findings that the room to maneuver for party governments has waned.

Figure 4.6: The Modifying Effect of Political Constraints on Social Spending (Separate Periods)



The examination of the impact of government partisanship conditioned on political constraints partially helps to bring in a causal mechanism between government partisanship and policy outcomes. Still, the quantitative formal measure of political constraints, as included here, is only an approximation. It will be an important part of the subsequent case studies to isolate the relevant veto players and how exactly they influence the policy-making processes.

The Modifying Effect of Globalization

According to the results presented in the first part of this chapter, economic globalization only has a moderate effect on aggregate welfare state outcomes. However, this impact might depend on the partisanship of the government. The reason why the association between government partisanship and the redistributive generosity (and expenditure) might be conditioned by the level of globalization is because internationalization affects the interests of domestic groups differently. As elaborated in the theoretical chapter, structural change and globalization are assumed to have an impact on the way individuals are exposed to job loss and periods of unemployment. Or as Rodrik (1997, p. 28) put it: *‘Open trade can conflict with social contracts that protect certain activities from the relentlessness of the free market. This is a key tension of globalization.’* Party governments might deal differently with the tensions produced by economic globalization. Starting with the assumption that party governments not only seek office, but also aim at implementing their preferred policies, then the activities of a left-wing government might be different at various levels of globalization than the

policies implemented by a conservative party government. The underlying hypothesis is the following:

A leftist government is associated with an increase redistributive generosity towards the core work force when international trade is increasing.

Which leads to the following empirical model:

$$\begin{aligned}\Delta DV_{i,t} = & \beta_0 + \beta_1 \times GovernmentIdeology_{i,t-1} + \beta_2 \times \Delta InternationalTrade_{i,t} + \\ & \beta_3 \times (GovernmentIdeology_{i,t-1} \times \Delta InternationalTrade_{i,t}) + \\ & Controls_{i,t} + \epsilon_{i,t}\end{aligned}$$

Where $DV_{i,t}$ is either $Redistribution_{i,t}$ or $Expenditure_{i,t}$ as indicated for the different analyses.

The expected joint impact of government ideology and globalization (measured as trade flows) on the dependent variables imply that the coefficients on the ideology variable, the globalization variable and the interaction term take the following values. The coefficient on government ideology (β_1), which indicates how party government affects redistributive generosity when trade flows are low (or economic interdependence is at a low level), should be greater than zero. The coefficient on trade flows (β_2) describes how trade influences redistributive generosity when government ideology is right (ideology = 0), and is expected to be zero. According to the general wisdom in the political economy literature, the coefficient on the interaction (β_3), indicating the effect of a more left-wing government on redistributive generosity when trade increases is expected to be greater than zero. Consequently, the coefficients for the expenditure model should take the following values: The coefficient on government ideology (β_1) that captures the effect of ideology on the size of spending should be zero (as in the basic model). The coefficient on trade (β_2) is expected to be greater than zero. Similarly, the coefficient on the interaction terms (β_3) should be greater than zero. The following tables (4.9, 4.10) show the regression coefficients for the multiplicative term between party government and international trade. I examine this using a multiplicative term of government partisanship and globalization (international trade).

The coefficients of the unconditional continuous government ideology variable are statistically significant and positive. The model using the left-wing dummy also has a statistically significant and positive coefficient. The association between a conservative government and change in redistributive generosity is statistically significant

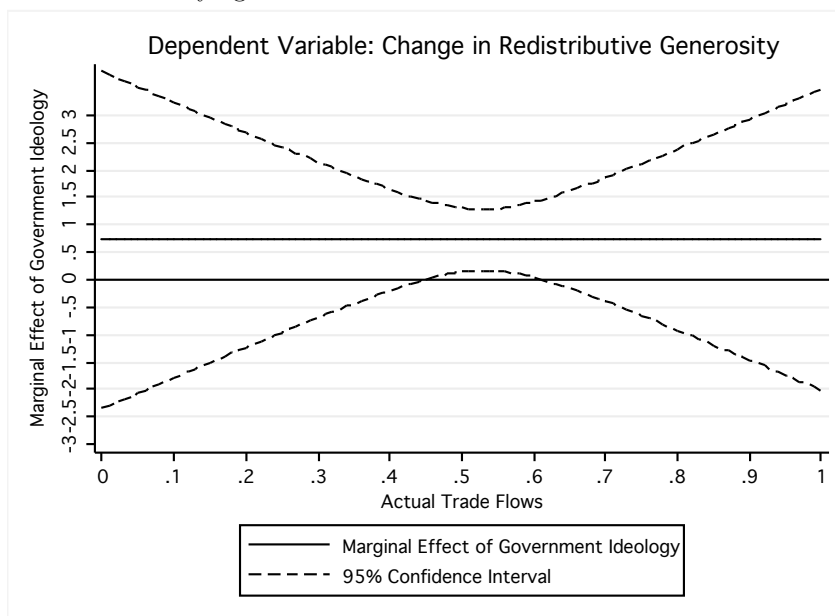
Table 4.9: The Modifying Effect of Globalization (Trade Flows); Dependent Variable: Δ in Decommodification as a Measure of Redistributive Generosity

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
L.Gov. Ideology _{t-1}	0.921*** (0.305)	0.719** (0.294)				
Gov. Ideology _{t-1} × Δ Trade Flows _t	-0.005 (0.069)	0.005 (0.069)				
Left Gov. _{t-1}			0.186* (0.101)	0.173* (0.097)		
Left. Gov. _{t-1} × Δ Trade Flows _t			0.015 (0.026)	0.016 (0.026)		
Right Gov. _{t-1}					-0.186* (0.101)	-0.173* (0.097)
Right. Gov. _{t-1} × Δ Trade Flows _t					-0.015 (0.026)	-0.016 (0.026)
Δ Trade Flows _t	-0.013 (0.040)	-0.020 (0.040)	-0.024 (0.020)	-0.026 (0.020)	-0.008 (0.018)	-0.009 (0.017)
Pol. Constraints _{t-1}	-0.388 (0.774)	0.008 (0.150)	-0.358 (0.784)	-0.018 (0.148)	-0.358 (0.784)	-0.018 (0.148)
Δ Financial Flows _t	-0.314** (0.127)	-0.319** (0.127)	-0.296** (0.128)	-0.305** (0.128)	-0.296** (0.128)	-0.305** (0.128)
Δ Econ. Growth _t	0.028 (0.018)	0.029 (0.018)	0.030 (0.019)	0.030 (0.019)	0.030 (0.019)	0.030 (0.019)
Δ Unemployment _t	-0.016 (0.048)	-0.011 (0.048)	-0.008 (0.049)	-0.006 (0.049)	-0.008 (0.049)	-0.006 (0.049)
Δ Deindustrialization _t	-0.137* (0.074)	-0.125* (0.074)	-0.152** (0.075)	-0.139* (0.074)	-0.152** (0.075)	-0.139* (0.074)
Δ Elderly _t	-0.130 (0.299)	-0.091 (0.252)	-0.061 (0.305)	-0.024 (0.257)	-0.061 (0.305)	-0.024 (0.257)
Constant	-0.010 (0.638)	-0.273 (0.182)	0.300 (0.634)	0.017 (0.110)	0.486 (0.633)	0.190* (0.109)
R ²	0.07	0.05	0.05	0.04	0.05	0.04
χ ²	84.47	22.62	94.14	20.84	94.14	20.84
p-Value	0.000	0.007	0.000	0.013	0.000	0.013
ρ	-.00	.01	.00	.02	.00	.02
N	526	526	526	526	526	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

and negative, which implies that a conservative government would have a suppressing impact on the redistributive generosity of core welfare state programs. None of the multiplicative terms is statistically significant. The stand-alone variable for international trade flows is not statistically significant and negative. These coefficients do not reveal the whole range of the conditional relations between party government and economic openness. The following graph (Figure 4.7) shows the conditional effects of government partisanship on change in redistribution at different levels of international trade.

Figure 4.7: The Modifying Effect of International Trade on Redistributive Generosity



The impact of government ideology conditioned by change in the level of trade is statistically significant at levels between 0.5 and 0.6 (for the ease of presentation, the trade-variable has been rescaled to include values between 0 and 1). Within this area the two-tailed confidence interval is above zero. The results for government expenditure are different. None of the variables involved are statistically significant, which is consistent with the theoretical argument made at the beginning. The fit of this model is slightly worse than the fit of the basic model (see Table 4.3). That the multiplicative term does not improve the explanatory quality of the empirical model and that the underlying theoretical argument cannot be empirically proven is a first indication.

When we look at the figure (4.8), which displays impact of a one unit change in government ideology conditioned on the level of trade, we see that the 95% confidence

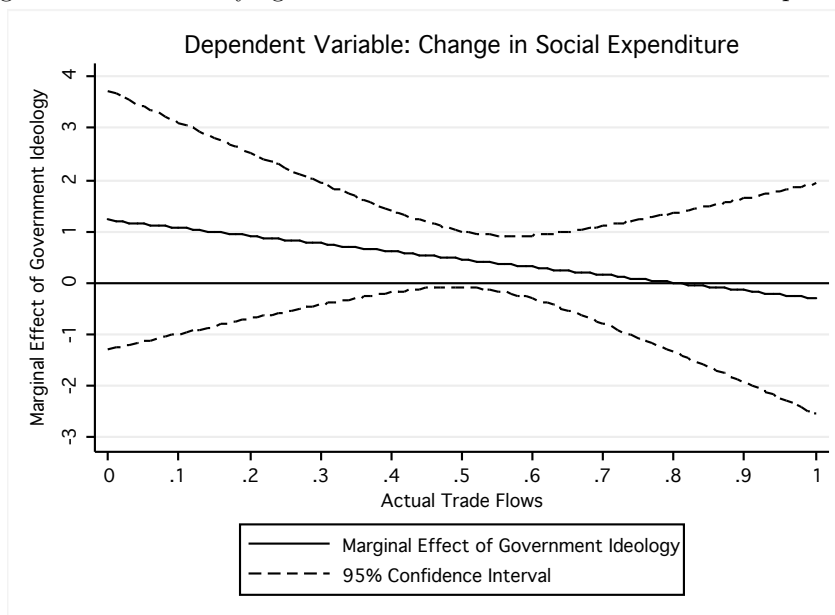
Table 4.10: The Modifying Effect of Globalization (Trade Flows); Dependent Variable: Δ in Social Expenditures

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.838** (0.327)	0.461* (0.279)				
Gov. Ideology _{t-1} × Δ Trade Flows _t	-0.045 (0.056)	-0.036 (0.056)				
Left Gov. _{t-1}			0.007 (0.101)	-0.030 (0.089)		
Left. Gov. _{t-1} × Δ Trade Flows _t			0.032 (0.020)	0.035* (0.020)		
Right Gov. _{t-1}					-0.007 (0.101)	0.030 (0.089)
Right. Gov. _{t-1} × Δ Trade Flows _t					-0.032 (0.020)	-0.035* (0.020)
Δ Trade Flows _t	-0.014 (0.032)	-0.017 (0.031)	-0.058*** (0.017)	-0.057*** (0.016)	-0.025 (0.016)	-0.022 (0.016)
Pol. Constraints _{t-1}	-1.384 (0.919)	0.075 (0.106)	-1.183 (0.919)	0.035 (0.104)	-1.183 (0.919)	0.035 (0.104)
Δ Financial Flows _t	0.080 (0.151)	0.052 (0.154)	0.118 (0.154)	0.100 (0.155)	0.118 (0.154)	0.100 (0.155)
Δ Econ. Growth _t	-0.121*** (0.024)	-0.120*** (0.024)	-0.120*** (0.024)	-0.119*** (0.024)	-0.120*** (0.024)	-0.119*** (0.024)
Δ Unemployment _t	0.328*** (0.056)	0.331*** (0.057)	0.342*** (0.055)	0.345*** (0.055)	0.342*** (0.055)	0.345*** (0.055)
Δ Deindustrialization _t	-0.122** (0.062)	-0.114* (0.062)	-0.119* (0.063)	-0.108* (0.062)	-0.119* (0.063)	-0.108* (0.062)
Δ Elderly _t	0.125 (0.282)	0.158 (0.243)	0.075 (0.283)	0.184 (0.240)	0.075 (0.283)	0.184 (0.240)
Constant	0.911 (0.733)	-0.176 (0.169)	1.095 (0.739)	0.100 (0.115)	1.103 (0.751)	0.070 (0.124)
R ²	0.37	0.34	0.37	0.35	0.37	0.35
χ^2	200.92	101.20	252.50	114.51	252.50	114.51
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.05	.08	.04	.07	.04	.07
N	357	357	357	357	357	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

interval is never fully above or below zero at the same time, which implies that the conditional relation between party government and social expenditure does not have a statistically significant impact at any level of change in international trade. However, the slope is negative, which signifies that at higher levels of international trade, government partisanship would have a negative impact on government expenditure.

Figure 4.8: The Modifying Effect of International Trade on Social Expenditure



Whereas the interaction between political constraints and government partisanship largely confirmed the expectations formulated in the theoretical chapter, the postulated mediating effect of economic openness and party government could not be established empirically. Despite the fact that individuals' exposure to social risks in open economies has changed (see [Kitschelt and Rehm, 2004](#); [Rehm, 2009](#); [Goldthorpe, 2002](#)), party government and globalization do not seem to have a conditional effect on either redistributive generosity or expenditure. However, it is likely that the empirical model, as specified in this section and the highly aggregated data, do not pick up this indirect relationship.

4.3.4 Sensitivity Analysis

In order to test whether the above specified model is robust, I re-estimated the model 17 times and one of the countries was excluded in each estimation. The evidence

gained from the jack-knife analysis should assure the reliability of the results discussed above but also reveal outlier cases (the tables A-15 and A-16 included in the Appendix display the regression coefficients). The results of the robustness test reveal that the government ideology variable is statistically significant (at a 0.01 level) in all models estimating the impact of government ideology on change in redistribution. The slope coefficients are always positive, meaning that the more leftist a party government, the more redistributive the policies pursued by that government. For three variables (*unemployment*, *deindustrialization*, *share of elderly people*) the results are mixed in the sense that if I exclude a particular country, the regression coefficient changes from being statistically significant to statistically insignificant or the other way around. However, the direction of the relationship is stable in all models.

Remarkably, mainly the domestic structural variables prove to be somewhat inconsistent, whereas the measures of globalization are robust. The model with change in total government expenditure as a dependent variable is robust apart from the *international trade* variable. Unlike the models with ‘change in redistribution’ as the dependent variable, the variable for *government partisanship/government ideology* is never statistically significant. All other independent variables do not change the direction of their impact whether the impact is statistically significant or not. In addition to the estimates of the ‘redistribution’ and the ‘social spending’ model, I also added the estimates of the models using ‘total government spending as % of GDP’ in the Appendix (see table A-7, A-8, A-9, A-10, and A-19).

To further test the robustness of the empirical model, I estimated the base line model using the level values of the variables. The core results are essentially the same (see table A-20 and A-21 in the Appendix). As discussed in the methods section, there is no consensus in the profession whether to use the level values or the differentiated values of macro-economic variables in comparative analyses. However, methodologists generally advise to differentiate variables in order to avoid the inclusion of non-stationary time series in the model to be estimated (see e.g. Baltagi, 2005 (3rd Edition); Baltagi and Wu, 1999).

In addition to testing the robustness of the model by excluding one country at a time, I also changed the specification of the model by using slightly different measures for various variables. The substantial results are the same if I use different measures of institutional constraints (instead of Henisz’ *polcon* variable I also used a measure for *federalism* (included in the Comparative Welfare States Dataset by Huber, Stephens and Ragin (1997/2004)). The results did not change either for the basic model or for the interaction model). As briefly mentioned above, different measures

of economic globalization exist. I also estimated my model using the *de jure*-measure of financial openness by Quinn and Inclan (1997). The implications of the results did not change. The advantage of the measure by Chinn and Ito (2005) over the measure by Quinn is that their time-series is longer. Different databases include various measures of international trade flows. The measure I use in this chapter is an index of various measures of economic globalization. However, I also estimated the same model using the measure of trade openness by the Center for International Comparisons of Production, Income and Prices (CIC) at the University of Pennsylvania (Penn World Table).³⁴ This did not change the implications of the results either. These findings show that the specification of the model chosen for this chapter is fairly robust.

4.4 Conclusion

In a nutshell, the preceding analyses lead to the following conclusions: First, party government still has an impact on social policy-making even in times of austerity and fiscal constraints. The impact, however, is not found on the spending dimension but on a redistributive dimension of social policy-making. The statistically insignificant effect of party government on social spending in the later period of investigation is in line with the ‘room to maneuver’ thesis, which implies that political actors, mainly party governments have lost their impact on the design of (social) policies due to the increasing interdependence in the world economy and the related pressure on the domestic market. Within this framework, international pressure on domestic markets lead to declining fiscal revenues from corporations on the one hand and individuals on the other hand.

The preceding analyses and their results also yield the conclusion that the ideology of a party government has an impact on *how* welfare states redistribute resources across societal groups. The impact of leftist governments is additionally mediated by political constraints, which leads to disproportionate redistributive effects towards labor market ‘insiders’ when political constraints are high.³⁵ The results are inconsistent with the often-articulated view that the influence of government partisanship on economic and social policy has vanished in open economies. In addition, the findings clearly show that welfare state policy-making in open economies is not limited to a

³⁴I used the measure for international trade (openness in constant prices). The data are downloadable from the following website: http://pwt.econ.upenn.edu/php_site/pwt_index.php.

³⁵Recent contributions by Beramendi and Cusack (2009) and Beramendi and Rueda (2007) – whose work focuses on the impact of party politics on wage inequality and indirect taxation, respectively – also indicate that leftist party governments are not necessarily successful in creating egalitarian policy outcomes, especially in the presence of corporatist arrangements.

single dimension, namely social spending, but includes at least a second dimension, which is redistributive generosity. It is only recently that scholars analyzing welfare state reforms have started to pay attention to the multidimensionality of welfare state policies and the manner in which political actors attempt to shape other policy dimensions according to their preferences (see e.g. Häusermann, 2007). The previous empirical analyses also confirm – and to a certain extent – expand Korpi and Palme’s (1998) ‘paradox of redistribution’. In their 1998 contribution, Korpi and Palme showed that it is the middle class, which to a large extent consists of labor market ‘insiders’, that benefits most from core social insurance schemes, such as unemployment insurance schemes, pension and sick pay.³⁶ By including the mediating effect of political and institutional constraints, as demonstrated in this chapter, Korpi and Palme’s ‘paradox of redistribution’ finds still more support.

Even though the empirical evidence presented in this chapter comply with the theoretical framework presented and discussed in Chapter 3, the conclusions we may draw from the presented evidence, however, are to some extent limited by the data used in the analyses. In order to fully confirm the inferences drawn from the results discussed in this chapter, further and future analysis should include additional measures of redistributive efforts that can be influenced and shaped by party governments. These measures should ideally allow to draw conclusions about the level of disproportionality of redistribution across labor market ‘insiders’ and labor market ‘outsiders’. One possible indicator that would make it possible to approximate such conclusions is to use the data from the Luxembourg Income Study (LIS) project. The LIS-data base provides different measures of household incomes (e.g. before and after taxes), together with information about the professional background (or the income bracket of the family) it could be possible to draw conclusions about the way ideological different party governments privilege one group over the other. The LIS-data base has the drawback that the data collection only starts in the 1980s and that not all OECD countries are covered.³⁷ To assess whether policy decisions by party governments disproportionately privilege or disadvantage certain groups in society, an extensive analysis of tax laws would be appropriate as well. Similar to the analysis of household income data, a comparative analysis of tax legislations bears challenges and pitfalls. Tax legislations are very diverse and the competences to set taxes and influence their redistributive

³⁶Korpi and Palme (1998, p. 681) define the observed paradox as following: *‘the more we target benefits at the poor only and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality’*.

³⁷Currently, the data base includes 16 out of the 18 countries included in the analysis presented in this dissertation (see www.lisproject.org). Four out of these 16 countries only provide data for four waves, which would significantly reduce the number of observations in case the aggregated household income levels would be used.

capacity are often dispersed over different levels of legislation (in Switzerland, three different bodies (local authorities, cantonal authorities and the state are responsible for different aspects of the tax legislation).

The findings of the statistical analyses, however, do not reveal whether or not the underlying causal mechanisms postulated in the theoretical section actually lead to the policy outcome we observe. In order to evaluate which actors influence welfare state change most, one has to analyze attempts to reform welfare state policies qualitatively. It is only then that we can assess the importance of institutional factors and veto players and trace back their influence on the final reform proposal. Qualitative case studies of specific reform processes may also help to develop more precise theoretical assumptions concerning how party governments translate their ideology and preferences in social policies. In addition, the theoretical framework implies that social policy making is a multilayered and multidimensional process with expenditure and redistribution as the two main dimensions of my analysis. The analyses presented above showed that party government have lost their impact on the expenditure dimension but still shape policy outcomes along the redistribution axis. However, these analyses treat the two dimensions separately. While focusing on particular reform processes I will be able to bring the two dimensions together as intended in the theoretical framework.

Chapter 5

Case Selection and Analytical Framework

The quantitative analysis presented in the previous chapter largely confirmed the hypotheses formulated on the basis of the theoretical framework. Political constraints and party government have a significant effect on the redistributive generosity of core welfare state programs, which privilege labor market insiders. This effect is greater when political constraints are high. Based on the quantitative analysis it is not possible to draw inference about the impact of policies designed by party governments with varying ideological background on labor market outsiders. The qualitative country studies therefore pursue a two-tailed strategy: on the one hand, the country studies aim at substantiating the findings from the macro-level and will examine more closely how party governments shape labor market policies. On the other hand, the country studies will extend its focus and also take into account the effects upon labor market ‘outsiders’ of party governments with diverging ideological background acting in differing institutional settings. The following chapter discusses and presents the guiding factors for the selection of the countries and lays out the analytical framework for the analyses of the cases.

5.1 Combining Large-N and Small-N Studies

Recently, the literature on qualitative methods and case study research in political science has been growing, with some scholars focusing exclusively on the systematic development and application of case study research (see e.g. [Blatter and Blume, 2008](#);

Gerring, 2007a,b, 2006; Bennett and Elman, 2006a; George and Bennett, 2005) and others suggest that quantitative empirical work and case studies should be used in a complementary manner (e.g. Munck and Snyder, 2007; Lieberman, 2005; Sekhon, 2004; Bennett, 2002). This growing interest in case study methodology also originates from an increasing skepticism towards and critical discussion of quantitative comparative studies with regard to the statistical methods used and the way that key concepts are measured and operationalized. Whereas this critique applies to all macro-economic quantitative work that relies on highly aggregated data, it is especially pronounced and prominent in the comparative welfare state literature.¹ It is the operationalization and use of indicators such as public expenditure and social expenditure, but also the crude operationalization of government partisanship, that has led to a number of publications and debates within the field (see e.g. Kittel, 1999; Kittel and Winner, 2005; Kittel, 2006; Plümpert, Troeger and Manow, 2005; Podestà, 2006; Siegel, 2007; Clasen and Siegel, 2007). Most of these scholars raise doubts that government expenditure accurately reflects welfare state efforts.²

Another potential problem of quantitative analyses is that different micro- and meso-processes can produce the same or similar outcomes on the aggregate level. It is not possible to uncover the causal links leading to a particular outcome in studies that exclusively focus on aggregated data. The problem of equifinality (Mahoney and Goertz, 2006, p. 236f) also applies to my quantitative macro analysis presented in the previous chapter. The results of my quantitative analysis show that leftist party governments have a different effect on the redistributive outcome in welfare states to rightist party governments. But we cannot be fully certain if the mechanisms that enable party governments to shape outcomes differently correspond to those outlined in the theoretical chapter. Using country case studies, I will examine whether the processes at the meso-level (where political parties, party governments and extra-parliamentary interest groups engage in policy-making processes) are in line with my

¹The broader critique of large-N studies refers to the rigid assumptions of popular econometric models used to explain complex social phenomena. It also refers to the quality of the data available. Achen (2002, 2005), for example, makes the criticism that the theoretical foundations of the statistical models are often weak. He mentions two major problems. Firstly, scholars should put more effort into understanding the micro foundations of political processes in order to come up with more parsimonious statistical models. According to his view, every model with more than three independent variables is overloaded and careful data analysis (grounded in theory) is no longer possible. He therefore suggests that researchers follow ‘A Rule of Three (ART)’. Secondly, researchers should test and carefully scrutinize the nature of the data used for quantitative studies before modeling them. One way to become more familiar with data used is through graphical analysis (Achen, 2005).

²A critical voice regarding the operationalization of party government in comparative quantitative research is: Schmidt (1996, p. 158) asserts that ‘*the reductionism inherent in the choice of a unidimensional measure of party composition [or government composition - added EH] is difficult to justify*’.

theoretical argument and in the end cause the observed policy output on the aggregated level. In addition, the scrutiny of reform processes in various countries is an appropriate way of assessing the impact of political constraints and veto-points – jointly with government partisanship – on policy-making processes.

Within the case studies I will focus on the policy-making process and identify the actors that were crucial in shaping the reform proposal. I will also identify the policy positions of the actors involved in the reform process on the two dimensions of social policy, i.e. redistribution and expenditure. The identification of the policy-positions of the actors is based on policy documents and newspapers and will shed light on the composition of the ‘reform coalition’. By combining large-N and small-N studies I attempt to overcome the problems of single-method studies discussed above while integrating the positive aspects of large-N studies in a more comprehensive analytical and theoretical framework. I use the mixed-methods approach proposed by [Lieberman \(2005\)](#). In his ‘*nested analysis*’ framework, [Lieberman \(2005\)](#) presents strategies for the selection of meaningful cases and the development of an empirical procedure that is appropriate to the research question and theoretical claims of my project. Whereas the macro-analysis gives an overview of the broad picture and helps to identify the major trends across countries and over time, the case studies focus on the underlying processes that finally lead to the outcome observed at the macro-level. The combination of different methods and different levels of analysis to approach one research question is but one aspect of the resolution. It is crucial that the statistical model is well specified, especially when the cases for the small-N analysis are chosen on the basis of the results of the quantitative study. [Rohlfing \(2008\)](#) warns that mistakes being made at one level of the analysis might travel to the next lower level of the analysis, causing the researcher to draw incorrect conclusions. This potential peril justifies and demands a cautious approach when selecting cases for analysis. Therefore, I first examine the overall fit of the statistical model.

The selection of countries and cases follows a two-step procedure: First, I rely on the results of the preceding quantitative analysis. This analysis focused on the effect of left-party governments on social policies towards labor market ‘insiders’. This largely confirms the hypothesis that leftist governments bring about a preferential treatment of labor market ‘insiders’, especially when political constraints are high. The study, however, largely ignores the role of labor market ‘outsiders’ in this process and does not verify whether or not the postulated mechanism in fact leads to these results. Following a nested analysis design ([Lieberman, 2005](#)), I choose countries that are well-explained by the quantitative analysis to substantiate the theoretical mechanisms described in the previous section in a manifold way. Firstly, I examine to what extent

the policy positions of government parties in the two-dimensional social policy space are consistent with those underlying the theoretical discussion. Secondly, the case studies analyze the policymaking process of each reform in detail by focusing on the joint effect of institutions, political constraints and party governments on social policies towards ‘outsiders’.³ The second step in the case selection procedure is to select countries that show variation on the key independent variables (Geddes, 2003, 1990). Since I expect that the level of political constraints, together with the party affiliation of the incumbent government, affect the outcome of a reform, the countries included in the case study must have different levels of political constraints and varying party governments.

5.1.1 Assessment of the Statistical Model

Lieberman (2005) calls the combination of variable-centered empirical work and case studies within one project a ‘*nested analysis*’. He presents a comprehensive framework how researchers can combine quantitative and qualitative analyses in one project. According to Lieberman’s understanding of a ‘*nested analysis*’ design, the case studies are usually preceded by a large-N study. Depending on the results of the statistical analysis, the case studies can either help to further test and substantiate the theoretical claims made at the beginning or can provide the additional insight needed to build upon and further refine the theory. The first option should be used if the outcomes of the statistical analyses largely correspond to the theoretically derived hypotheses. If the results from large-N study are not in line with the theoretical argument, the second option is the more appropriate choice. The case studies are then used to derive a refined, more accurate model, which can be tested using quantitative methods in a subsequent step. The results presented in the previous chapter are largely in line with the theoretical claims. Therefore, the subsequent case studies will focus on aspects that cannot be uncovered by documenting the statistical relationship between the macro-variables. The analysis of reform processes and a closer examination of the policy positions of political parties, party governments and organized interests also imply a shift in the level of analysis. Whereas the quantitative part of my thesis focused on aggregated data relating to welfare state output, the case-study part analyzes reform processes within the selected countries.

³The terms ‘change’ and ‘impact’ are understood in a qualitative manner and I will not measure the impact that the examined reforms had on different groups using individual level or macro-economic indicators.

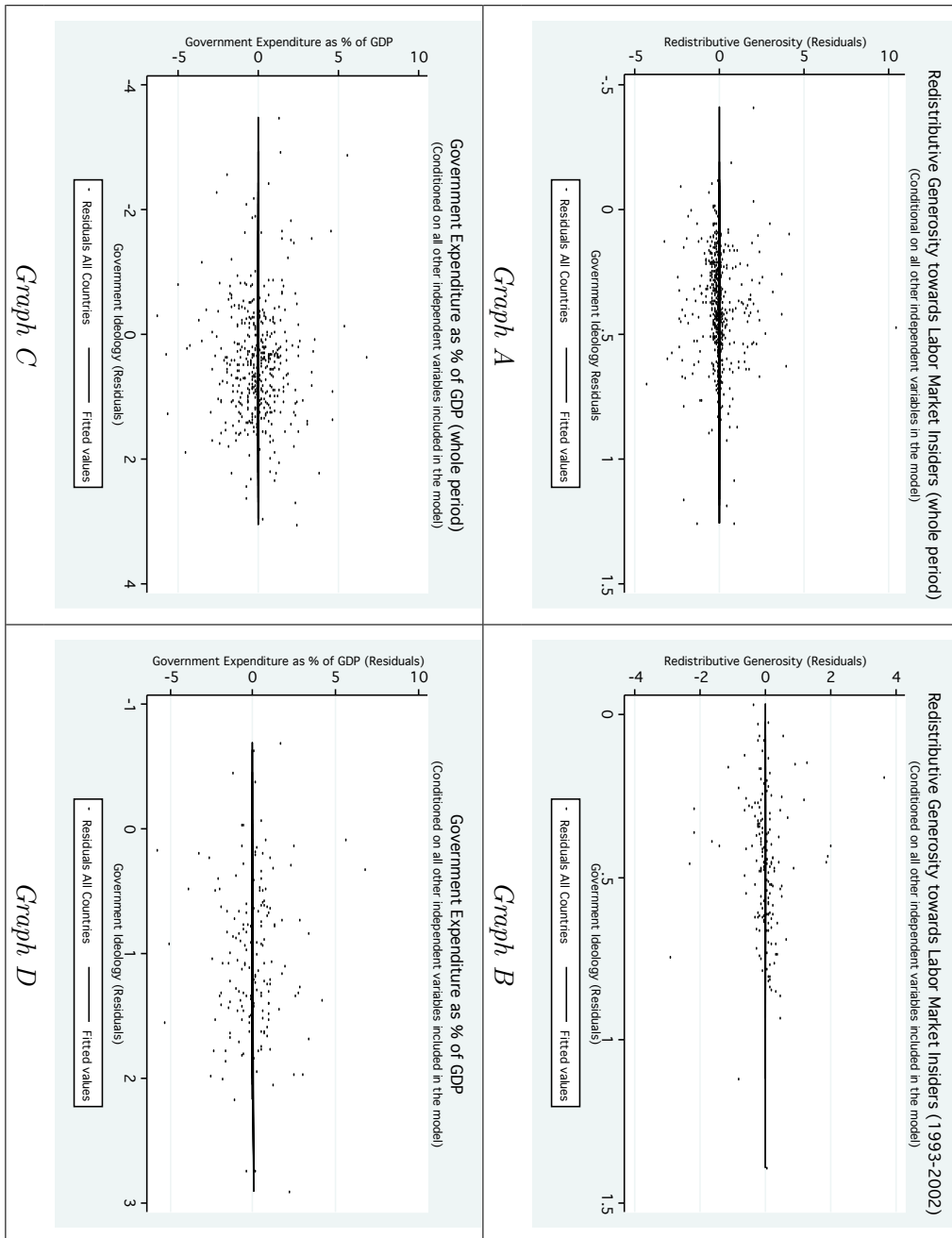
A partial regression plot for a multiple regression is the equivalent to a bivariate regression plot in a bivariate regression between a dependent variable and a single independent variable. Partial regression plots are based on the same idea, i.e. it visualizes the statistical relationship between the explanatory and the dependent variable. But because a multiple regression includes more than just one independent variable, it is necessary to isolate the impact of a particular independent variable on the dependent variable, controlling for (or taking into account) the impact of the other independent variables in the model. Partial regression plots of a particular explanatory variable plot the part of the independent variable that is not explained by the other explanatory variables against the part of the dependent variable that is not explained by the other explanatory variables. The partial regression plots show which observations are outliers, i.e. countries (or single country years) that have a particularly strong influence on the results, and which observations are explained well by the empirical model used in the quantitative analysis.

The partial regression plot can be computed using the following procedure. Suppose we are interested in the partial effect of X_1 on Y . We then first regress Y on all independent variables but X_1 (which is the theoretical concept we are most interested in). The residuals (the difference between the observed values and the predicted values from the model) from this regression capture the variation in Y (the dependent variable) that is not explained by variation in the control variables (the other independent variables included in the model). In a second regression, we regress X_1 (the variable of interest) on all other independent variables. The residuals from this regression capture the variation in X_1 that is not explained by variation in the control variables (the other independent variables). The two sets of residuals can now be plotted against each other and will scatter around the zero line.⁴

To assess the adequacy of the underlying theory and the statistical model which is used to assess this theory, I compute partial regression plots for the government ideology variable because this is the key explanatory variable in my model. In line with Lieberman, I exclude atheoretical variables, such as country dummies, for the computation of the residuals. This is because such variables capture part of the cross-country variance of the relevant variable(s) (Lieberman, 2005, p. 438). Therefore, the partial regression plots presented in this chapter are based on the pooled regression

⁴An alternative way would be follow Gerring (2007b, p. 242f) who first estimates a full model and in a second step estimates the reduced model. He then compares the size of the residuals from the two regressions. The procedure is similar because it highlights which cases are explained well by a model that includes a particular variable, and which are poorly explained.

Table 5.1: Partial Regression Plots for the Whole Sample (18 Countries)



models without country fixed-effects.⁵ The graphs shown below visualize the predicted effect of the government ideology variable on redistributive generosity and government expenditure, while controlling for the impact of the other variables in the model.

The figures in table 5.1 show the partial regression plots of the pooled regression for all countries without highlighting particular country-year observations.⁶ The graphs on the left-hand (A and C) side include the whole 30-year period whereas the graph on the right-hand side (B and D) only visualize the country-year observations (residuals) for the last period (1993-2002). I separately examine the last decade of the thirty years included in my analysis because I will choose reforms taking place during that particular decade. The residuals in the added variable plot of the redistributive generosity model (Graph A and Graph B) are less dispersed than the residual in the expenditure model (Graph C and Graph D), which confirms that the statistical relationship between government ideology and redistributive generosity is more precise than the relationship between party government and expenditure size. This pattern applies to the partial regression plot that includes the whole period of investigation (Graph A) and the plot that only covers the ten last years (Graph B).⁷ The plots further confirm the theoretical argument that underlies the statistical examination. Although these graphs give a first impression, the information is not sufficient to select meaningful and theoretically relevant cases for the second part of the empirical analysis. Additional criteria need to be established. Based on the theoretical framework, government ideology as well as political and institutional constraints have a significant impact on patterns of redistributive generosity in mature welfare states. The countries and cases that will be analyzed subsequently should therefore show sufficient variation on these crucial independent variables.

5.1.2 Institutional Setting, Political Constraints and Variation in Party Government

The second step of the selection process is based on the key explanatory variables included in the model – the level of political constraints and the variation in party government. The theoretical framework of this study suggests that the institutional

⁵In the quantitative part of my project I always estimated and presented the pooled as well as the fixed-effects model.

⁶The residual plots that visualize the ‘joint effect of government ideology and constraints’ is included in the Appendix.

⁷The residual point located at the very top of Graph A represents the country-year for Canada in 1972.

setting and political constraints in a country are important intervening factors for policy-making processes within countries (see Chapter 3).

Depending on the institutional context, extra parliamentary actors have more or less opportunities to influence the policy-making processes and therefore the design and content of a reform. In order to account for this fact, I include Henisz' (2004) measure of political constraints in the quantitative analysis. However, because most institutional variables vary little over time, it is difficult to accurately estimate their impact in a cross-section time series analysis. Even though the quantitative part of this project modeled the joint effect of institutional constraints and party government by including an interaction term, Bennett and Elman (2006b) argue that the complex interplay between various variables cannot be captured by relying on statistical methods only. In addition to the examination of the underlying mechanisms of party governments' impact on social policy reforms, a crucial aim of these case studies is to unravel the interaction between differing party governments and the institutional setting. Therefore, the countries included in the case studies should show varying levels of institutional constraints.

Table 5.2 plots Henisz's measure of political constraints per country. Table 5.3 gives an overview of the constitutional characteristics of the countries included in my quantitative analysis. The last column indicates whether or not a particular country has a high value according to Henisz' measure of political constraints. With the exception of Austria, the countries with a relatively low value on the political constraints variable vary between approximately 0.1 and 0.4 on the 0 – 1 scale. Countries with comparatively high political constraints are above 0.8 and close to 0.9 on this scale. As is the case for all indicators that attempt to capture institutional characteristics, Henisz' variable varies little over time. Austria has a federal structure but nonetheless scores very low on Henisz' index of political constraints. However, apart from this anomaly, the summary of the qualitative institutional features and the categorization of a country according to Henisz's score are consistent. Based on this assessment the following countries have *high* institutional constraints: Australia, Belgium, Canada, Germany, Switzerland, and the United States. The constraints to policy-making in these countries are mainly due to the federal structure of the country, which leads to a fragmentation of power and opens up additional decision-making arenas. The country with the highest level of political constraints is Switzerland. This is due to the strong direct democratic elements available to organized interests, parties and social movements in general. The following countries have few institutional constraints: Denmark, Finland, France, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway,

Table 5.2: Variation in Political Constraints (by Country)

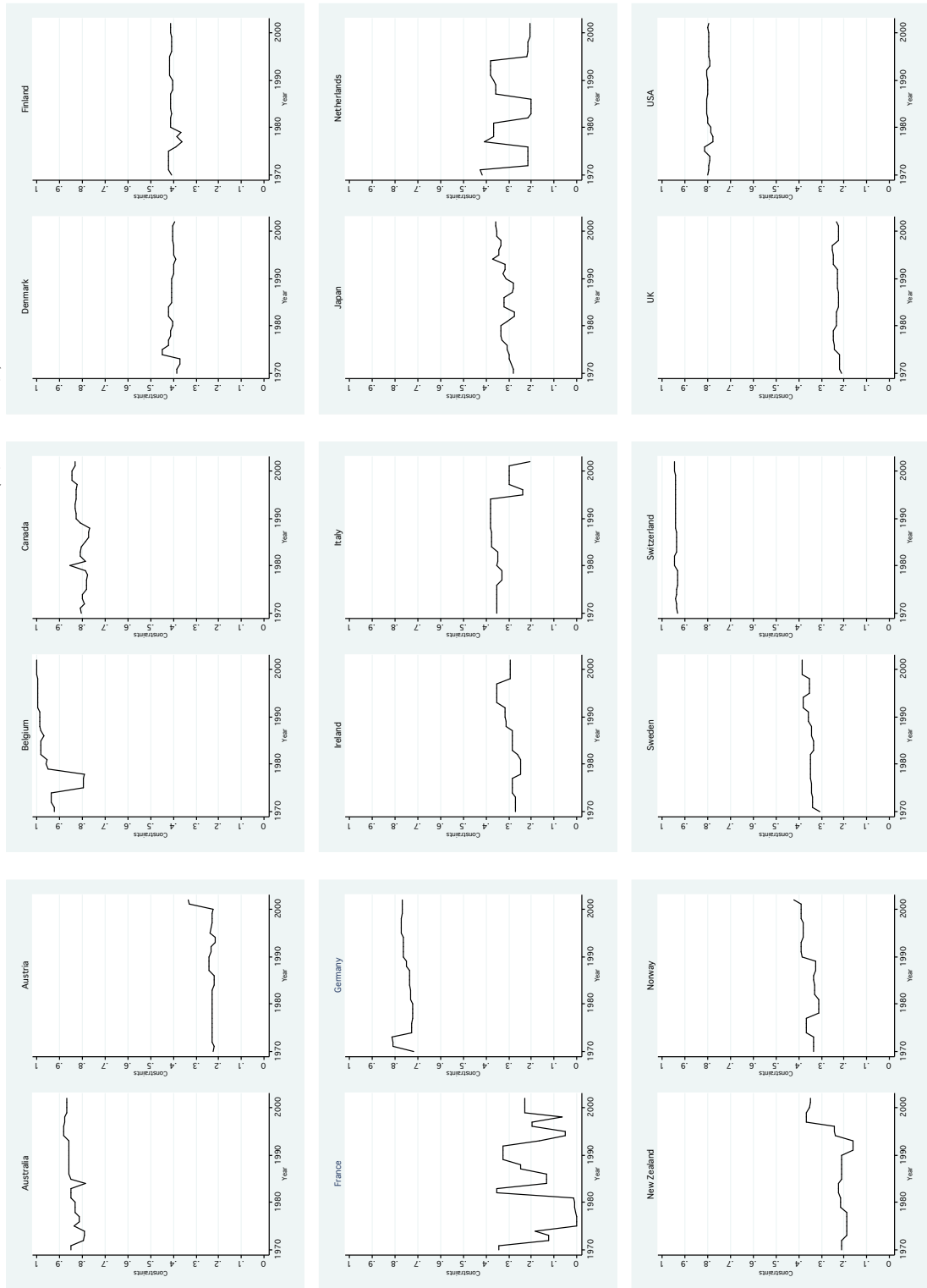


Table 5.3: Overview of the Institutional Features

Country	Federalism	Bicameralism	Electoral System		Government Type			Henisz	
			MA	PR	Presidentialism	Parliamentarism	Referendum	High	Low
Australia	x	x	x	–	–	x		x	
Austria	x	–	–	x	–	x			x
Belgium	x	x (weak)	–	x	–	x		x	
Canada	x	–	x	–	–	x		x	
Denmark	–	–	–	x	–	x			x
Finland	–	–	–	x	x	–			x
France	–	–	x	–	x	–			x
Germany	x	x	–	x	–	x		x	
Ireland	–	x (weak)	–	x	–	x			x
Italy	–	x (weak)	–	x	–	x			x
Japan	–	x (weak)	–	x	–	x			x
Netherlands	–	x (weak)	–	x	–	x			x
New Zealand	–	–	–	x	–	x			x
Norway	–	–	–	x	–	x			x
Sweden	–	–	x	–	–	x			x
Switzerland	x	x	–	x	–	consensual	x	x	
United Kingdom	–	–	x	–	–	x			x
United States	x	x	x	–	x	–		x	

Sweden, and the United Kingdom. Policy-making processes are more centralized and organized interests have less influence on the design of social policy reforms.

The second factor is variation in party government. Figure 5.4 illustrates the chronology of party governments in all countries included in my analysis. Throughout the thirty year period, the composition of party governments varied in all countries but Switzerland.⁸ The colored bars show the political ideology of the party government. The bar underneath indicates the type of government (single-party, multi-party government etc.) and whether left-wing or right-wing/conservative parties have the majority within the government. The graph shows that the variation in government partisanship is also granted during the last period of my investigation, which is the period I would like to focus on in the case studies. When we compare the partial regression plots for the whole period of investigation and that including only the last 10 years, we see that the patterns within the countries do not change dramatically. Based on the previously presented information I will now choose the countries for the subsequent case studies.

5.2 Selection of Countries

To select specific countries, I combine the information on political constraints and veto points with the information on the variation of party governments. In addition, the selection of countries is guided by examination of the partial regression plots. Based on these criteria, I choose three countries. Firstly, I chose a benchmark case that features extremely high political constraints and no variation in government partisanship over time – Switzerland. In addition to the benchmark case I examine reforms in two more countries that vary from the benchmark case by showing alteration in party government over time and have either high political constraints or low political constraints. The two countries are Germany, which has high institutional constraints and shows moderate variation in party government during the past thirty years; and Ireland, which has few institutional constraints.

The following paragraphs give a brief overview of the countries and present their main institutional features along with additional information on the sequences of party governments. I also include and discuss the partial regression plots highlighting the residuals of the country that is under focus. This procedure shows how the indi-

⁸The chronology is based on information included in the Comparative Welfare State data set by Huber, Ragin and Stephens and updated by Brady, Beckfield and Stephens in 2004. It is also included in the comparative political data set by Armingeon et al. (last updated in 2008).

Table 5.4: Party Governments over Time

	1975	1980	1985	1990	1995	2000	2005
Australia (GT/SI)	71 (2/1)	72 (2/2)	73 (1/5)	74 (1/4)	75 (2/1)	76 (1/4)	77 (1/4)
Austria (GT/SI)	78 (1/4)	79 (1/4)	80 (2/1)	81 (1/4)	82 (1/4)	83 (1/4)	84 (1/4)
Belgium (GT/SI)	85 (1/4)	86 (1/4)	87 (1/4)	88 (1/4)	89 (1/4)	90 (1/4)	91 (1/4)
Canada (GT/SI)	92 (2/2)	93 (3/3)	94 (2/3)	95 (2/3)	96 (2/2)	97 (2/2)	98 (2/2)
Denmark (GT/SI)	99 (1/1)	00 (1/1)	01 (1/1)	02 (1/1)	03 (1/1)	04 (1/1)	05 (1/1)
Finland (GT/SI)	(4/4)	(4/4)	(4/5)	(4/4)	(4/4)	(5/1)	(5/4)
France (GT/SI)	(2/2)	(4/4)	(4/5)	(4/4)	(4/4)	(5/1)	(5/4)
Germany (GT/SI)	(3/3)	(4/4)	(3/3)	(3/3)	(3/2)	(3/1)	(2/1)
Ireland (GT/SI)	(3/1)	(2/1)	(3/1)	(3/4)	(4/4)	(5/1)	(2/1)
Italy (GT/SI)	(2/1)	(2/1)	(2/2)	(3/2)	(4/2)	(4/1)	(5/1)
Japan (GT/SI)	(1/1)	(2/2)	(2/3)	(5/1)	(5/2)	(5/1)	(2/1)
Netherlands (GT/SI)	(3/3)	(2/2)	(2/3)	(3/2)	(3/3)	(3/2)	(3/1)
New Zealand (GT/SI)	(1/1)	(1/1)	(1/1)	(1/1)	(1/2)	(3/2)	(3/1)
Norway (GT/SI)	(2/1)	(3/3)	(2/1)	(2/2)	(2/2)	(2/3)	(3/2)
Sweden (GT/SI)	(1/1)	(1/2)	(1/5)	(1/4)	(1/3)	(1/3)	(1/4)
Switzerland (GT/SI)	(4/4)	(5/2)	(4/5)	(4/4)	(4/1)	(4/2)	(4/4)
UK (GT/SI)	(4/5)	(4/4)	(2/1)	(4/1)	(2/1)	(5/2)	(4/5)
USA (GT/SI)	(3/2)	(1/3)	(1/3)	(1/3)	(1/3)	(1/3)	(1/3)
	(1/1)	(1/1)	(1/1)	(1/1)	(1/1)	(1/1)	(1/1)

Index:
 Source: Based on the variables gov_right, govcert, govcert in the Comparative Political Data Set by Armingeon et al. Government Type: Government Type: Woldendorp, Keman and Budge; calculations based on the European Journal of Political Research (-> gov_type variable) Schmidt-Index (Cabinet Composition): govparty variable, calculations according to Schmidt 1992

- Government Type (GT)**
- 1 = Single Party Majoritarian Govt.
 - 2 = Minimal Winning Coalition
 - 3 = Surplus Coalition
 - 4 = Single Party Minority Govt.
 - 5 = Multi Party Minority Govt.
 - 6 = Caretaker Govt.
- Schmidt-Index (SI)**
- 1 = Hegemony of Right-Wing Parties
 - 2 = Dominance of Right-Wing and Center
 - 3 = Stand-off between Right- and Left-Wing
 - 4 = Dominance of Social Democratic/Left-Wing
 - 5 = Hegemony of Social Democratic/Left-Wing

Italy: 1995 Caretaker Government

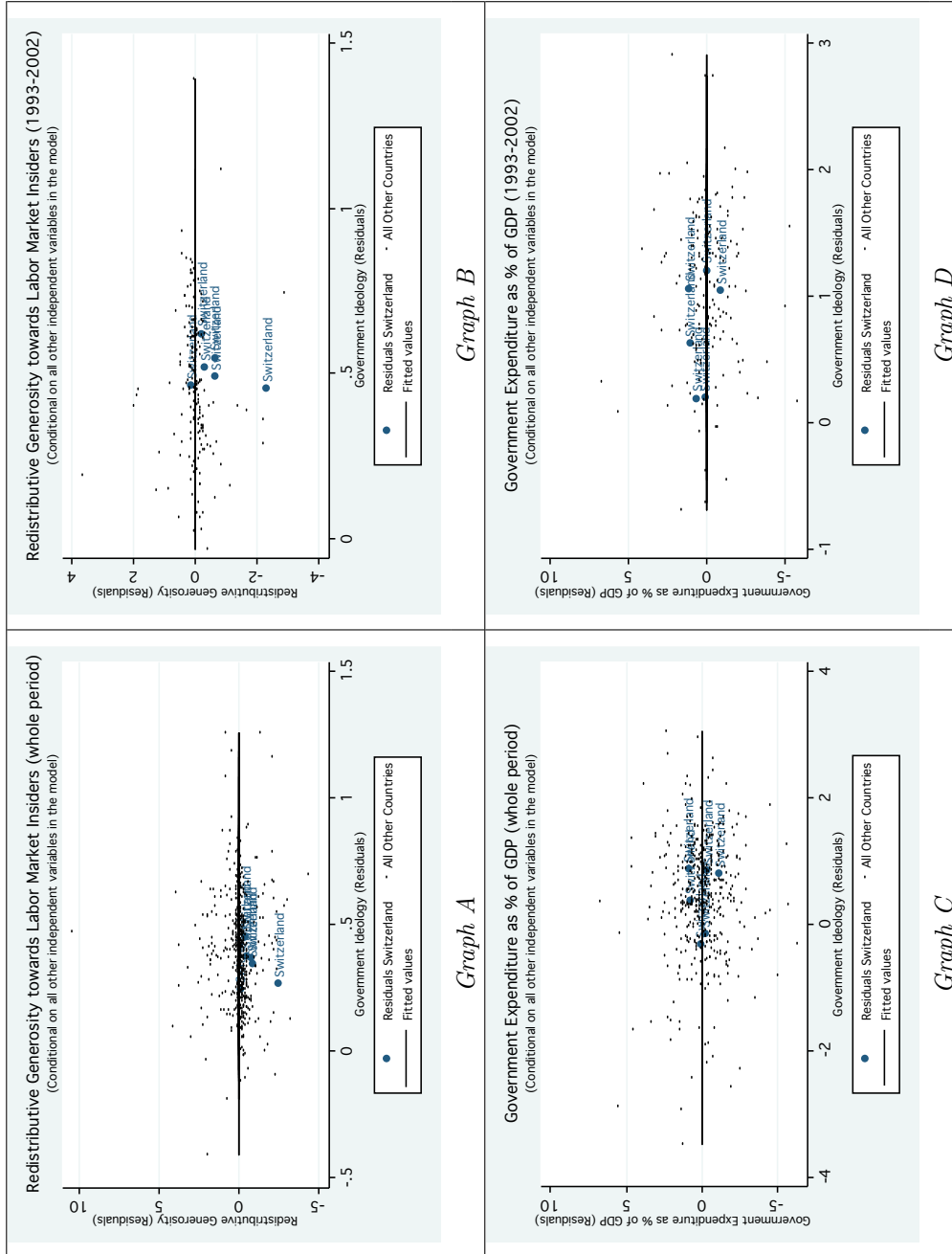
vidual country fits the general statistical model and whether or not potential outliers are theoretically meaningful. I again present the partial regression plot of the whole period of investigation for both dependent variables and those focusing on the third sub-period of investigation.⁹

5.2.1 Switzerland

Switzerland has very high political constraints. It is not so much the second chamber of parliament, although powerful, that renders policy-making and reform of social policies difficult, but rather the frequently used direct democratic instruments, such as referenda or popular initiatives. These instruments introduce an element of uncertainty into the overall policy-making process and often lead to consensual solutions. Policy decisions and reform efforts by the government and the national parliament can be blocked or significantly changed by public referenda. As a complement to this, interest groups and parties also have the ability to suggest new policies by means of popular initiatives. This makes Switzerland an interesting case because it represents an extreme with respect to institutional and political constraints. The examination of reforms in this country will show how exceptional constraints can interfere with partisan politics. Moreover, there was no change in government (or change in government composition) during the whole period of investigation. The Swiss government was dominated by parties of the center-right in the political landscape with the social democrats holding only two of the seven government seats.

⁹It is important to consider that the scale of the two partial regression plots, i.e. the plot for the complete and the third sub-period, for the decommodification model varies. Because of an outlier (Canada in 1972), the scale of the y-axis of the plot for the 30-year period results ranges from -5 to 10. The plot focusing on the third sub-period only ranges from -4 to 4.

Figure 5.1: Partial Regression Plots for Switzerland



The partial regression plots for Switzerland show that Switzerland fits the overall statistical model well. This is true for both, the redistribution and the expenditure model. The outlier in the redistributive generosity model belongs to 1997. This was shortly after a move in government ideology towards more conservative values.

The table below gives an overview of how the seat shares of the parties in parliament (*'Nationalrat'*) have changed over the years. Most remarkable is the steep increase and success of the conservative, right-wing SVP and the gradual decline of the Christian Democrats.

5.2.2 Germany

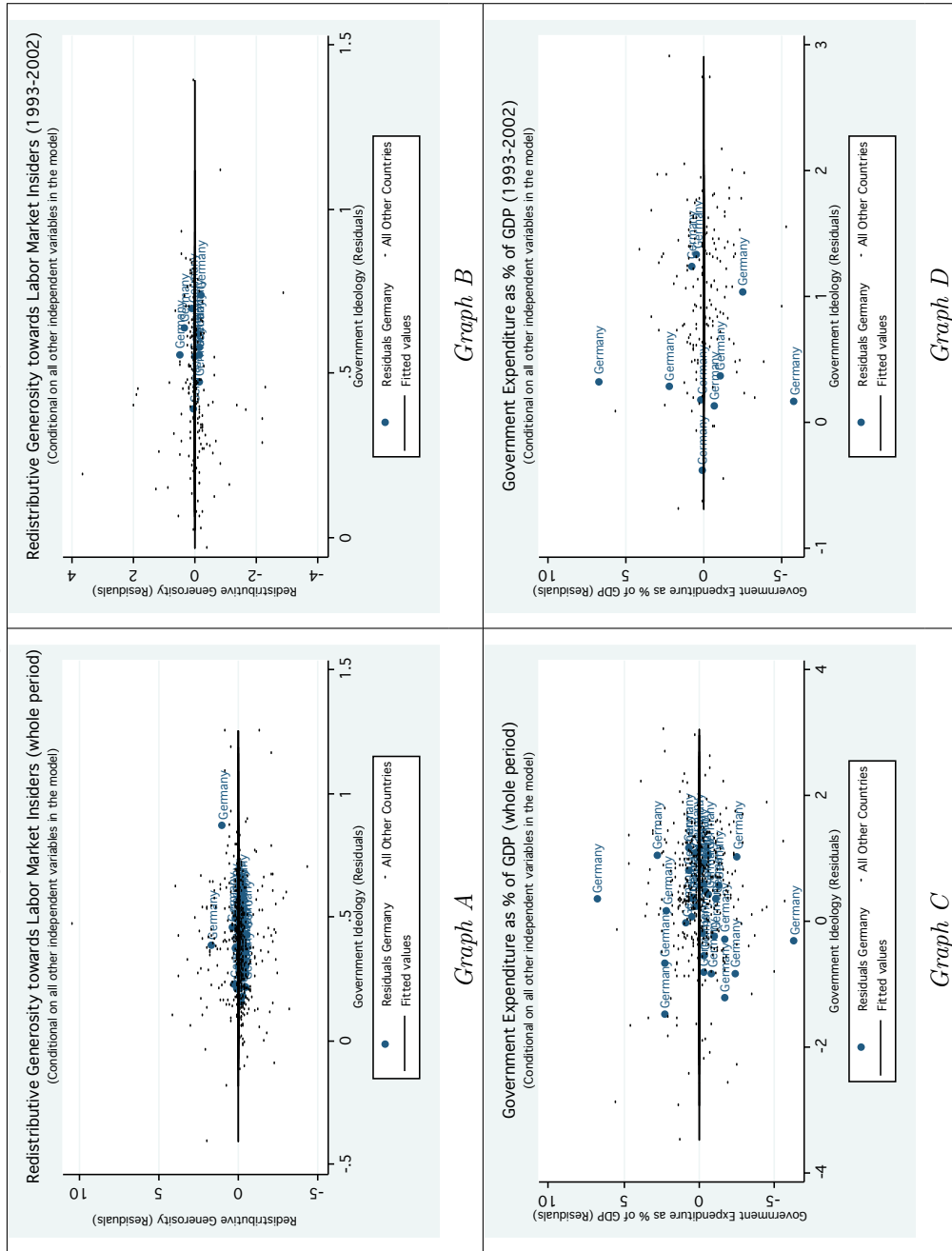
Germany is one of the countries where political constraints are high. The country has a federal structure and the second parliamentary chamber (representing the *Bundesländer*) is powerful, especially if the majority of the *Bundesländer* is governed by the opposition. The partial regression plots reveal that the redistributive generosity model fits Germany well. Both the partial regression plot for the 30-year period and that for the third sub period show no apparent outliers. The partial regression plots for the government expenditure model, however, are different. The residuals are much more dispersed. This certainly has to do with the fact that the expenditure model generally performs worse. With regard to Germany, the most prominent outliers belong to the decade after reunification. The outlier on the very bottom of the graph on the lower right represents the year 1996. The outlier in the upper half of the same graph represents 1995. This implies that public expenditures were considerably greater than predicted by the empirical model in 1995 and considerably below in 1996. A possible explanation might be the huge costs related to German unification or the fact that legislative power was mostly fragmented between the upper and the lower chamber of parliament during this time (see table 5.2).

Table 5.5: Seat Share in the Swiss Parliament, 1969-2002 (Lower Chamber)

	1971	1975	1979	1983	1987	1991	1995	1999
FDP	49 (24.5%)	47 (23.5%)	51 (25.5%)	54 (27%)	51 (25.5%)	44 (22%)	45 (22.5%)	43 (21.5%)
CVP	44 (22%)	46 (23%)	44 (22%)	42 (21%)	42 (21%)	35 (17.5%)	34 (17%)	35 (17.5%)
SPS	46 (23%)	55 (27.5%)	51 (25.5%)	47 (23.5%)	41 (20.5%)	41 (20.5%)	54 (27%)	51 (25.5%)
SVP	23 (11.5%)	21 (10.5%)	23 (11.5%)	23 (11.5%)	25 (12.5%)	25 (12.5%)	29 (14.5%)	44 (22%)
LdU	13 (6.5%)	11 (5.5%)	8 (4%)	8 (4%)	8 (4%)	5 (2.5%)	3 (1.5%)	1 (0.5%)
LPS	6 (3%)	6 (3%)	8 (4%)	8 (4%)	9 (4.5%)	10 (5%)	7 (3.5%)	6 (3%)
EVP	3 (1.5%)	3 (1.5%)	3 (1.5%)	3 (1.5%)	3 (1.5%)	3 (1.5%)	2 (1%)	3 (1.5%)
PdA	5 (2.5%)	4 (2%)	3 (1.5%)	1 (0.5%)	1 (0.5%)	2 (1%)	3 (1.5%)	3 (1.5%)
FGA	0	0	2 (1%)	3 (1.5%)	4 (2%)	1 (0.5%)	2 (1%)	1 (0.5%)
GPS	0	0	1 (0.5%)	3 (1.5%)	9 (4.5%)	14 (7%)	8 (4%)	8 (4%)
SD	11 (5.5%)	6 (3%)	3 (1.5%)	5 (2.5%)	3 (1.5%)	5 (2.5%)	3 (1.5%)	1 (0.5%)
FPS	0	0	0	0	2 (1%)	8 (4%)	7 (3.5%)	0
Others	0	1 (0.5%)	3 (1.5%)	3 (1.5%)	2 (1%)	7 (3.5%)	3 (1.5%)	4 (2%)
Total	200 (100%)	200 (100%)	200 (100%)	200 (100%)	200 (100%)	200 (100%)	200 (100%)	200 (100%)

Explanation: The seat share / percentages refer to the seat share of parties in the lower chamber (*Nationalrat*). Abbreviations: FDP = Freie Demokratische Partei (Liberal Democrats); CVP = Christliche Volkspartei (Christian Democrats); SPS = Sozialdemokratische Partei Schweiz (Social Democrats); SVP = Schweizerische Volkspartei (Swiss People's Party); LdU = Landesring der Unabhängigen (Independent's Party); LPS = Liberale Partei Schweiz (Liberal Party Switzerland); EVP = Evangelische Volkspartei (Evangelical People's Party); PdA = Partei der Arbeit (Worker's Party); FGA = Feministische und Grün-Alternative Gruppierung (Feminist and Green-alternative's Party); GPS = Grüne Partei der Schweiz (Green Party); SD = Schweizer Demokraten (Swiss Democrats); FPS = Freipartrai Schweiz (Freedom Party Switzerland).

Figure 5.2: Partial Regression Plots for Germany



During the third sub-period, Germany only experienced one change in government partisanship. The first half of the period falls into the second half of the sixteen year-long Kohl-government (1982-1998), which consisted of a coalition between the Christian Democrats and the liberal party. In 1998, a coalition government between the Social Democrats and the Green Party took office. The following table gives an overview over the different heads of government and the party composition of these coalitions. It is notable that the liberal party was part of government during the whole period of the analysis except for the last legislative period when the Social Democratic Party was governing together with the Green Party.

Table 5.6: German Party Governments (1969-2002)

Legislative Period	Head of Government (Chancellor)	Party Composition	Second Chamber (Majority)
1969-1972	Willy Brandt, SPD	SPD and FDP	Dominated by the Social Democrats
1972-1974	Willy Brandt, SPD	SPD and FDP	Dominated by the Social Democrats
1974-1976	Helmut Schmidt, SPD	SPD and FDP	Dominated by the Social Democrats
1976-1980	Helmut Schmidt, SPD	SPD and FDP	1976: Dominated by the Social Democrats, 1977-1980: CDU/CSU
1980-1982	Helmut Schmidt, SPD	SPD and FDP	Dominated by the Christian Democrats
1982-1983	Helmut Kohl, CDU	CDU/CSU and FDP	Dominated by the Christian Democrats
1983-1987	Helmut Kohl, CDU	CDU/CSU and FDP	Dominated by the Christian Democrats
1987-1991	Helmut Kohl, CDU	CDU/CSU and FDP	1987-1990: CDU/CSU 1991 stand-off
1991-1994	Helmut Kohl, CDU	CDU/CSU and FDP	Dominated by the Social Democrats (from 1992)
1994-1998	Helmut Kohl, CDU	CDU/CSU and FDP	Dominated by the Social Democrats

Table 5.6: *continued*

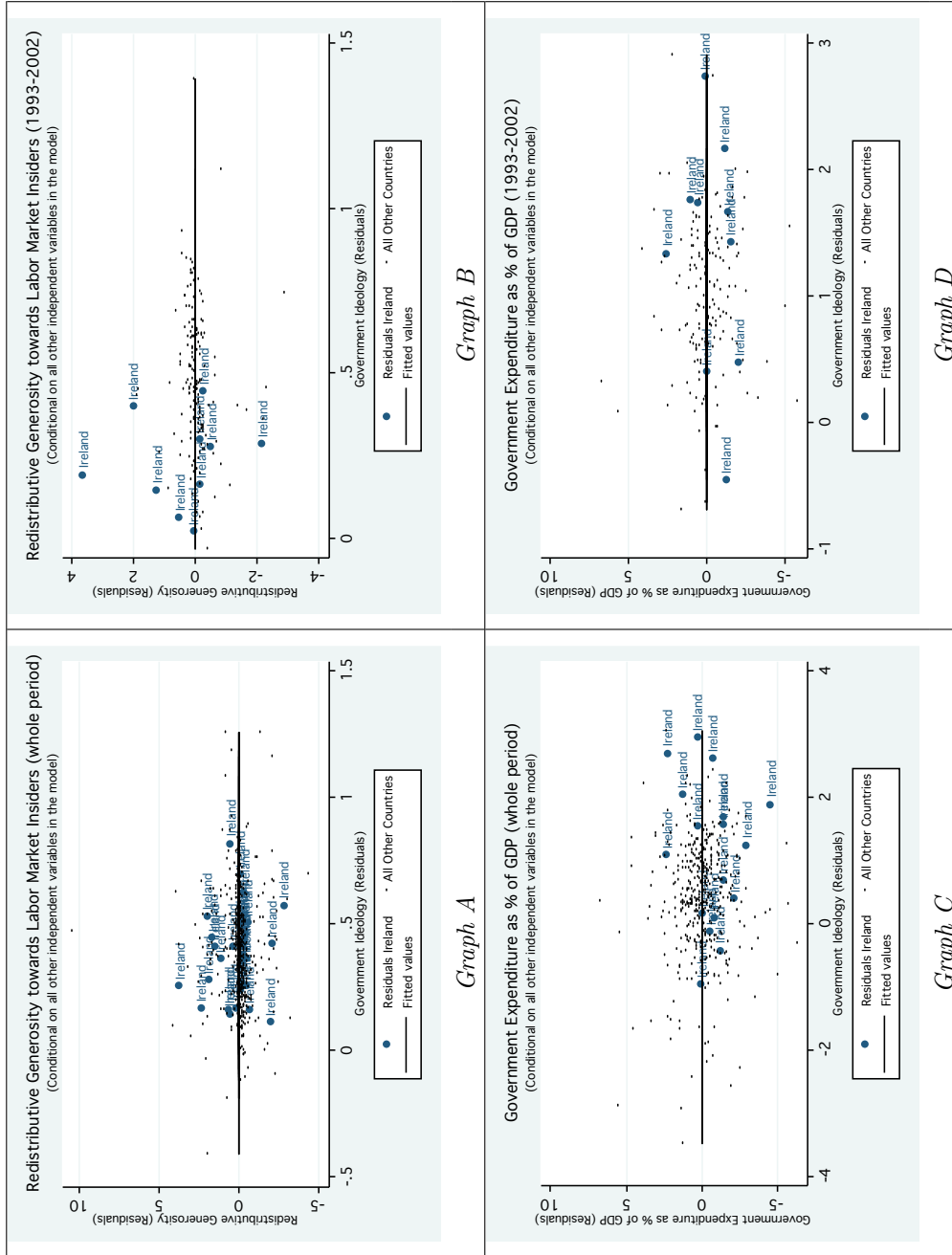
Legislative Period	Head of Government (Kanzler)	Party Composition	Bundesrat
1998-2002	Gerhard Schroeder, SPD	SPD and Green Party	Dominated by the Christian Democrats (second part of the legislative period)

5.2.3 Ireland

Ireland is one of the countries in the sample that experienced most changes in government composition during the period of investigation. During the thirty years covered by the quantitative analyses, Ireland had thirteen changes in government composition. Most of the time, the center-right party was part of the governing coalition. This is also the case for the last period, when the government was dominated by conservative/right-wing parties. The only exception is the period between 1995-1997 when a center-left coalition was in power. Unlike the partial regression plots for Germany and Switzerland, the partial regression plot highlighting the Irish observations for the redistribution model shows more ‘outliers’. It is also a country where the observations for the expenditure model are less dispersed than the observations of the redistributive generosity model. By taking a closer look at the partial regression plot focusing on the last sub-period (1993-2002) and by further investigating some of the observations that are situated outside of the cloud, we can infer, however, that the outliers are theoretically meaningful and in line with the argument.

The graph in the upper right corner shows that the Irish observations in 1995 and 1996 are outliers in the redistributive generosity model. The year 1996 is represented by the observation on the very top in the upper right graph; the year 1995 is represented by the observation that lies just outside of the cloud above the regression line. Although these two observations are fairly distant from the regression line, they support my theoretical argument. Even though the government ideology score (based on the party manifestos) of the center-left coalition holding office between 1995 and 1996 does not differ that much from the previous or the subsequent government, the policies implemented are in line with the preferences generally assigned to leftist parties. The statistical model thus underestimates (in the case of Ireland) the impact of government partisanship on redistributive generosity.

Figure 5.3: Partial Regression Plots for Ireland



There are two other interesting observations, one on the bottom half of the graph and a second one above the regression line, between the two observations discussed before. The observation below the line stands reflects the year 1998, the year when the newly elected right-wing government took office. This again is in line with my theoretical argument. The observation between the dot representing 1995 and 1996 represents the year 2002. In 2002, a right-wing government was in office, which should not have increased redistributive generosity. The data on government ideology in Ireland, however, show that the ideology score increased during the last years of the sample period.

The Irish observations in the expenditure model in graphs C and D cluster in the middle of the regression line. There is no obvious outlier that requires further, detailed discussion. Unlike in Germany and Switzerland, unemployment in Ireland decreased significantly and economic growth was high. The Irish party governments probably experienced less budgetary and fiscal constraints during the 1990s. Nonetheless, the governing coalitions during this time shaped the policies as expected. Left-wing governments increased redistribution significantly (even though or precisely because unemployment was low) and right-wing governing coalitions successfully redistributed less (even though the economy was booming). In this study, Ireland is the crucial case because it is not that well captured by the statistical model, but still confirms the theoretical claims.¹⁰ The following table (Table 5.7) gives an overview of the composition of the various party governments during the thirty-year period of analysis. In addition, I indicate which governments were minority governments that had to gain the support of opposition parties in order to pass new laws and implement a social reform.

Table 5.7: Irish Party Governments (1969-2002)

Legislative Period	Head of Government (Taoiseach)	Party Composition	Government Type
1969-1973	Jack Lynch	Fianna Fáil	Majority
1973-1977	Liam Cosgrave	Fine Gael Labour Party	Majority (Minimal Winning)
1977 -1979	Jack Lynch	Fianna Fáil	Majority
1979-1981	Charles Haughey	Fianna Fáil	Majority
1981	Garret FitzGerald	Fine Gael Labour Party	Minority

¹⁰See [Gerring \(2007b\)](#), p. 232) on crucial cases.

Table 5.7: *continued*

Legislative Period	Head of Government (Taoiseach)	Party Composition	Government Type
1982 (Feb)	Charles Haughey	Fianna Fáil	Minority
1982 (Nov) - 1987	Garret FitzGerald	Fine Gael Labour Party	Majority (Minimal Winning)
1987-1989	Charles Haughey	Fianna Fáil	Minority
1989-1992	Charles Haughey	Fianna Fáil Progressive Democrats	Majority (Minimal Winning)
1992	Albert Reynolds	Fianna Fáil Progressive Democrats	Multi Party Minority
1992-1994	Albert Reynolds	Fianna Fáil Labour Party	Minimal Winning
1994-1997	John Bruton	Fine Gael Labour Party Democratic Left	Majority (Minimal Winning)
1997-2002	Bertie Ahern	Fianna Fáil Progressive Democrats	Minority

The cases that are well explained (meaning that the observations are close to the regression line) are not always the theoretically interesting ones or those that substantiate the theoretical argument (as seen in the Irish case described at the beginning). The inspection of the partial regression plots is extremely helpful to gain an insight into the validity of the basic statistical model and the theoretical argument. In addition, scrutiny of the partial regression plots also provides some insight into what is going on within the countries. However, it would probably be misleading to solely focus on cases lying on the regression line. Cases that are on the regression line are statistically typical, and therefore are not always the theoretically most representative cases.¹¹ Therefore it is important to set the partial regression plot in a wider context and to look at the residuals more closely. It is on this point that Lieberman's framework of '*nested analysis*' has some weaknesses. Even though he elaborates on various

¹¹According to [Rohlfing \(2008, p. 11\)](#), it may well be that a theoretically non-representative case has a small residual. Moreover, there is no reason to believe that a substantively important case has a small residual, because the impact of a nonsystematic variable might push the case far away from the regression surface.

ways to read and interpret the partial regression plots, he does not elaborate on the possibility that a theoretically representative and substantially interesting case might not be statistically typical.

5.3 Policy Field and Actors

To examine underlying mechanisms generating the macro-level policy outcomes presented in Chapter 4, it is important to tie the case studies as closely as possible to the preceding quantitative empirical part. This means that the case studies should analyze those aspects of social policy that are captured by the decommodification index used in the previous chapter. This index primarily covers characteristics of three major welfare state programs, pension, unemployment and sick-pay. Unemployment, sick-pay and pension schemes have been under reform pressure in most of the countries that are included in my sample. For substantive and theoretical reasons I will therefore focus on labor market reforms and reforms relating to the unemployment insurance schemes.

An analysis of unemployment insurance reforms and changes in labor market policies is meaningful for theoretical and substantive reasons. Unemployment insurance schemes were challenged during the 1990s and most systems underwent serious restructuring measures in order to cope with increasing internationalization and changes in the labor market. These factors were explicitly modeled in the macro-level analysis and will now be examined from the perspective of the main actors involved in reform processes. Moreover, the implications that policy changes have for *'insiders'* and *'outsiders'* are particularly prominent in the field of labor market policy-making and changes affecting unemployment insurance schemes. In addition, unemployment insurance benefits have direct effects on the whole working population. The reform processes within this policy field involve similar actors across countries and are therefore amenable to a cross-national comparison. Labor unions and employers' organizations are the most important interest groups within this policy field. Finally, changes related to unemployment insurance schemes and the labor market in general are highly visible and often intensively debated in the public sphere because the reforms affect most people of working age. Therefore, political parties and party governments should be sensitive to the preferences of their electorate and exploit the opportunity to gain a distinct political profile.

Besides the government and political parties, I will examine the role and positions of those interest groups that were invited to participate in the reform process

or that issued policy documents discussing a particular reform. Some countries have standardized procedures that allow interest groups (mainly labor unions and employer organizations) to participate in the process. In Switzerland, for example, every important policy reform is preceded by a consultation procedure in which interest groups are invited to comment on the reform plans. In countries where no official consultation process takes place, I rely on leading national newspapers to identify the important actors, mostly labor unions and employers' organizations, on the political arena. With the exception of Switzerland, I analyze two reforms per country. In Germany and Ireland, I chose one reform that was implemented and designed by a conservative government and a second reform that was implemented by a social democratic/leftist government. The particular policy issues of the reform are assigned to the two dimensions of social policy change introduced in the theoretical framework. The reason why I only examine a single reform for the Swiss case has to do with the fact that there is no change in government during the time covered by my analysis. I therefore do not expect to find different patterns of reform mechanisms.

5.4 Period of Analysis and Data Sources

The last subperiod (starting in the early 1990s) is the most important for my case studies. During this period, the effects of economic globalization, which were already visible in the 1980s, became more apparent and severe in the 1990s. The importance of dimensions other than expenditure in social policy-making, such as redistribution and compensation, became particularly important for parties reforming welfare state institutions from the mid-1990s onwards. This is confirmed by the results of the quantitative analysis, which shows that party government has an impact on the redistributive generosity of core social security programs between 1992 and 2002 but does not exert a statistically significant impact on spending. Since I am not interested in an analysis of the manner in which policy-making processes have changed over time, the exclusion of the early time periods is not problematic. The focus on the most recent period also has a practical advantage. Comments and policy proposals of interest groups, which are essential for my analysis, are difficult to obtain for reforms that were implemented a long time ago.

The aim of the case studies is to illustrate reform processes and position political parties and interest organizations along the theoretical dimensions described above. In addition, I examine whether and how the party preferences are translated into a particular reform proposal. To do so, I proceed in two steps. The first step

is to identify the main reform issues of each reform and match them with the two theoretical dimensions outlined in the previous chapters. The reform proposal issued by the government is the source used to identify the main reform issues.

With regard to the data and empirical material that will be used for the country case studies, I will mainly rely on parliamentary minutes and policy documents. For the Swiss case, I will rely on the parliamentary minutes that are available online and on the policy documents generated by the pre-parliamentarian consultation process (*‘Vernehmlassungsverfahren’*). The pre-parliamentarian consultation process is open to any interested organization or individual and collects interest groups reactions to policy proposals made by the government. Most legislative processes in Switzerland are accompanied by such a consultation process and interested actors, such as the peak-organizations, political parties and sub-national entities usually provide their statement and opinion. The positions of the employers’ organizations and the unions are located in these documents. In addition to these written comments, I also draw on the parliamentary minutes to assess the policy positions of the parties in parliament (accessible online on www.parlament.ch).

For the German case, the main sources of information are public hearings, written statements submitted to the parliamentary commission leading the reform and the parliamentary minutes from the German Bundestag. The parliamentary minutes are accessible online (<http://dip.bundestag.de/>). The summaries of the public hearings and written statements by extra-parliamentarian actors were ordered from the *‘Parlamentsarchiv’* (parliamentary archive). The policy positions of the actors involved that are discussed below are based on the minutes of the parliamentary debate (for the political parties) and the minutes/written statements of the public hearing that was held by the leading parliamentary committee for extra-parliamentarian actors, such as unions and employers’ organizations.

The policy-positions and statements for the Irish reform processes are based on the Irish parliamentary minutes (<http://historical-debates.oireachtas.ie/index.html>). Since the committee stage of the legislative process has very little impact on the design of the legislation and labor unions cannot comment during the actual drafting process of the budget and the welfare state act, I relied on the *‘The Irish Times’*. I used this source to derive the general opinion of interest groups concerning the budget and welfare state bill proposed by the government and discussed in parliament. To select the articles I used the following key words: unemployment, social welfare, labor market. I selected articles that were published up to two months

before the respective bill was discussed in parliament and articles published during the period of discussion in the Dáil.

I finish this section on case selection with a few remarks on existing typologies and categorizations of welfare state regimes. In the wide field of comparative welfare state research, countries are often selected because they correspond to a certain type of welfare state. The most influential and well known typology of different welfare state regimes is the one by [Esping-Andersen \(1990\)](#). His typology consists of three ideal types: the conservative welfare states; the liberal welfare states; and the social democratic welfare states. If we take Esping-Andersen's categorization of welfare state system as a basis, then the three countries included in my analysis are shown to belong to different welfare state systems. According to Esping-Andersen's typology, Germany is the prototype of a conservative welfare state. Switzerland and Ireland (even though both countries are not exhaustively characterized and described in his work) are both defined as liberal welfare states. The question arises as to whether it is problematic to choose countries that do not belong to the same category. I would argue that it is not a problem, due to the fact that the results of the macro-analyses showed that there is no systematic difference between the various regime types. The model fits all countries equally well (or equally poorly). The pattern is the same – party government has the hypothesized impact in liberal, conservative as well as nordic welfare states. Esping-Andersen's typology is not uncontested.¹² A re-examination of Esping-Anderson's three-fold typology by [Scruggs and Allan \(2006\)](#); [Bambra \(2006, 2005\)](#) showed that Switzerland no longer fits into the category of liberal welfare state. Obviously, welfare state systems and social security schemes undergo changes. It has been argued that political economies have changed in the last decades and that welfare states have been challenged. To examine these changes and detect the driving forces behind these changes is an important aim of this project.

5.5 Reform Issues in Labor Market and Unemployment Insurance Reforms

The theoretical argument outlined in Chapter 3 emphasizes the importance of the multiple dimensions of social policies and policy-making for political actors. Whereas the post-war period was characterized by the implementation of new social policy programs and the expansion of these programs, the more recent decade has shown

¹²Various competing typologies exist ([Ferrera, 1996](#); [Bonoli, 1997](#); [Korpi and Palme, 1998](#), see e.g.). For a brief overview [Arts and Gelissen](#) (see e.g. 2002).

that resources are scarce and that spending on social policies and the welfare state cannot simply be further expanded. Therefore, governments must cut rather than expand expenditure on additional dimensions. Dimensions other than spending are crucial to observe the distinctiveness of the policy positions of actors and how they attempt to shape policies according to their preferences. In the first part of this project, I separately analyzed the two dimensions by estimating the (joint) impact of government ideology and constraints on both dimensions in separate statistical models. One of the advantages of the following case studies is that they allow me to take into account the policy preferences of the political actors on multiple dimensions of social policy-making. This is important because the macro-level analysis does not exactly show how the two dimensions are interrelated and whether or not the various actors consistently position themselves on the two dimensions. As an example, we would expect that a leftist party (or a labor union) – knowing that the social policy program cannot be further expanded – try to accommodate their constituency’s needs through the second dimension.

Labor market and unemployment insurance reforms include a variety of issues. Some of them relate to the level of contributions, the duration of benefits, the inclusion of active labor market policies or issues concerning the eligibility of various target groups. These issues will be assigned to one of the following two dimensions, which are related to my theoretical argument: expenditure or redistribution. The expenditure dimension encompasses issues that aim at lowering costs (mainly lowering public expenditures), which also includes increasing the efficiency of the administration or the inclusion of new requirements and obligations for the unemployed. The second dimension, redistributive generosity/redistribution, assesses which societal groups have to pay relatively more and which contribute relatively less to the cuts in spending. For instance, if the level and duration of benefits for the very poor is cut disproportionately, while level and duration for highly skilled workers is cut only a little, this would decrease the size of redistribution. If overall social spending is reduced, but wealthy people have to contribute more to sustain important existing components of a country’s social security system or to finance new schemes, this would increase redistribution. The crucial aspect is whether or not the reform is targeting specific income or societal groups (e.g. incomes above a certain level, part-time workers etc.). I expect that the positions of the actors on the redistribution axis should vary more and that the preferences of actors are more distinguishable and distinct than along the expenditure axis. Since unemployment insurance schemes in the different countries were confronted with similar challenges during the past years, there will be a significant overlap across

Table 5.8: Reform Issues

Redistributive Issues		Expenditure Issues	
<i>Issue</i>	<i>Description</i>	<i>Issue</i>	<i>Description</i>
<i>Benefits Compared to Previous Income</i>	Unemployment insurance benefits often depend on previous earnings. The level of benefits sets the rate to which extent the original income will be replaced by unemployment benefits in case of job loss. This is a matter of redistribution if low incomes get a higher percentage of their previous income than individuals with a high previous income.	<i>Duration of Benefits</i>	Unemployed people are eligible for unemployment benefits during a certain period only. Shortening or extending the duration of benefits influences the expenditure dimension.
<i>Contributions Relative to Income:</i>	The contributory rates can be different for employees given a particular income. A related issue is how the contributions are split between employee and employer and whether there are different contributory rates for different income levels.	<i>Public funding</i>	Unemployment insurance schemes are mostly financed through contributions from employers and employees. However, a minor part of the insurance system is covered by the state and usually, the state also provides deficit guarantee. Higher/lower coverage by the state means more/less public expenditure.
<i>Eligibility:</i>	The inclusion of new groups into the unemployment insurance scheme leads to a broader coverage of employees. Reforms can also exclude groups of employees (e.g. employees with salary above a certain threshold, part-time employees). Eligibility is also related to the length of the necessary contribution period.	<i>Active Labor Market Policies (ALMP):</i>	Most labor market/unemployment insurance reforms nowadays include some ALMP measures. Generally, these policies aim at re-integrating unemployed people in the labor market more efficiently. The aim is to unburden the insurance scheme and to cut down on expenditure. Also included in this category is the establishment of regional (privately organized) placement centers with the aim of closer monitoring and lowering the costs of placing unemployed people.

the individual reforms. The overlap of issues will make the comparison of the reform processes across the countries easier.

Issues assigned to the redistributive dimension have certain features in common. These pertain to the fact that they all affect the redistributive generosity of programs by altering benefits or contributions *relative* to an individual's income, and/or are directed towards specific groups (e.g. higher income groups). Issues attributed to the expenditure dimension either affect every individual equally (e.g. general cuts of benefits, cut in the duration of benefits) or aim at increasing the efficiency of the labor market by implementing active labor market policies and outsourcing services to private agencies. The reforms included in the subsequent country chapters do not necessarily cover all the issues discussed and described in the above tables. Firstly, the focus and subject of the reforms is determined by whether or not there exists a pressure in the policy field at a given time. Secondly, the focus and subject of reforms are shaped by the political party in power and thirdly, by the status quo of the given policy. Therefore, the number of issues examined varies across reforms but also across countries. The following country chapters start with an introductory section that provides background information on the country's institutional characteristics, its economic development during the years included in the analysis and a short introduction to the most important features of the welfare state.

Chapter 6

Switzerland

6.1 Introduction

Just as for Germany and Ireland, the results of the macro-level analysis confirm the theoretical argument presented in Chapter 3. According to these results, party governments in Switzerland have lost the ability to shape the size of public expenditure. However, they have been able to design distinct policy outcomes on the redistributive dimension during the most recent decade. The distinct institutional pluralism of Switzerland partly contributed to the relatively late development of the welfare state, which was for a long time considered to be ‘residual’ in its nature. Important welfare state programs have been implemented comparatively late on the federal level.¹ The late adoption of social security schemes is especially true for compulsory unemployment insurance, which was added to the already existing social policy programs by the federal government in 1984. The reform analyzed in this chapter took place at the beginning of 2000 (2001).

6.2 Institutional Framework and Political Actors

Lijphart called Switzerland the ideal type of a consensus democracy (Lijphart, 1999, 1984) and Neidhart (1970) accurately described the country as a ‘negotiation democracy’. These characterizations of the Swiss political system have their origin in the

¹The unique political system is the reason why Switzerland is not often included in comparative small-N studies and is widely neglected in comparative welfare state research Fontana, Afonso and Papadopoulos (2008); Obinger (1998).

particular mix of institutions, such as strong federalism, an extraordinary balance between executive and legislative, the direct democratic instruments, and the oversized coalition government which are present in the country. The development of this particular institutional setting has been triggered and influenced by the presence of multiple social and cultural/ethnic cleavages. The following paragraphs describe these key characteristics of the system and their effect on political processes.

The federal structure of the political system originates with the linguistic and religious cleavages that divide the country. The twenty-six cantons, though functionally analogous, vary with respect to their structure and basically coexist with the federal level (Kriesi and Trechsel, 2008, p. 36). Even though Swiss federalism is in many respects similar to German federalism, there are a few important differences. In accordance with the principle of subsidiarity, the competencies of the federal state are limited and, whenever possible, political autonomy lies at the cantonal or communal level.² However, over the decades, the federal government gained greater policy autonomy in key-areas, such as social policy-making. Even though the federal state is acquiring new competencies in different policy fields, the Swiss cantons (and communities) remain important, especially because they are still responsible for various public services and also have considerable tax and budgetary authority. In addition, cantons and municipalities are responsible for the implementation and elaboration of federal legislative orders.³ The ample competencies of the sub-national units considerably limit the power of the federal government.

In a manner similar to Germany and Ireland, the Swiss legislative is divided into two chambers. The *'Nationalrat'* and the *'Ständerat'* have identical competencies, but the party composition of the two chambers differs considerably because different electoral rules apply. Both chambers are equally powerful but the majorities in each are different. Therefore, bicameralism in Switzerland is strong.⁴ The Swiss parlia-

²This means that as long as the federal state has not been explicitly entitled to take legislative action in a particular area, the competencies lie at the sub-national level(s). The transfer of additional competencies to the federal level always requires a nation-wide referendum.

³For a more detailed discussion of the differences between the Swiss and German federalism see Braun (2003).

⁴Bicameralism is strong if both chambers have the same competencies but the party composition of the two chambers differ greatly. This is the case in Switzerland where the upper and lower chamber have the same rights but due to different electoral rules (proportional election for the National Council (*'Nationalrat'*) and majoritarian elections for the Council of States (*'Ständerat'*) the *'Ständerat'* is dominated by liberal and conservative members. By contrast the allocation of seats is more equally distributed between conservatives and left-wing parties in the *'Nationalrat'*. Unlike the situation in Germany, where the members of the *'Bundesrat'* are also elected members of the executive of their *'Bundesland'* and therefore are clearly representatives of the sub-national entity, the *'Ständeräte'* basically represents the people rather than the political interests of the canton. As is the case with members of the US Senate, they vote without instructions.

ment is a so-called ‘*Milizparlament*’, meaning that the members of parliament are not professional politicians but continue in their original profession while being parliamentarians.⁵ The two chambers only meet for four 3-week sessions per year.

Switzerland is distinguished from most other European countries by the presence of many direct democratic instruments which are widely used at all government levels.⁶ The 1848 constitution forming modern Switzerland already included the mandatory referendum for constitutional amendments. In 1874 the optional legislative referendum was added, and in 1891, the possibility of popular initiatives was implemented. After 1891 only minor changes were added. The effect of a popular initiative and a referendum on political processes and policy development are fundamentally different. It is important to keep this in mind with regard to the following case studies. Whereas initiatives are hardly successful and usually fail at the ballot box, referendums are more effective and also more relevant to the policy processes examined later in this chapter.⁷ The main purpose of popular initiatives is to draw the attention of the legislature towards a particular subject or to initiate a public discourse and accelerate the implementation of a potential new legislation (Papadopoulos, 2001; Kriesi and Trechsel, 2008; Linder, 1999 (2nd, see e.g.). They are often used by pressure groups whose issues are not usually considered by mainstream parties. Unlike popular initiatives, referendums do not accelerate policy-making. Rather, they slow down policy change as potential reforms can only be implemented at the end of a decision-making process. Nevertheless, the threat by credible political actors to call for a referendum manifests itself early on in the negotiations of a new policy or legislative.

The federal government, called Federal Council (‘*Bundesrat*’), consists of seven members with identical competences. Once elected by the parliament, the government can act independently for four years without the threat of a vote of confidence.⁸ Until very recently, each member of the Federal Council was usually re-elected (or rather confirmed) by the parliament at the beginning of a new legislative period

⁵The two chambers are dominated by a few professional groups: lawyers, teachers and farmers.

⁶Switzerland is not the only country that occasionally involves the people in political decision-making processes. Other countries such as Italy and Liechtenstein also hold popular referenda and the US state of California makes use of popular initiatives. However, Switzerland has by far the highest number of referenda and popular initiatives.

⁷Up until now there is only one popular initiative vaguely related to social security or social policy. In 1994, the initiative proposing a federal holiday on the 1st of August (the Swiss national holiday) gained the majority of votes of the electorate and the cantons (double majority). The approval of a popular initiative is very rare. Since the introduction of this direct democratic instrument in 1891, only such 15 initiatives have been implemented (see http://www.admin.ch/ch/d/pore/vi/vis_2_2_5_8.html).

⁸For Lijphart (1999, p. 120, 134) this is the prime example of an executive-legislative balance combining presidential with parliamentary characteristics.

and new members have been appointed only after one (or several) member(s) resigned. However, the so-called ‘magic formula’ (*‘Zauberformel’*) changed after the 2003 national elections, where the Swiss People’s Party further increased its electoral support and overtook the Social Democrats as the largest party in parliament. Meanwhile, the Christian Democrats share of the vote decreased to below 15 percent. The Swiss People’s party (with the support of other conservative members of the parliament) succeeded to elect its most prominent member – Christoph Blocher – to the executive. The election of Christoph Blocher came at the expense of the Christian Democrats. During the period covered by the macro- as well as the meso-level analysis, the partisan composition of the oversized coalition government was the same.

The formation of an oversized coalition (consensus) government which includes the major political forces is not required by the constitution. Rather, it is a by-product of multiple cleavages in the country and the necessity to build majorities and include the main interests in order to pass legislative acts. Despite its stability and independence of parliament, the Swiss government is often characterized as weak (see e.g. [Obinger \(2009, p. 184\)](#), [Klöti \(2001\)](#)). Like the parliament, the government is also limited by the provisions of direct democracy. Constitutional changes not only need approval by the two chambers but also must pass the compulsory referendum. The government is also constrained by the sovereignty of cantonal and communal authorities.

Party System and Party Competition

Unlike in Germany where party organization is strong and political parties are seen as leading actors in the political arena, the importance and influence of parties in Switzerland is less pronounced because of the direct democratic instruments and the marginal effect of national elections ([Ladner, 1999 \(2nd Edition\)](#)). This is reflected by the weak national party organizations and the lack of legislation that regulates party finance and funding. However, political parties have become more important during the last decade, especially in social and economic policy-making (see [Häusermann, Mach and Papadopoulos, 2004](#); [Trampusch, 2008](#)).

The organizational strength of Swiss political parties lies at the cantonal level and the configuration of parties often differs considerably across cantons. Because of the weakness of the party system at the national level and the existing variety on the sub-national level, some scholars even characterize Switzerland as a country with 26 individual party systems ([Ladner, 2001, p. 124](#)). The late constitutional recognition of

parties in 1999, after a partial revision of the constitution and the lack of state funding additionally contributes to the organizational weakness of the parties at the federal level.⁹

The Swiss party system is characterized by a comparatively large number of parties. We can distinguish between two groups, the (established) parties forming the government (CVP, FDP, SVP, and SPS) and the smaller parties, such as the GPS, the EVP, the SD and the LPS, which are represented in the parliament but do not participate in government.¹⁰ The four parties building the governing coalition have been the dominant parties in the parliament since the introduction of the proportional electoral system in 1919.

Various factors positively influence the large number of parties in Switzerland. The presence of various social and cultural cleavages gave rise to the development of several national parties, whose policy positions can differ considerably between the cantons. Unlike Belgium, however, where the language cleavage led to the development of a segregated system of Flemish and Walloon parties of each color, the Swiss parties are united at the federal level and run on a single program in federal elections. The system of proportional representation on the national and the sub-national levels increases the likelihood that small parties are elected in the federal or cantonal legislative. Unlike Germany, there is no threshold for parties to be represented in the National Council. However, the proportional electoral system guarantees that niche parties can survive. Despite the high fragmentation of the party system, the distribution of power between the parties and the party system itself have been extremely stable over the years.¹¹

⁹The research on Swiss party organization and Swiss political parties in general was neglected for a long time. This neglect was due to the conviction that the political system was a *'Sonderfall'* (special case), which is hard to integrate in comparative research. The poor legal standing of Swiss parties may also have had a deterrent effect on scholars. The increasing electoral success of the (right-wing) Swiss people's party (SVP) boosted the interest shown by Swiss political scientists in the Swiss party system. It also inspired the interest of scholars of comparative party politics, who observed similar developments in other countries. In particular, research on populist and right-wing parties has increased significantly during the past years.

¹⁰CVP = Christian Democrats; FDP = Free Democrats (Radical Democrats); SVP = Swiss People's party; SPS = Social Democrats; GPS = Green party; EVP = Protestant People's party; SD = Swiss Democrats; LPS = Liberal Party.

¹¹To illustrate the fragmentation of the party system the following to numbers are insightful. After the 1999 national elections, 14 different parties were elected to the Swiss parliament. This is considerably more than the parties represented in the German (five parties) and the Irish (eight parties) parliament at the same time. Obviously, each of these parties do not equal one another in importance or power. However, due to the direct democratic instrument all parties have the capacity to mobilize voters and launch a popular initiative or a referendum. Therefore, Sartori's (1976) notion of 'parties that count' is of limited use in the case of Switzerland.

The reasons for this exceptional stability of the multi-party system have their source in other institutional characteristics such as the direct democratic elements, strong federalism and consensus policy-making.

During the past decades polarization in the Swiss party system has increased. Firstly, and in a manner similar to Germany, the Green Party emerged from the ecological movement and, after being successful on the cantonal level, the Greens entered the national parliament in 1983. With the exception of the elections in 1995, the Green Party increased its seat share with every national election. Secondly, the Swiss People's party (SVP), which is the former farmers' party, increased its electoral support by more than 15 percentage points between 1987 and 2003 enabling it to become the strongest party in the parliament.¹² The success of the SVP was mainly at the cost of the Christian Democrats and, to a lesser extent of the FDP.

These shifts in voting are remarkable, especially if we consider that the vote share of the SVP has been relatively stable between the national elections in 1971 and 1991 (figures vary between 9.9 percent and 11.9 percent).¹³ The increasing strength of the conservative-right (SVP) and the Green Party led to a party system that is more polarized and less stable (see e.g. [Vatter, 2008](#)).

The left in Switzerland is rather weak. The party system is dominated by moderate right-wing conservative parties. The reason why the social democrats had difficulties in mobilizing their potential electorate is because other parties (mainly the Christian Democrats) already occupied and mobilized voters on social issues. This is very similar to Ireland, where the Labour Party is also comparatively weak for the same reason.

Extra-Parliamentarian Actors: Trade Unions and Employers' Organizations

The characteristics of the political institutions also influence labor relations and the role of interest groups in the political arena. Interest organizations have always played an important role in policy-making and are even considered to be stronger and better organized than political parties. Research usually refers to Switzerland as a neo-corporatist country ([Armingeon, 1997](#); [Lehmbruch, 1996](#)). Organized interests became so strong

¹²These figures refer to the National Council, the lower chamber only.

¹³Similar to right-wing populist parties in other Western European countries, the electoral success of the Swiss People's party has attracted the attention of the (national and international) media and research alike. Over the past years, the SVP effectively set the agenda in a few policy fields.

largely due to the financial support provided by the federal government during the second half of the 19th century, when social partnership was first established. Because the federal government had few financial resources, the government encouraged and also created some of the corporate actors ([Lehmbruch, 1993](#); [Armingeon, 2001](#)). Interest associations have become important in a variety of fields, such as the development of sector specific vocational training, and the provision of financial assistance for particular economic sectors.

The importance of interest groups is further strengthened by the constitution which specifically invites interested actors to give their opinion on planned reforms and legislative changes in the pre-parliamentarian phase of the process. The institutionalized consultation procedure strengthens corporatist policy-making. Even though interest organizations are involved at most stages of policy-making processes, the system of interest organizations is significantly more fragmented and decentralized than in other corporatist countries such as Sweden or Austria. In addition, the interest organizations enjoy a lot of autonomy, which is again influenced by subsidiarity, the key principle in Swiss politics.

In line with the recent development in other post-industrial countries, union membership has declined over the past decades and unions which were fragmented according to employment sector have merged into more encompassing organizations. Similar processes could be observed among business interest organizations, where a restructuring process has occurred during the late 1990s. As in other countries, interest organizations in Switzerland have lost their predominant role in policy-making in the recent past and political parties have become more important, especially in social policy-making (see e.g. [Häusermann, Mach and Papadopoulos, 2004](#); [Trampusch, 2004](#); [Hassel and Trampusch, 2006](#)). The subsequent case studies allow for a further analysis of this line of reasoning.

6.3 Economic Environment From the 1970s until the Mid-1990s

In a manner similar to Ireland, Switzerland is one of the small, open economies in Europe. However, the Swiss experience with economic openness has been quite different from that of the Irish. Whereas Switzerland was successfully competing in the world market early on, Ireland started to catch up at the time when economic growth in Switzerland was stagnating and the well-established mixture of openness and protec-

tion started to lose its appeal. During the post-war period, the economic performance was equally stable, and the country was among the wealthiest in the world. The sound foundation of the Swiss model were the small and medium sized firms, the lack of large crisis sectors (such as steel, coal-mining or shipbuilding) and an early developed industrial sector which specialized in the production of niche and high-quality products. The strategy of an open economy was successful most of the time. The overall economic stability was not even seriously affected by World War II. During the post-war years, no major economic policy changes were necessary, and the economic system was largely maintained. Crucial characteristics of the system were the equilibrium between labor and capital, and the co-existence of a highly competitive export-oriented sector and a sheltered sector that mainly produced for the domestic market. The following paragraphs further elaborate on this equilibrium and also discuss the factors that challenged the long-term equilibrium as of the 1990s.

The Swiss economy used to benefit and still does benefit from a non-interventionist state and the fact that diverging interests are explicitly invited to participate in decision-making processes (see above). The non-interventionist strategy of the state also includes favorable taxes and a relatively small public sector.¹⁴ This recipe used to be satisfactory for both the export-oriented industry and the sheltered sectors (Bonoli and Mach, 2000).¹⁵

Despite the highly stable institutional framework and the flexibility of the Swiss economy, the oil-crisis in the early 1970s was one of the first external crises that negatively affected the domestic economy. GDP growth declined rapidly between 1972 and 1975. Among the OECD member states, Switzerland experienced the deepest recession with a growth rate of -6.7 percentage points in 1975. The steep rise of the exchange rate hurt the export-oriented industries, but also slowed down growth in the domestic sectors. Even though the economy suffered and the industry had to cut thousands of jobs (approx. 300'000 jobs were lost until the mid-1970s (Mjøset (1992, p. 364)) the unemployment rate increased only slightly (see Figure 8.2 on page 127). Despite the economic downturn, the monetary policy of the Swiss central bank remained strict. In common with the German central bank, the Swiss national bank

¹⁴The size of the public sector during the post-war era was low in comparative perspective. Switzerland started catching up with regard to public expenditure during the 1970s.

¹⁵The export-oriented industry is mainly to be found in the banking and insurance services, the pharmaceutical and chemical industry, and the machine and watch industry. The sheltered sector encompasses agriculture and its supplier, the construction industry and other industries which produce for the internal market (such as printing). The clear distinction between an export-oriented and a more domestic industry happened early in Switzerland. Whereas in Germany adoption process among the unions and employers organization was still ongoing, the Swiss business associations and unions underwent this transformation in the past.

pursued a restrictive monetary policy that focused on price stability and low inflation (Schmidt, 1987, p. 140). The reason why unemployment was constantly low despite the pursuit of a restrictive monetary policy, was the extremely flexible Swiss labor market. Hardly any other country was able to absorb significant job losses as easily as Switzerland.

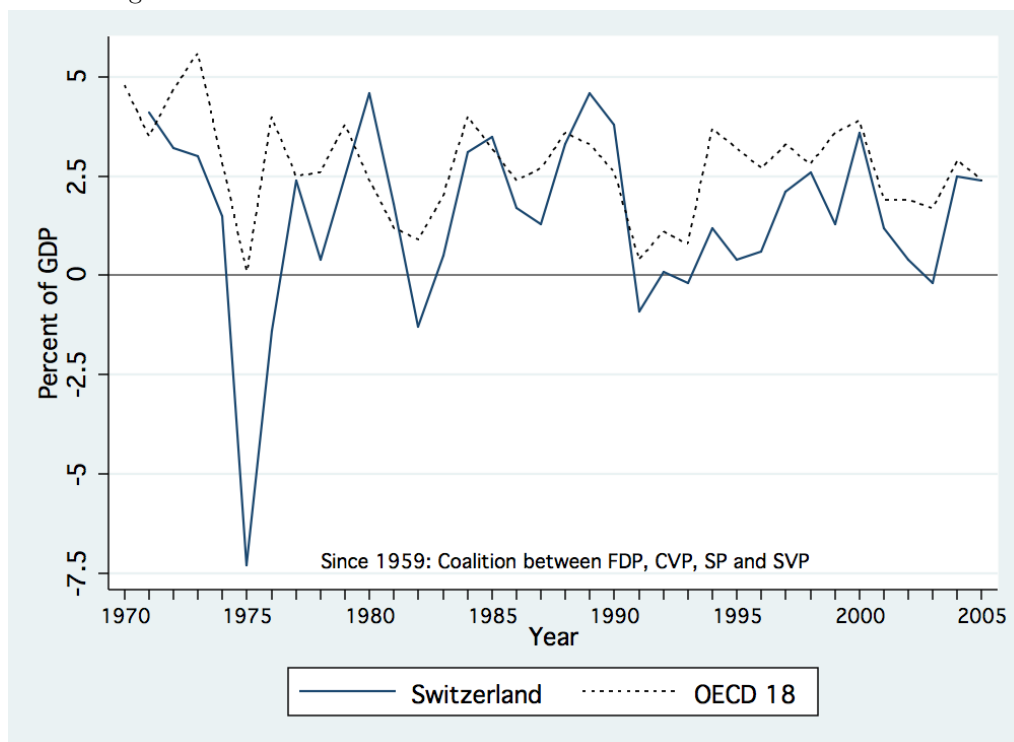
Two reasons contributed to the persistent low unemployment rate: First, a significant number of people (mainly foreigners) left the country after having lost their job. The foreign work force benefited from the liberal employment laws and a tight labor market during the 1960s. However, in times of economic downturn, they were often the first to lose their jobs, while the core male Swiss workforce was only marginally affected by the recession in the 1970s. Second, female workers who lost their jobs did not register as unemployed and did not seek to re-join the labor market again (see e.g. Mjøset (1992) or Bonoli and Mach, 2000; Schmidt, 1985).¹⁶ The strategy of exporting unemployment and therefore externalizing the costs of domestic structural change was successfully applied until the economic crises and downturns of the late 1980s.

After the recession in 1990 when GDP growth was negative again, economic growth in Switzerland was moderate and has remained consistently below the OECD average ever since. The reasons for the poor performance of the economy are manifold. Some scholars have argued that the particular mix of political institutions, i.e. direct democracy combined with strong federalism, are impeding economic growth (Bodmer and Borner, 2005; Borner and Rentsch, 1997). However, there is no empirical evidence that politics has taken anti-economic turns or that direct democracy is negatively affecting economic growth. It is more plausible that the equilibrium between the export-oriented and the sheltered sector has changed with the increasing internationalization. Whereas the export-oriented sector, including financial services and insurance business, has remained competitive, the sheltered sectors, have experienced increased pressure to reduce production costs. Despite its openness, Switzerland has always managed to protect the most vulnerable parts of the economy until the early 1990s. With international trade regimes implementing new trade rules and lowering trade barriers, the protection of the sheltered sectors has become more difficult, if not impossible. The formerly regulated domestic market was liberalized and more competition was induced.¹⁷

¹⁶The strategy to export unemployment was used for decades. Similar strategies existed to cope with seasonal unemployment (Afonso, 2005, see e.g.).

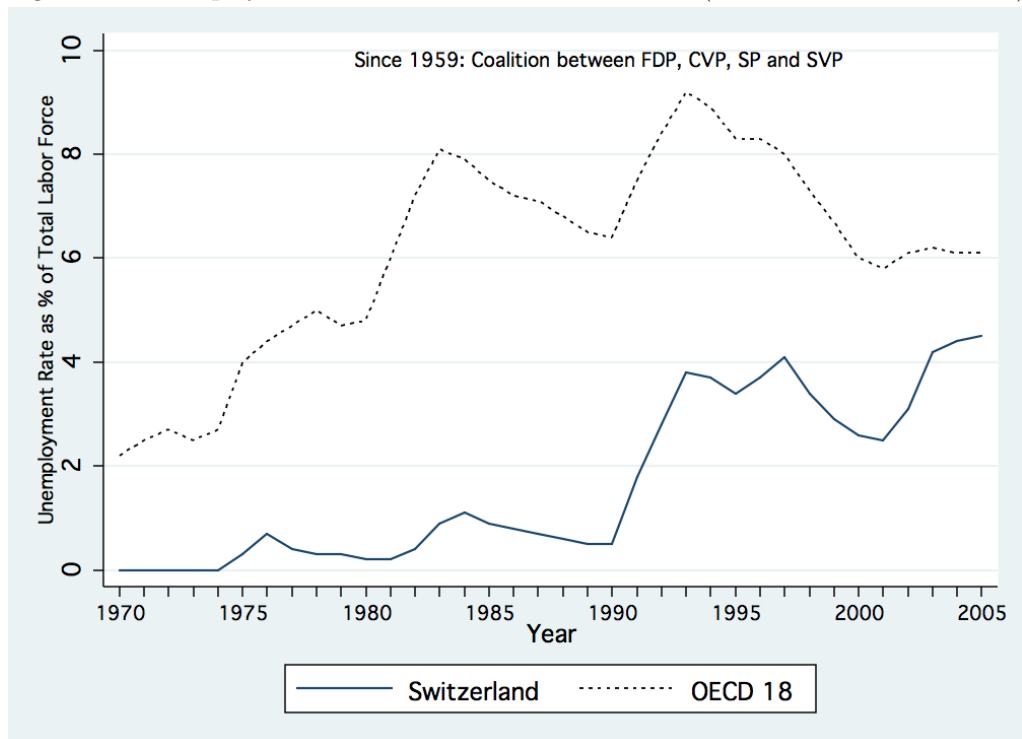
¹⁷The rising size of the public sector also slowed down economic growth. Whereas public expenditures have traditionally been low, they increased significantly (and more than in any other European country during the 1990s) and approximated the level of continental welfare states.

Figure 6.1: Annual Economic Growth Rates in Switzerland: 1970-2005



Source: OECD Factbook (2008)

Figure 6.2: Unemployment Rate in Switzerland: 1970-2005 (as % of Total Labor Force)



Source: Comparative Welfare States Dataset (1997/2004) and OECD Factbook (2008)

In contrast to poor economic growth, the unemployment rate stayed at a low level and never approached the OECD average. But starting in the early 1990s, unemployment increased significantly and cracked the 4 percent margin in 1998. Unemployment did not remain at a lower level during economic downturn in the 1990s because foreigners and women only marginally retreated from the labor market. This was a new experience for the Swiss economy and politics. The existing system was not able to cope with the sudden increase in unemployment. The new situation provoked several reforms of the unemployment benefit scheme and other social policies. In comparison with the past, these previous decades brought a remarkable number of reforms in various social policies. These reforms aimed at meeting new demands, and, at the same time, they reorganized long-established social policy schemes. The subsequent analysis of two unemployment reforms demonstrate how Switzerland has been trying to adapt existing social policies to the changing environment.

6.4 Welfare State Development

During the past, the literature on comparative welfare states has been inconclusive about the nature of the Swiss welfare state. Some scholars defined the Swiss welfare state as a liberal welfare state or one that provides basic social security only (e.g. [Korpi and Palme \(1998\)](#); [Castles and Mitchell \(1993\)](#)). Others emphasized the similarities of the Swiss welfare state with the Bismarckian/conservative welfare states (e.g. [Esping-Andersen, 1990](#); [Ferrera, 1996](#)). Overall, researchers agree that the development of the Swiss welfare state was lagging behind the welfare state institutions in the neighboring countries for most of 20th century and that the process of catching up only started in the 1970s.¹⁸ Since then, the nature of the Swiss social security system has changed considerably. Nowadays, the Swiss welfare state shares more characteristics with a typical continental welfare state than with the family of liberal welfare states, although some legacies of the former liberal welfare state are still observable.¹⁹ The following paragraphs give a brief overview of the nature of the social security system present today and the main developing lines of the core programs.

¹⁸Taking into account the early industrialization, the affluence of the country and strong corporatist structure of the industrial relations, the late development of an encompassing social security system comes as a surprise and contradicts some theoretical claims.

¹⁹The liberal face of the Swiss welfare state is still visible when a person becomes dependent on social assistance. Most social assistance programs are administered by the cantons and municipalities and financed through taxes. The social assistance programs are often means-tested and not related to previous benefits. Controls are relatively strict, especially during the past years as the municipalities have tightened the regime. The social assistance schemes can vary considerably across cantons and even across communes within the same canton. Due to these inter-cantonal differences, [Armingeon, Bertozzi and Bonoli \(2004\)](#) has argued, that Switzerland consists of different ‘worlds of welfare’.

As in other industrializing countries, the first social insurance program that was implemented in Switzerland was the legislative framework to set up minimal public health care (sickness insurance) in 1910. The health insurance system was mainly financed by non-earnings-related contributions and was subsidized by the state. Coverage was provided by private funds.²⁰ The fact that Germany unified the legislative acts of the three major social security schemes in one single act in 1911, illustrates the different stages of development of the social security provided in Switzerland and the neighboring country. Even though this was the first law implemented on the federal level, some cantons, especially in the regions with a prospering textile industry, had already implemented variations of professional insurances.²¹ A few years later, in 1918, accident insurance/occupational disease insurance was implemented at the federal level. Whereas sickness insurance is financed by per capita contributions (independent of income), the accident and occupational injury insurance is funded by equal contributions from the employee and the employer.

After the adoption of these programs, the further development and implementation of social security programs at the national level stagnated. Only after World War II did Switzerland implement another compulsory social insurance scheme at the national level. The so called ‘first pillar’ of the pension system (the ‘old age and survivors’ insurance) became effective in 1948.²²

Roughly 40 years later the unemployment insurance scheme was made compulsory at the federal level (in 1982). The nature of the Swiss unemployment insurance is similar to the German scheme. Both are mainly financed by equal contributions from employers and employees. The administration of the funds is carried out by the cantons and the social partners. Before the unemployment insurance law from 1982 became effective, the rapidly increasing unemployment rates during the 1970s economic crisis led to the implementation of a temporary decree in 1977. Variations of unemployment insurance schemes existed long before the compulsory scheme was implemented at the

²⁰Even though the main features of the system are still in place, membership was not made compulsory until 1994.

²¹This is a pattern that can be found for most other social security schemes. According to the federal constitution of 1874, the cantons and communities had the competencies over the implementation of social policies. The realization of the minimal health care system became possible due to an article adopted in 1890 that authorized the federal government to enact health and accident insurance issues.

²²The Swiss pension system is divided into three pillars. The first pillar is a universal pension for all residents. The second pillar (effective since 1985) is accessible for people with a yearly income higher than 16'000 Euro. However, some employees, such as the largely female part-time workers, are excluded from the right to pay contributions and therefore cannot receive these benefits on retirement. The contributions are earnings related and the employer pays at least 50 percent of the contributions. The third pillar is voluntary and consists of tax-deductible savings on a life insurance policy. Contributions are paid by the employee only.

national level. The systems that were in place previously have been managed by trade unions and subsidized by the government. However, only few employees were covered by this system. According to Schmidt (1985, p. 27), only about 20 percent of the employees were covered by one of the voluntary unemployment schemes at the beginning of the recession).

The foundations for this development were established in the constitutions between 1925 and 1945. However, the constitutionally established principles and rights only became effective with the enactment of the respective laws and this often takes a considerable amount of time. The time between the year the federal state acquired the constitutional competence and the coming into effect of the law varies between 8 years (1976-1984) for the compulsory unemployment insurance and 106 years (1890-1996) for the compulsory health insurance (Obinger, 2000; Armingeon, 2001). These delays are mainly caused by the particular institutional setting and the fact that the political arena was dominated by the liberal party (Radical Democrats, FDP) during the first decades of the modern nation state. Federalism and direct democracy have slowed down the broadening of the national social security system. Most programs first had to pass a compulsory or facultative referendum. During the developing years of the welfare state, the liberal and conservative parties, together with business organization were often successfully organized majorities opposed to the implementation of a new national social security program.²³

Even though the Swiss social security schemes combine various facets, the focus of the core programs aims at securing the standard of living of the working population. Most social insurance benefits (unemployment insurance scheme, old-age/pension) are based on previous contributions. In general, the benefits are relatively generous. Both unemployment reforms analyzed in this case study took place during a period in which the unemployment insurance scheme was under considerable pressure. This was also the case in Ireland and in Germany, where the existing unemployment schemes had to cope with similar problems.

²³Whereas the use of referendums in the early times of the Swiss welfare state resulted in a late enactment of broad national social security programs, the use of referendums today often complicate or impede reforms aiming at the retrenchment of existing programs. Scholarship shows that during the past years unions and leftist parties successfully mobilized against reforms leading to more restrictive social security programs (see e.g. Obinger et al., 2005; Armingeon, 2001).

6.5 Empirical Analysis of Recent Labor Market Reform

The following table gives an overview over the unemployment reforms that have taken place between 1989 and 2003.²⁴ The introduction of the constitutional article on the federal unemployment insurance in 1976 was one of the most important social policy reforms in the 1970s (Häusermann, Mach and Papadopoulos, 2004). The insurance schemes in place soon needed to be reformed and adjusted to the new demands. As already mentioned above, reform activity in Switzerland increased significantly during the 1990s. This can also be observed in the area of unemployment laws.

Table 6.1: Reform Processes in Switzerland

Year	Title of the Reform
1989	Decree on increasing the maximum daily unemployment benefit. Decree on extending the duration of eligibility of the maximum daily allowance of unemployment benefit (for people affected by working hours reductions).
1990	First Partial Revision of the Unemployment Insurance Law (ALVG).
1993a	Decree to increase the daily allowance for sick-pay and the limitation of the daily allowance for unemployment benefits (approved in March, in force in April).
1993b	Start of the Second Partial Revision of the unemployment insurance law (federal law). Pre-parliamentarian consultation: July 8th 1993 – Sept 15th 1993.
1994	Federal law (unemployed people should be eligible to get unemployment benefits after a waiting period of five days, unless monthly salary is less than 3'000 SFr.). Increase of the contribution rates from 2 percent to 3 percent due to a urgent decree.
1995	Decree on the recapitalization of the unemployment insurance system. Approval of the 2 nd Partial Revision of the federal unemployment insurance law.
1996	Decree on the founding of the unemployment insurance, modification of the definition of 'adequate employment'.
1999	(Partial) Revision of the unemployment insurance law (technical adjustment of the unemployment law, focusing on the executive institutions and organizations and their responsibilities). Pre-parliamentarian consultation: Nov 17th 1999 – Dec 31th 1999.
2000	3 rd Revision of the unemployment insurance law (the intention of the reform is to secure the long-term financing of the unemployment insurance and the level of the unemployment benefits). Pre-parliamentarian consultation: Sept. 18th 2000 – Dec. 7th 2000.

²⁴Source: Anné Politique Suisse (APS) (1985-2007) and www.admin.ch.

Table 6.1: *continued*

Year	Title of the Reform
2001	Kick-off for the third revision of the unemployment insurance. Government reform proposal.
2002	Change of the statutory unemployment decree (third revision of the federal law on unemployment benefits). Approval of the 3 rd revision of the federal unemployment insurance law.

The usual reform process in Switzerland starts off with a reform proposal by the government. The publication of the reform proposal is usually followed by the consultation process. During this period, all interested actors are invited to comment on the reform proposal and document their opinion, doubts and counterproposals. The collected responses are used to fine-tune the legislation before the proposal is sent in the parliament, where it is further discussed and in the end approved by the parliament. Out of the eleven reforms included in the table above, I will analyze the 2001 AVIG unemployment, which is a revision of the already existing unemployment law.

6.6 Switzerland: 3rd Partial Reform of the Unemployment Insurance Law

The 3rd Partial Reform of the Unemployment Insurance legislation examined here was preceded by two other reforms that adjusted the system and by a federal (emergency) decree that aimed at securing the financial situation of the insurance scheme in times previously unknown unemployment levels. Unlike the first partial revision of the unemployment insurance law (implemented in 1990), which mainly aimed at adjusting details relating to enforcement of existing legislation and which did not change the content or core intention of the law, the second partial reform included substantive changes. The necessity of the 1993 decree made it clear that the existing law was insufficient and that a partial revision of the unemployment insurance law was unavoidable. The government developed and published a first draft of the reform in 1993. The pre-parliamentarian consultation process took place between July and September 1993. The revision of the Unemployment insurance law was finally adopted by the parliament in June 1995. The reason why the final decision was two years later only, was the referendum threat by trade unions. A working group was established to bring back in the trade unions in order to avoid the call of a popular referendum after the adoption of the new legislation. In 1994, a revised reform proposal including

new elements is again discussed in parliament. During the reform process, the federal government again had to adjust the unemployment insurance scheme by making use of an urgent decree. The decree was necessary to secure the funding of the insurance scheme (contribution rates were increased). The 2nd revision of the federal unemployment insurance law was adopted by the parliament in 1995, only two years before the insurance scheme faced the 3rd major revision.

The third revision of the federal unemployment insurance (hereafter also 3rd AVIG Revision) was initiated at a time when the unemployment rate in Switzerland had declined again and the unemployment insurance scheme was not under such pressure as it had been during the previous revision. However, the unemployment insurance scheme was still running on a deficit and therefore a new reform was needed to stabilize the insurance scheme for the future. The *'Bundesrat'* (federal council) recommended the approval of the reform, stressing the poor financial security of the insurance scheme and the need to ensure the well-functioning of the system independently from the state of the economy (see *'Botschaft des Bundesrates'* 2001). The preparation of the reform already started with the informal consultation procedure in the year 2000. Participation in the consultation process was high – out of the 90 invited actors, 69 handed in their comments on time.²⁵ The time elapsed between the beginning of the reform process and the adoption of the final reform proposal by the parliament was roughly three years. Because the two parliamentary chambers did not agree on the bill during the first two sessions when the proposal was discussed, the final vote took place in March 2002. The final reform proposal also included various postulates and motions that had been brought forward during the parliamentary sessions in the previous years. Between the 2nd and the 3rd Revision of the unemployment insurance scheme, with some minor and several technical changes, was achieved.²⁶

The government's reform proposal included two major issues and some less crucial changes. The main reform issues concerned both dimensions, redistribution and expenditure. On the redistribution axis, the government planned to increase the work period prior to eligibility for unemployment benefits from six to twelve months. In addition, the 3rd AVIG Revision aims at reversing the urgent federal decree that was implemented in 1994, which increased the employer/employee contribution to the unemployment insurance scheme by 1 percent (from 2 percent to 3 percent). The urgent decree was necessary to preserve the insurance scheme from accumulating too

²⁵See *'Botschaft zu einem revidierten Arbeitslosenversicherungsgesetz'*, 2001. The 69 responses also include the statements of the cantons, which I will not include in the examination of the policy positions.

²⁶Between 1998 and 2000 a total of 16 motions and postulates have been assigned to the federal council. The majority of the postulations came from Christian-democratic/conservative parties.

many debts in the years prior to the reform. Another issue that also belongs to the redistribution category is a change with regard to the contributory rates above a certain income level (approx. 106'000 SFr.). The proportion of incomes exceeding SFr. 106'000 were not subject to contributions to the unemployment insurance scheme before. However, due to the financial problems of the insurance and the increasing debts, the urgent decree of 1995 required that citizens whose salary exceeds SFr. 106'000 also pay contributions to the insurance scheme for the proportion above SFr. 106'000 (2 percent). This measure was limited to the period until 2003. The intention of the new law was to permanently implement a contribution of 1 percent to the unemployment insurance scheme for those whose income exceeded SFr. 106'000.²⁷

The main changes on the expenditure dimension concern the financing of the unemployment insurance scheme. The maximum duration of benefits should be reduced from previously 520 days (two years) to 400 days (1.5 years). Those who depend on disability benefits and occupational insurance to supplement their income were exempted from the changes wrought by this law. Another issue to secure the financial stability of the insurance scheme was the implementation of fixed financial contributions from the cantons and the federal level. These contributions should mainly be used to finance the regional placement centers and active labor market activities. Minor reform issues concern small changes regarding active labor market policies and measures focused on the re-entry of mothers into the labor market.²⁸ However, these issues will not be analyzed and discussed in greater detail. The main issues of the reform proposal are the following:

²⁷The additional contribution of 1 percent would only apply to the fraction of the income that exceeds 106000 SFr., below 106000 the usual contribution to the unemployment insurance scheme apply.

²⁸A bundle of reform proposals did not make it into the final draft. Among these were revisions that would have altered the unemployment insurance scheme towards a more means-tested and inegalitarian system. In particular, the plans to introduce separate and voluntary additional insurance covering particular risks were criticized and in the end left out.

Dimension I: Redistribution	Dimension II: Expenditure
Size of benefits	Duration of benefits
Funding of the insurance scheme	Financial contributions by the federal state and the cantons
Coverage of new beneficiaries	Strengthening of active labor market policies
Eligibility	Introduction of the notion of workfare ('zumutbare Arbeit')
Changes in the entitlement	Efficiency of enforcement

Similar to the 2nd AVIG Revision, the 3rd AVIG Revision affected major parts of the insurance scheme and the single reform issues had a substantial impact on the overall direction of the social security system. As in Germany, various parts of the reform addressed active labor market issues. The increasing emphasis on labor market issues was a common development across all countries included in the case studies.

The following examination of the policy positions is based on the minutes of the parliament (both chambers), the responses and proposals of the most important extra-parliamentarian actors, and newspaper articles. The most important extra-parliamentarian actors in this reform process are: The '*Schweizerischer Gewerkschaftsbund*' (SGB) is a peak-organization that unites 16 unions from differing industrial sectors. The SGB is mainly concerned with economic and social policy development on the federal level and is not involved in wage bargaining and the negotiations of sectoral agreements. The '*Christlichnationaler Gewerkschaftsbund*' (CNG) is the second sector-encompassing union. Unlike the SGB, which has no partisan or religious affiliation, the CNG was founded as a non-socialist union addressing social issues during Swiss industrialization and had close ties to the Christian-democratic party. The CNG also operated on the national level. In addition to the peak-unions I also take into account the comments by one of the most important sectoral unions, the '*Gewerkschaft für Bau und Industrie*', GBI (Construction Worker). The employer-side is represented by the '*Schweizer Arbeitgeberverband*' (SAV) and *economiesuisse*. These peak-organizations represent the general interests of employers on the federal level.

In addition to the two sector-encompassing organizations, I also include the '*Schweizerischer Gewerbeverband*' which represents the interests of small- and medium

sized companies. It is important to note that not all of the above mentioned actors comment on each reform issue.²⁹

6.6.1 Actor Positions on Redistributive Issues

The reform proposal by the government was quickly admitted in the ‘*Ständerat*’ (the upper chamber, which represents the cantons) that is dominated by conservative and liberal parties. Discussions in the ‘*Nationalrat*’ (the lower chamber) were more lively and the conflicting lines between the party blocks were very clear and mirrored the discussions in the pre-parliamentarian consultation process. 38 out of the 69 actors that commented on the proposal support the extension of the contributory period. The arguments for supporting the reform were mainly connected to the need for a stable and long term financial basis of the insurance scheme. The conservative political parties in the parliament supported the reform proposal or demanded an even longer contributory period. Still, a minority, consisting of social democrats – some of them with close ties to unions – heavily criticized the reform. Their main concern was that a major group of people threatened by unemployment will be excluded from the insurance scheme in the future. The social democrats pointed out that various occupational groups, mainly in sectors that offer temporary jobs such as in the media, culture and arts, would be negatively affected because they often have to rely on contracts of less than a year's duration. While still contributing to the insurance scheme, these employees would rarely benefit from unemployment assistance.

The left-wing parties and unions mainly aimed at protecting freelancers and young employees. The conservative parties, meanwhile, stressed the potential danger that the insurance scheme would be exploited by foreigners seeking work in Switzerland only to benefit from the generous unemployment insurance scheme. In addition, conservative parties together with the employers' organizations claimed that *‘it is not appropriate to have a generous social insurance system in times when the unemployment rate is low. The generosity of the system could even be considered as a privilege by young people. The proposed changes are not questioning the core of the system*

²⁹Many small organizations and representatives of niche interests, such as artists and actors or religious groups, only comment on selected issues that are relevant to their field of activity. I did not take into account these statements. Furthermore, I did not take into account the special interests of cities or cantons, nor do I refer to comments by the major unemployment insurance funds and placement centers. The non-consideration of these groups is on the one hand based on the minor impact of these groups on the overall reform process. Further, they have been excluded due to the lack of comparable material from the other countries. Consultation processes in Germany and Ireland are not as openly accessible to societal groups as in Switzerland.

Extension of Contributory Period (6 to 12 months) Before Being Eligible for Unemployment Insurance Benefits (Art. 13, Paragraph 1)					
Shorter Period	Contributory	Support Proposal	Government	Longer Period	Contributory
Social Democrats (SP)		Christian (CVP)	Democrats	Swiss (SVP)	Peoples' party
Workers Party (PST/PDA)		Radical (FDP)	Democrats	SAGV	
Green Party (GP)		Swiss Liberal Party (LPS)		economiesuisse	
SGB				SGV (18 months)	
CNG					
GBI					
SYNA					

and its efficacy, ('*Amtliches Bulletin, Nationalrat*', 2001, p. 1891). Rather than the 12 months proposed by the government, the Swiss People's party and the economic peak-organizations would have preferred an even longer contributory period before becoming eligible for insurance benefits.³⁰

The second issue that I assigned to the redistribution dimension is the discussion of contributions to the unemployment insurance fund from workers with salaries above SFr. 106'000. It is this issue that best captures the conflict between redistribution and expenditure and also shows in a model-like way the contradicting views of the right and the left, and of employers' organizations and unions. Contributions to the unemployment insurance scheme are based on employees' salary. Up to a yearly income of 106'000 SFr. (before taxes), contributions to the insurance fund was 3 percent.³¹ The portion of yearly income above 106'000 SFr. was exempted from contributions. The huge deficit that the unemployment insurance gradually accumulated led to a change in this policy.

³⁰SYNA emphasized in their written statement: *increasing the contributory period mainly affects employees younger than 30 years old. The assumption that a young unemployed person will usually find a job more easily might be true, but it is also a reality that young unemployed people do not have a lot of savings, which makes them more vulnerable to financial hardship when losing their job.*

³¹Until the urgent decree implemented during the 1990s, the contributory rate was 2 percent. Contributions have been increased due to debts accumulated during the severe recession in the 1990s.

Contributions to the Unemployment Insurance Scheme for Earnings
Above 106'000 SFr. (Deplafonierung, 1 percent), Art. 3

<i>No Extra Contributions for High Salaries</i>	<i>Support Government Proposal</i>	<i>More than 1 percent for High Salaries (keep 2 percent)</i>
Radical Democrats (FDP)	Protestant People's Party (EVP)	Social Democrats (SP)
Swiss People's party (SVP)	Christian Democrats (CVP)	Green Party (GP)
Swiss Liberal Party (LPS)	Federal Democratic Union (EDU)	SGB
economiesuisse		CNG
SAGV		SYNA
SGV		

The new law aimed at establishing a contribution of 1 percent to the unemployment insurance scheme for those on incomes above 106'000 SFr. as well. The table clearly shows the conflict line. Left wing parties basically supported the governments' proposal but also claimed that they would prefer the status quo of 2 percent. Radical Democrats (the main party of the economy), the Christian democrats, and the Swiss People's party strongly opposed the government's proposal. They claimed that *'the new law would rip off the middle-class and that this change was a 'disguised exercise in redistribution' (see 'Amtliches Bulletin, Nationalrat', 2001, p. 1879, Bruno Zuppiger, SVP).* The SVP, together with the FDP were the main opponents of the permanent implementation of the so called 'Deplafonierungs'-Article. *'[...] this article is a pure wealth-tax ('Reichtumssteuer') and a renunciation from the insurance principle', (see 'Amtliches Bulletin, Nationalrat', 2001, p. 1879, Johann Schneider, FDP).* For the main employers' organization (SAGV), this issue was at the heart of the reform (*'Schicksalsartikel der Vorlage'*), they stated that *'the continuation of the partial 'Deplafonierung' would consolidate the violation of the insurance principle, which characterizes Swiss social insurance, and will set a dangerous precedent for the further development of the social insurance schemes'.*

For the Green Party, this article was also crucial to the reform. *'Unemployment is a societal and economic risk that needs to be borne collectively. Therefore everyone has to contribute to the insurance scheme.[...] According to us, contributions*

to the unemployment insurance scheme have to be paid according to the individual economic performance. [...] It is not understandable why a cleaning person should pay contributions to the insurance scheme on her whole salary and a manager only on part of his salary. Try to explain to your constituency, why people with high salaries proportionally pay less than low-wage earners' (see 'Amtliches Bulletin, Nationalrat', 2001, p. 1878, Ruth Genner, GP). The Social democrats argued in a similar vein, stressing the fact that the unemployment insurance is a social insurance which also includes the idea of solidarity.³² The parliamentary debate on this issue clearly showed that attempts to increase redistributive effects was not supported by conservative parties. The moderate conservative parties, such as the Christian Democrats, the Protestant People's Party (EVP) and the Federal Democratic Union (EDU) supported the governments' proposal.

The last issue affecting the redistributive dimension concerns the decrease of the contributory rate by 1 percent (from 3 percent to 2 percent of the salary), which basically meant that the status quo before the implementation of the urgent decree (in 1996) was re-established. A decision on the contributory rate was necessary because the runtime of the decree would have expired in 2003. The main reason why the government decided to propose a lower contributory rate was that the accumulated debts from the previous years had been repaid to a substantial degree and the economic prospects for the upcoming years were positive enough to expect that the functioning of the insurance scheme would be guaranteed.

The government's proposal was supported by all major parties in the parliament. Minor disagreement occurred with regard to the timing. The employers' organizations together with the SVP opted for an immediate decrease of the contribution rate, claiming that this change was already too late anyway. The article was not discussed in detail but addressed in the opening speech ('*Eintretensdebatte*') of each party group. The conservative and Christian democratic parties argued that both employers and employees would benefit from this measure because employees' net salaries would increase by 1 percent. Meanwhile, employers would have more resources to invest in their business. Thus, the overall economy would benefit from this measure. The Social Democrats, on the contrary, were more pessimistic about the future economic development, and hence, about the financial basis of the insurance scheme. Therefore

³²Christine Goll (SP): 'A complete exemption of salaries over 107'000 SFr. results in a revocation of the solidarity of high-wage earners with the unemployed, and especially with long-term unemployed people, who are additionally punished by a shortened period of unemployment benefits', (see 'Amtliches Bulletin, Nationalrat', 2001, p. 1868).

the Social Democrats opted for the status quo, or a later decrease to the contributory rate.

Decrease of Contributory Rate (3 percent to 2 percent), Article 4a		
<i>Faster Implementation of the Lower Rate</i>	<i>Support Government Proposal</i>	<i>Status Quo (permanently implement 3 percent)</i>
Swiss People's party (SVP), yes, but already in 2001	Social Democrats (SP), not before the end of 2003	some parties and interest organizations opt for keeping 3 percent contributory rate.
SGV (end of 2002)	Swiss Liberal Party (LPS)	Green Party (GP)
	Protestant People's Party (EVP)	Worker's Party (PST/PDA)
	Federal Democratic Union (EDU)	SYNA
	Radical Democrats (FDP)	
	Christian Democrats (CVP)	
	SAGV	
	economiesuisse	

In her vote, Christine Goll (SP) said that *'the euphoria of the majority of the parliament to decrease the contributory rate to the social insurance scheme was incomprehensible, especially because this decision will lay the ground for future last-minute (Feuerwehrübung) actions in times of crisis'* (*'Amtliches Bulletin, Nationalrat'*, 2001, p. 1868).

6.6.2 Actor Positions on Expenditure Issues

The most important issue with regard to the expenditure dimension concerned the question of how long unemployment benefits are granted. The reform suggested to cut

this period by 120 days.³³ A total of 46 actors (including parties, interests groups and cantons) support the government proposal.

Duration Unemployment Insurance Benefits Are Granted (Decrease from 520 to 400 Days), Article 27		
<i>Shorter Period</i>	<i>Support Government Proposal</i>	<i>Longer Period /Status Quo</i>
Swiss People's party, SVP (250 days)	Christian Democrats (CVP)	Green Party (GP): 520 to 500 days.
economiesuisse (260 days for people below 55)	Radical Democrats (FDP): but no privileges for employees over 55	Social Democrats (SP)
SGV (260 days for people below 55, and 18 months contribution period)	Swiss Liberal Party (LPS)	Worker's Party (PST/PDA)
SAGV (260 days for people below 55)		SGB
		GBI
		SYNA
		CNG

The dividing lines are similar to the issue discussed above. All actors claimed to have the same aim, namely the reduction of the number of unemployed people. However, opinions as to whether the duration of benefits should be cut in order to achieve this aim were contradictory. Some cantons that were especially affected by unemployment would prefer unemployment benefits to be paid during 520 days.

These cantons, together with the Green Party, the Worker's Party and the Social Democrats also claim that, even if the duration of benefits was shortened, unemployed people over 50 years should still be eligible to get two years of unemployment benefits. Parliamentarians of the Green and Social Democratic faction emphasized that the law would exclude older employees from the unemployment insurance scheme

³³The duration of unemployment insurance benefits has increased steadily since the unemployment insurance scheme was made compulsory. It first started off with 250 days (during the 1990s) and was gradually expanded to 520 days. With 520 days of unemployment insurance benefits, Switzerland ranks top among the OECD countries.

and that these people would be forced to rely on social assistance, thereby generating even more public expenditure (see ‘*Amtliches Bulletin, Nationalrat*’, 2001, p. 1896; Ruth Genner (GP): ‘*A shortening of the period in which unemployment insurance benefits are paid excludes people from the insurance scheme and increases their dependence on social assistance [...] scientific studies have shown that it is hard to re-integrate these people in to the work process*’).³⁴ The unions also opt for the status quo. Should the period of daily allowances be shortened, the unions ask for special rules for the workforce aged above 50. The conservative parties, on the contrary, are not opposed to exceptions that help people over 55, but they claim that cutting 120 days was not enough. They also refer to the fact that the economy has recovered substantially and that therefore this change was appropriate.

As mentioned before, the 3rd AVIG Revision aimed – among other issues – at securing the financial foundations of the scheme. Fixed contributions by cantons and the federation should help to keep the system in a balance. The financial contributions by cantons and federation are not meant to finance or contribute to the insurance scheme as such, but to cover administrative expenses and the financing of the regional job placement center. Article 90c is a further attempt to separate the insurance related part of the unemployment insurance scheme from labor market and administrative issues related to active labor market policies.

However, the statements by the political parties support overall theoretical argument. Whereas the Social Democrats generally welcome an increase in cantonal and federal contributions (a minority even asked the proposed amount of money be doubled), the Swiss People’s Party (SVP) was strongly opposed to additional expenses. According to the left, the organization and running of the regional placement centers is not one of the core competencies and tasks of the insurance scheme, but should be a public service supported and financed through tax money, especially as these facilities require stable financial resources independent from economic cycles (see ‘*Amtliches Bulletin, Nationalrat*’, 2001, p. 1872, Paul Rechsteiner, SP). Similarly, the peak-unions, which demand that the cantons should carry all expenses related to job placement centers and active labor market policies. Not surprisingly, most cantons commented on the new article. They mostly criticized that the measure would be implemented on too short notice or saw it in conflict with the new revenue sharing system (‘*Finanzausgleich*’) between the cantons. Three cantons opposed the law, arguing that it was not in line with the federal constitution. The last issue examined here again shows the dividing

³⁴Social assistance is not based on an insurance scheme but financed by tax money (on the cantonal level).

Public Contributions by the Federation and the Cantons (through Tax Money), Article 90-90c		
<i>No Public Funding</i>	<i>Support Government Proposal</i>	<i>More Public Funding</i>
Swiss People's Party (SVP)	Christian Democrats (CVP)	SGB (cantons should contribute more)
	Federal Democratic Union (EDU)	Social Democrats (SPS); double the contributions
	Radical Democrats (FDP)	CNG
	Swiss Liberal Party (LPS)	SAGV (especially the cantons should contribute more)
	SGV	Worker's Party (PST/PDA)
	GBI	SYNA

line between the conservative right-wing parties and the Social Democrats. In particular, the SVP was against the idea of spending tax money on labor market policies and job placement centers. The Social Democrats, together with the unions consider the administration of job centers as issues of general public interest. The moderate conservative parties (CVP, FDP, and EVP/EDU) support the solution proposed by the government.

6.6.3 Political Constraints

Similar to Germany, the Swiss upper chamber consists of representatives from the sub-national political entities, the cantons. However, these representatives are not the heads of the cantonal governments, but are elected directly by the cantonal electorates. At the time of the reform, the *Ständerat* was dominated by the moderate conservative parties (15 CVP, 18 FDP, 7 SVP, 6 SP). Unlike in Germany, where every law does not need the approval by the *'Bundesrat'*, every legislative change needs to pass both chambers in Switzerland. This is one of the reasons why drafted reforms go through a long pre-parliamentarian consultation process before they are debated in parliament.

Yet the upper house of the parliament is not the most important veto point that a legislative bill might face. An additional obstacle to usually contested social policy reforms is the threat of a popular referendum. The only way to avoid a popular referendum against a reform after the reform was approved by both chambers of the parliament is to present a well balanced reform proposal that – to a certain degree – addresses the needs of the major societal groups and interest organizations. It is especially important to address the needs of those groups that are powerful enough to organize a referendum campaign and collect the required number of signatures (50'000).³⁵ After the 3rd AVIG Revision was approved by both chambers, the unemployment organizations together with the SGB and the CNG successfully collected the signatures needed for the popular referendum. At the ballot, however, the referendum against the reform of the unemployment insurance scheme was not successful, meaning that the reform, as approved by the parliament, was implemented in 2003.³⁶ The defeat of the referendum committee is a sign that the overall design of the reform met the expectations of the majority of the population.

6.6.4 Discussion

The analysis has showed that the conflict lines and positions of the actors along these lines are as expected. The Swiss government, which is dominated by moderately conservative parties (FDP and CVP) proposed a well-balanced reform outline, which could not be changed substantially by the Social democrats or the Swiss People's party. However, the reform proposal had – mainly due to the implementation of Article 3 – a more positive impact on the redistributive dimension than the reform implemented by the German government. One of the reasons why the 3rd AVIG Revision incorporated a distinct increase in redistribution (even though other parts of the reform aimed at cutting expenditure) is the attempt of the government to present well-balanced reform proposals. Due to the threat to provoke a popular referendum against a reform, social policy reforms are generally more moderate and tend to be close to the preferences of the median voter. In addition, the implementation of additional contributions to the insurance scheme from high income-brackets had the desired effect of stabilizing the funding of the system. This suggests that redistribution and expenditure are not independent of one another. Due to the fact that Switzerland had very low unem-

³⁵Empirical evidence by Trechsel and Sciarini (1998, p. 117f) confirm this conclusion. The results of their statistical analysis show that large consensus among the political elites during the (pre-)parliamentary process reduces the probability that a popular vote will be called for and that particular political actors attack the bill.

³⁶See <http://www.admin.ch/ch/d/pore/va/20021124/det492.html>.

Table 6.2: Reform Issues and Direction of Changes for ‘3rd Partial Reform of the Unemployment Insurance Law’

Reform issues	Effect on		Dimension	
	‘Insiders’	‘Outsiders’	Redistribution	Expenditure
Extension of contribution period before being eligible for unemployment insurance benefits	neutral	–	×	
Increase of contributions to the unemployment insurance scheme for higher income bracket (above 106’000 SFr.)	+	+/neutral	×	
Decrease of contributory rate to the unemployment insurance scheme	+	neutral	×	
Decrease of period unemployment benefits are paid	–	–	×	×
Public contributions by the federal state and the cantons	+/neutral	neutral		×

Legend: + implicates that the implemented measure had a positive effect for the group indicated. – implicates that the reform negatively effects ‘insiders’/‘outsiders’. × indicates which dimension the legislative change predominantly affects.

ployment rates until the mid 1990s, it was possible to finance the relatively generous unemployment insurance scheme through equal contributions by all employees.³⁷ The composition of the government is another reason why reform drafts often try to satisfy more than just one party family. Even though the Social Democrats are in the minority (2 seats in government) they are always included in the government coalition.

The reform did not dismantle the unemployment insurance scheme and also spared parts of the work force that are more likely to be affected by unemployment, e.g. elderly workers, people with disabilities, and young mothers are exempted from some of the changes. In addition, no decrease of the daily allowances (*‘Taggeld’*) were

³⁷Until 1991 unemployment in Switzerland was less than 1 percent. The sharp increase in unemployment to 4 percent in 1997 caused the unemployment scheme to run into deficit.

included in the reform. The patterns observed in this reform process partially support my theoretical argument. Left-wing parties are not entirely opposed to a strengthening of efforts to contain costs. However, unlike conservative parties and employers' organizations, they support attempts to increase the redistributive generosity and support more egalitarian policies and social solidarity. The parliamentary debates on the various reform issues are in line with the expected policy positions of the actors involved. The final reform outcome mirrors the moderate conservatism of the Swiss government and the attempt to include various opinions and aspects of the political spectrum. Labor market 'outsiders' were not the target of this particular reform. However, the extraordinarily high political and institutional constraints make it difficult to implement legislative changes that are particularly beneficial to these groups. One example that shows the difficulties that policies which aim at helping weaker groups in the labor market is the late implementation of a maternity leave scheme. On several occasions a federal solution has been presented to the electorate, but the required majority of the votes was only achieved after the third attempt to pass it.

Chapter 7

Ireland

7.1 Introduction

The historical and economic development of the Republic of Ireland differs from Germany and Switzerland in many respects. Ireland gained independence in 1921 and mostly inherited the institutional settings and (at that time already existing social) policies from the former British authorities. Despite the close ties with the United Kingdom, industrialization in the later Republic of Ireland was delayed. For a considerable period during the 20th century, the Irish economy was performing poorly and, unlike Switzerland, the Irish economy was characterized by protectionism until the early 1970s. However, during the period covered by this study, Irish economic performance changed considerably. The astonishing growth rates of the so-called ‘Celtic Tiger’ during the past decades is comparable only to the Southeast-Asia (South Korea, Taiwan, Singapore, and Hong Kong).

In a manner similar to Switzerland, Ireland is often neglected in cross-country comparative research, partly because the Irish party system seems too distinct. Another reason is that Irish economic development was delayed and therefore the comparison of Ireland with Western European industrialized countries seemed inappropriate.¹ However, the reasons that justified the special treatment of the Republic of Ireland

¹Mair (1999, p. 128) writes that ‘comparative research has tended to overlook the Irish case [...]. It has long been believed that the patterns and structures of mass politics, which are evident elsewhere in Europe, have little relevance to the Irish case.’ Doyle and Hogan (2008) and Cousins (1997) also point out that Ireland is often ignored in comparative studies of policy change and welfare state development. However, comparing the Irish case of macro-economic policy change could shed light on similarities in policy development across countries.

no longer apply. The significant economic changes during the last decades and the growing interdependence and integration of the Irish economy into the world economy means that Ireland is facing the same challenges as other Western European countries. The following paragraphs will outline the similarities and differences between Ireland and the two other countries included in the second part of this project.

7.2 Institutional Framework and Political Actors

The Irish political institutions are based on the Westminster model and were established under the tutelage of the British monarchy long before the Republic of Ireland became independent in 1921. Even under the British regime, Ireland had its own government, but all relevant legislative action took place in the parliament of the United Kingdom. The pathway that eventually led to the formation of an independent Republic of Ireland already started in the mid 19th century with the foundation of various separatist groups. But only at the beginning of the new century, paramilitary groups started to intensify the rebellion against the occupying forces. Violence against the British security forces together with the political decision of the elected nationalist Sinn Féin parliamentarians to build their own parliament (the later Dáil) and to abstain from the meetings of the House of Commons finally led to the negotiation of the Anglo-Irish treaty in 1921.² Together with the political institutions, the newly independent country also inherited a fully working and complete administration. The constitution of 1922 was replaced in 1937, but the Irish state essentially kept its original institutional design.

Unlike Germany and Switzerland, the Irish state has a strongly centralized and unitary structure. According to [Bulsara and Kissane \(2009, p. 180\)](#), Ireland is even the most centralized state in Western Europe. There are no regional tiers of government, and local government is very weak. Recently, efforts have been made to decentralize the administration, but no additional political power has been passed on to lower administrative levels until today. Even though the institutional setting has its origin in the British Westminster model, which is Lijphart's model case of a majoritarian democracy, Irish political institutions show characteristics of both consensus and majoritarian democracies ([Gallagher, 1999](#)). The two characteristics of Irish political institutions that differ most from a majoritarian democracy are electoral rules and the multi-party system. Whereas in the UK, the members of the lower house are elected

²For a brief overview over the founding years of the Republic of Ireland and the struggles of the young republic after 1922 (see e.g. [Coakley, 1999](#)).

by a single-winner voting system, the members of the Dáil are elected by a particular type of proportional electoral rules.³ Related to the proportional representation of parties in parliament is the Irish multi-party system. The absence of a separation of power between the government and the parliament, however, are clear features of the Westminster tradition.

In a recent contribution, [Bulsara and Kissane \(2009\)](#) argue that Ireland has moved further away from the Westminster model during the past years and increasingly emphasizes and uses the institutional features that typically belong to consensus democracies. These changes towards a more consensual system mainly concern the federal-unitary dimension. Changes tipping the balance towards a consensual system are frequently held referenda, and corporate industrial relations. Another important change is the fact that the Irish people are usually governed by a coalition government rather than a single party government.⁴

The Irish parliament (the Oireachtas) is bicameral. However, unlike in Germany and Switzerland where the upper house represents the Bundesländer (in Germany) or the cantons (in Switzerland), the Seanad has very little power and is often characterized as a ‘talking shop’. Whereas the lower chamber (the Dáil) is elected by the people, the members of the Seanad are appointed by the government or elected by vocational panels.⁵ As is usually the case in majoritarian parliamentary democracies, the government is the most important political actor. Basically all legislative action has its origins with the government. The head of government (Taoiseach) recruits the members of the cabinet from the parliament and can also dismiss ministers. Even though the parliament has the power to appoint or dismiss a government, in practice the elections predetermine the constellation of the party government. The parliamentary committees, which are important institutions in the policy-making processes of Switzerland and Germany, have a very limited effect on legislative action (see [Gal-](#)

³The members of the national parliament are elected using the single-transferable vote system. The single-transferable vote system guides the focus of the voter to the person rather than to the party. The reason why the Irish opted for proportional representation was to ensure the inclusion of minorities in the political processes while still offering the largest party (Fianna Fáil) preferential treatment (for an overview over the electoral system in Ireland (see [Sinnott, 1999](#); [Chubb, 1992](#)).

⁴[Bulsara and Kissane \(2009\)](#) re-examine the two dimensions and eleven characteristics defined by Lijphart over the roughly 90 years of the existence of the Republic of Ireland. In order to do so, the 90 years are divided into three sub-periods (1922-1948, 1949-1975, 1976-2002). Their analysis shows that during the first period (1922-1948), the Irish system has mostly conformed to the Westminster model. The second period (1949-1975) already shows some deviations from the Westminster/majoritarian model but the majoritarian characteristics were still dominant. According to their results, Ireland deviated in 8 out of 11 variables from a purely majoritarian system during the most recent period.

⁵The insignificant role of the Seanad has been criticized and calls to reform its competencies are frequent (see e.g. [Murphy, 2006](#); [Collins, 2004](#)).

lagher, 1999, p. 195 and Murphy, 2006). However, [Bulsara and Kissane \(2009, p. 176\)](#) claim that the dominance of the executive has been weakening recently.

Party System and Party Competition

The literature on the Irish party system and its peculiarities is vast and the following paragraphs can only discuss the most important characteristics. Due to the relative homogeneity of the Irish society, the party system is less fragmented than in Switzerland or in Germany. However, in line with the recent developments in other West European party systems, the number of parties in Ireland has increased slightly over the past decades, and the formerly dominant Fianna Fáil has lost its central position. It has been argued that the Irish parties are non-ideological and do not comply with the dimensions usually applied to differentiate different party families. However, scholarship has shown that even though the typical left-right dimension might have not applied during the time when Fianna Fáil dominated the party system, this conclusion is no longer appropriate.⁶ The following overview intends to capture the particularities of the Irish party system but also to emphasize the existing similarities with other West European party systems.⁷

Between the late 1930s until the 1960s, Ireland had a 2 1/2 party system similar to that of Germany during the same period. The system consisted of the following three traditional parties: Fianna Fáil, Fine Gael and the Labour Party, plus some smaller parties of minor importance. Despite the fact that the Irish Republic is a relatively young state, its party system is much older. The basis of the Irish party system was established before the country's withdrawal from the United Kingdom. Fianna Fáil and Fine Gael (formerly Cumann na nGaedheal) emerged out of Sinn Féin, the movement mobilizing for an independent Irish state. Their main dividing line was their attitude towards the status of Ireland. Whereas Fianna Fáil was pushing for full independence from the UK, Fine Gael accepted its dominion. The nationalist issue, rather than the more traditional left-right dimension used to be the dividing line between the two parties.⁸ Even though the Labour Party is the oldest party among

⁶Scholarship shows that Irish parties offer different policies on the (economic) left-right axis (e.g. [Gilland Lutz, 2003](#); [Garry and Mansergh, 1999](#)). However, the position of the two main parties, Fine Gael and Fianna Fáil, regarding economic policy issues are often similar. Labour, during the past years a viable coalition partner for both major parties, differs significantly in its policy preferences.

⁷Political Party scholars, such as [Laver and Hunt \(1992\)](#) and [Mair \(1987\)](#) argue that the Irish party system is less of a special case than it has been argued in the past.

⁸[Gilland Lutz \(2003\)](#) argues that the nationalist cleavage or the question over Northern Ireland remained the main dividing line between Fianna Fáil and Fine Gael. For a more detailed discussion of the cleavage structure in Irish politics see [Mair \(1987, 1992\)](#); [Coakley \(2002\)](#)

these three, it is also the smallest. The weak support for the Labour Party is particular to the Irish party system, even more so because the Irish working class is relatively large (see [Laver and Hunt, 1992](#)).

Among the western European countries, Ireland is most similar to Switzerland when it comes to electoral support of the left. However, even in Switzerland, electoral support for the social democrats was twice as high as it was in Ireland between the late 1960s and early 2000.⁹ Unlike in the two other countries included in this part, there is no Christian democratic party. The reason why no party has organized itself to defend Catholic (Christian) values in politics is because these values have never been challenged in Ireland. Catholicism in Ireland was neither threatened by the Reformation nor by attempts of the state to secularize its policies (see [Mair, 1999, 1987](#); [Laver, 1992](#)).

During the roughly thirty years included in this analysis, the number of parties in Ireland has increased slightly. This trend is similar to that witnessed in Germany and Switzerland, where the past decades have been characterized by increasing dynamism in the party system as well. The increasing competition also had an effect on the composition of party governments. For the first time, Fianna Fáil had to enter a coalition government with the relatively young Progressive Democrats.¹⁰ In contrast, Ireland has been led by Fianna Fáil governments (38 years between 1932 and 1989) or by a coalition government between Fine Gael and Labour, in the past. With the entry of the Progressive Democrats during the 1980s and of Democratic Left during the 1990s, the outcome of national elections (and the subsequent coalition governments) became less predictable. After 1989 no party was able to form a government on its own and even Fianna Fáil formed governments with the support of various other parties.

What distinguishes the Irish party landscape from the Swiss or German party system is the comparatively small success of the Green Party. Even though the Green Party was founded only a few years later than its counterparts in Germany or Switzerland, the electoral success at the national level of the Green Party is still nearly insignificant. For instance, in the 2002 national elections, the Green party won 4 percent

⁹The average support for left-wing parties between the late 1960s and 2002 was about 12 percent in Ireland (figure based on the electoral support of Labour (and the Green party) in national elections. Switzerland, which figures second after Ireland, still has an average support for leftist parties of about 27 percent (between 1967 and 2003, the figure is based on the support by national elections for the Social Democrats and the Green party).

¹⁰The Progressive Democrats were founded in 1985. The newly established party supports market and socially liberal positions (e.g. lower taxes, privatization, supporting divorce and the availability of contraception).

of the votes, which is equal six seats in the Dáil.¹¹ Recent years have shown that the Irish party system and Irish politics show enough similarities to be included in comparative studies.

Extra-Parliamentarian Actors: Trade Unions and Employers' Organizations

Public policy-making in Ireland is much more centralized than in Germany or Switzerland. The unitary nature of the state and the majoritarian governmental system makes it more difficult for extra-parliamentarian actors to gain access to the policy-making process. However, the relationship between peak interest organizations and the government has changed over the last decades and, since 1987, social partnership in Ireland is strong. [Hardiman \(2000\)](#) claims that the experience of recurring economic crises was an important factor to bring employers and trade unions, but also the government, together. The following short overview covers the recent past and gives an impression of the Irish model of social partnership.

Before the business organizations, unions and the government got involved in the negotiation of the 1987 agreement – the ‘Programme for National Recovery’ – there were attempts at social partnership or the conduct of tripartite negotiations which met with differing levels of success. During the 1970s, only the peak organizations were engaged in bilateral negotiations, but the demand for more government participation in wage bargaining rounds grew among both employer organizations and unions alike. The reanimation of the tripartite bargaining process and corporatist macro-economic policy-making was initiated by a minority Fianna Fáil government. The need for more cooperation was influenced by the need of the government to take diverging opinions and the needs of various interests into account. In addition, the severe economic crisis of the 1990s also showed the necessity to find an economic policy that was supported by all relevant actors.¹² After the ‘Programme for National Recovery’, the issues covered by various follow-up programs have increased over the years and six new programs have been lined up.¹³

¹¹After the 2007 national elections, however, the Green Party entered a coalition government with Fianna Fáil (without substantially increasing its electoral support).

¹²The successful reanimation of social partnership in Ireland and the various programs initiated during the past years received plenty of attention by scholars of industrial relations (see work by [Baccaro and Lim, 2007](#); [Hardiman, 2002, 2005](#); [House and McGrath, 2004](#)). Interestingly, the development of more comprehensive social policies is much smaller.

¹³1990-1993: ‘Programme for Economic and Social Progress’ (PESP), 1994-1996: ‘Programme for Competitiveness and Work’ (PCW), 1997-2000: ‘Partnership 2000’, 2000-2003: ‘Programme for Prosperity and Fairness’ (PPF), 2003-2005: ‘Sustaining Progress’, 2006-2015: ‘Towards 2016’.

The by now well-established social partnership in Ireland is comparable to the way in which macro-economic and social policies are developed in the two other countries included in this study.¹⁴ The tripartite macro-economic programs do not only focus on wage bargaining, but also include various social policy reforms. In addition, the range of actors involved has increased as well. In 1997, the Irish National Organization of the Unemployed (INOUE) has been invited to participate in the development of the 'Partnership 2000' program (Murphy, 1999, p. 276).

Before Irish independence, Irish trade unions were mostly funded by British trade unions seeking to increase their membership and influence. Therefore the structure of the trade unions in Ireland was similar to that in Britain.¹⁵ However, Irish trade unions were divided by the national question and a unifying class-based ideology only developed late. In addition, the trade union system was very fragmented. In the early 1960s, almost one hundred different trade unions existed. On the employer side there are less organizations and for a long time, these have been less centralized. The importance of stronger cooperation became evident when the government changed its economic policy and especially during the negotiations of the various macro-economic policy programs.

7.3 Economic Environment From the 1970s until the Mid-1990s

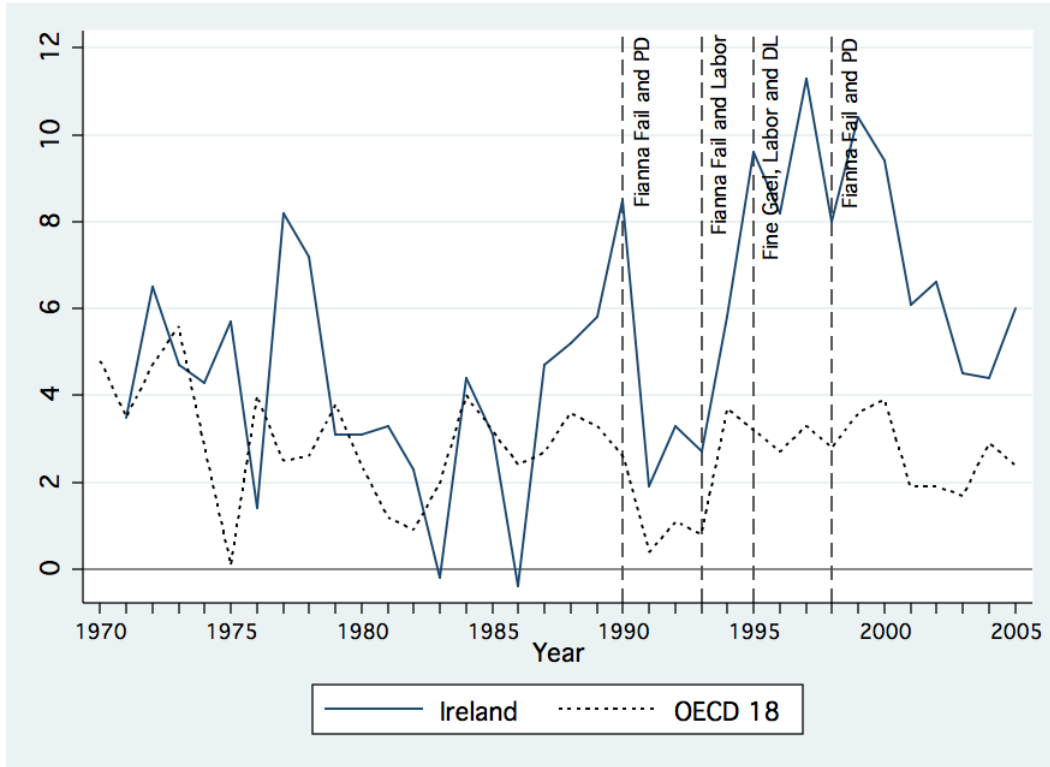
Ireland, together with Switzerland, Austria, Belgium and the Scandinavian countries, belong to the small economies in Western Europe. The greater vulnerability of small economies to changes in the world economy requires (innovative) strategies to cope with market pressures. Whereas Switzerland opened its economy early and benefited from the strong and quickly growing German market, Ireland tried to wall off the domestic market by relying on protectionist policies for a long time. This is one of the reasons why the economic development of Switzerland and Ireland was fundamentally different during the post-war decades. It was only when the Irish government started to radically change its economic policy in 1957 that the economy slowly started to catch up with the rest of Europe. The most impressive period in Irish economic development occurred

¹⁴Murphy (1999, p. 275) even argues that the consensual approach of macro-economic policy-making mirrors that of northern European social democracies, such as Sweden, Norway and Denmark. Critiques of the extensive social partnership approach claim that the parliament has little power to change the extensive policy-programs negotiated among the various interest groups (e.g. Collins, 2004).

¹⁵In 1912, the Irish Trade Union Congress (ITUC) also funded the Labour Party with the intention to exert more influence on politics (Hardiman, 1988).

from 1990 to 2002 when annual growth rates basically hit the ceiling. The consequence was a substantial transformation of the Irish economy and society. For many years, the

Figure 7.1: Annual Economic Growth Rates in Ireland: 1970-2005



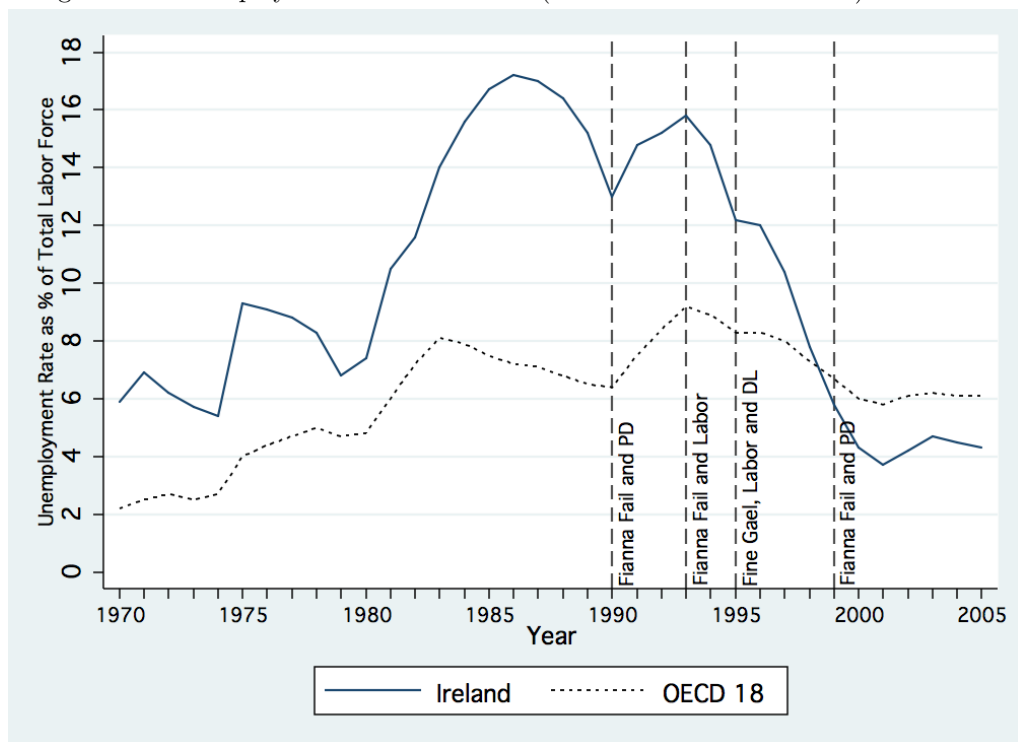
Source: OECD Factbook (2008)

Irish economy ran counter to the general trend in Germany and Switzerland. Whereas these two countries performed well economically in the aftermath of the Second World War, the Irish economy had to deal with massive problems during the 1950s and 1960s (the economy stagnated and even declined significantly during these years). The major economic difficulties during these years increased pressure on the government to drastically change the economic policies and gradually open the Irish economy to foreign international investment and trade.¹⁶ Consequently and in contrast with most other countries, Ireland did surprisingly well during the 1970s. Despite the oil-crisis,

¹⁶Fianna Fáil, the party that gained office for the first time in 1932 (and held office for 38 out of 57 years) immediately started to implement its program of industrial protectionism. Their comprehensive protectionist policies were part of the ideological framework to which Fianna Fáil adhered. To protect the Irish economy from the world economy, but mainly from the British economy, was a sign of national independence and unity (economic nationalism). Ireland became one of the most protected economies in the world. Economic protection encompassed industry as well as the large agrarian sector (between 1940 and 1960 the Irish agricultural sector shrank from 45 percent to 35 percent (by comparison, in Switzerland, the agricultural sector shrank from 20.8 percent in 1940 to 11.2 percent in 1960 (see Mjøset 1992, p. 114). These comprehensive protectionist policies did much harm to the Irish economy.

Irish economic growth was higher than the OECD average, and the country did not experience negative growth rates. The basis of this relative success goes back to the publication of the ‘Programme for Economic Expansion’ (a government White Paper) that aimed at gradually giving up economic protection and moving towards export-oriented growth. Subsequently, the government changed its policy and started to lower taxes for business, and attract foreign investment and the settlement of foreign companies.

Figure 7.2: Unemployment Rate in Ireland (as % of Total Labor Force): 1970-2005



Source: Comparative Welfare States Dataset (1997/2004) and OECD Factbook (2008)

Companies from the United States played a dominant role in Ireland’s economic development. Most foreign investment came from U.S. companies. In addition to the favorable tax system, the Irish economy offered well-educated employees, proximity to the common European market and the absence of language problems (e.g. Ó Riain, 2004). But despite high economic growth, the problems of the Irish labor

It is not without reason that Ireland had the poorest economic performance of all OECD countries during most of the 20th century.

market prevailed. The unemployment rate continued to increase until 1986/1987 and reached an all time maximum of close to 17 percent.¹⁷

In 1973, Ireland joined the EEC and therefore had to abolish trade barriers and protectionist measures within five years. The new economic policies worked well during the 1970s, but the 1980s were politically and economically troubled years. The decade was characterized by increasing unemployment (between 1980 and 1983 unemployment doubled) and frequent changes in government (between 1980 and 1989 Ireland saw five different governments). The recurrent economic downturn also led to a new wave of emigration by well-trained, highly skilled people (see Mjøset 1992, p. 382). The reaction of the government with regard to the economic downturn during the 1980s was to launch the ‘Programme for National Recovery’ (in 1987). As with previous programs, this initiative was supported by the government together with the social partners.

Ireland’s economic fortune started to change again during the last decade of the 20th century. During this period, economic growth was almost 10 percentage points higher than both the OECD average and the growth rate in Switzerland and Germany. Further, the level of unemployment started to decline continuously. The persistent growth of the Irish economy during the past three decades also created thousands of new jobs in various sectors. The service sector experienced the biggest increase in jobs. For instance, employment in the service sector rose from 57.4 percent to 63.9 percent between 1991 and 2001 (see Smith, 2005, p. 44). Labor market participation also increased significantly during the economic bust in the 1990s. After another peak in the unemployment rate in 1993, unemployment rapidly decreased, falling below the OECD mean in 1999. The economic success and growing number of jobs also attracted many foreign workers, an unseen phenomenon in Irish history, which had been characterized by frequent waves of emigration. The sectors benefiting most from the boom were the high-tech manufacturing industry, the financial-/insurance service industry, and other private service industries.

Towards the end of the period included in this analysis, the massive economic growth started to decline again. Even though the level of economic growth was still

¹⁷In common with the Swiss economy, which is in many ways dependent on the German economy, Irish economic well-being and labor market performance depends heavily on the UK. The unemployment level in Ireland sky-rocketed partly because the demand for (unskilled) workers in the UK collapsed during the 1990s. The UK used to be a ‘safe heaven’ for Irish workers for a long time (e.g. Walsh, 2003).

higher than in most other OECD countries, the recent recession has to prove whether the Irish economic miracle will be sustainable or not.¹⁸

7.4 Welfare State Development

It is difficult to categorize the Irish welfare state in the same way as it is difficult to find a matching category for the Swiss social security system. Ireland inherited a limited welfare system that was largely identical to that of the UK. However, the catholic religion had a strong influence on the further development of the welfare state and some schemes, especially the unemployment scheme, differ significantly from those of liberal welfare states.¹⁹ Scholarship has thus compared the Irish welfare state to those of Southern European countries such as Italy, France or Spain (see [Leibfried, 1992](#); [Callan and Nolan, 2000](#)). Even though Ireland is often included in quantitative comparative studies, there is little comparative research on social policy change. Some claim that this has to do with Ireland's peripheral location, others ascribe it to the late development of a welfare 'state' ([Cousins, 1997](#)).²⁰

The origins of the welfare state system go back to the 'Poor Relief (Ireland) Act' of 1838. This act was implemented by the British rulers of the country, who hoped to approach and tackle the problem of destitute Irish immigrants in British cities ([Burke, 1999](#)).²¹ On the basis of the poor law, a very basic health care system was introduced in 1851. However, the Poor Relief Act is not exactly a social security scheme. It was with the implementation of the Workmen's Compensation Act in 1897 that the British rulers started to protect the rights of workers. This law required employers to compensate their employees in case of occupational injuries. In this

¹⁸Some scholars argue that the dependence on foreign direct investment and transnational companies, which are not integrated into, or have only loose ties with, the local economy will prove to be negative in the future because the indigenous economy did not develop accordingly (e.g. [O'Hearn, 2000, 2001](#)).

¹⁹In Esping-Andersen's (1990) seminal work on the various 'worlds of welfare', the UK is the main proponent of a residual/liberal welfare state. Liberal welfare states are mainly characterized by providing means-tested benefits and universal services based on public services or insurance schemes. In a recent contribution to the welfare state literature [Cousins \(2005, p. 125\)](#) describes the UK as 'the main (if not only) representative of the 'liberal' world or the Anglo 'family of nations' in Europe'.

²⁰Whereas there are plenty of comparative case studies to be found on Germany and still quite a few on Switzerland that analyze welfare state policies, there is hardly any comparative study which includes Ireland. Interestingly, a few publications examine the early Irish welfare state (covering the period from 1921 until the 1950s). Research on the most recent decades is scarce.

²¹The Poor Relief Act mainly aimed at keeping poor people off the streets and offering them housing (so-called 'workhouses'), which is not exactly the implementation of a safety net of social security scheme ([Maguire, 1986](#)). After independence, this particular poor relief system was reformed and the workhouses were closed.

respect, Ireland is similar to Germany and Switzerland, where occupational injury insurances/health insurance were among the first schemes to be implemented.

In 1908 a means-tested old age pension reform system was introduced (at the same time as it was introduced in Britain) and three years later, the first unemployment benefit scheme was implemented. The British were the first to implement unemployment insurance. The scheme was contributory and funded by flat rate contributions by employees, employers and the state. Even though only a few categories of workers were covered by the unemployment insurance, the introduction of this scheme was a novelty because it abandoned the idea of the poor law and emphasized the idea that an employee has a right to be relieved from poverty. Right before Irish independence, the scheme was extended to cover all manual workers with the exception of people working in agriculture and domestic service. Since the Irish agricultural sector dominated the economy at the time, many people did not benefit from the expansion of this policy.

After Irish independence and during the inter-war years, the Fine Gael-led government did not make an effort to further expand social policies. The reason was that Irish economic performance did not allow a further expansion of welfare measures, but also because of the dominance of Catholic/Christian ideology and the centrality of the Catholic Church in the provision of voluntary care. The importance of the Catholic Church only decreased during the post-war decades when social policies provided by the public hand started to become more acceptable and also were promoted politically.²² The Irish welfare state system started to slowly catch up with the rest of the western European countries after World War II (Ó Riain and O'Connell, 2000). In 1952, the insufficient unemployment scheme was reformed and extended. In addition to the unemployment scheme, sickness insurance and some child care/family policies were included in the new legislative bill.²³ Due to the severe economic crisis during the 1950s and 1960s, the expansion of social policies disappeared again from the agenda.²⁴ However, social insurance issues were brought forward by the opposition parties (Fine Gael and Labour) in the 1960s. The means-tested pension system, which

²²More than in many other European states, social welfare in Ireland was mainly provided by the family and the Catholic church. The Christian principle of subsidiarity which sees the family as the nucleus/basic unit of social provision was deeply embedded in the political elite and inhibited the further development of state-led social securities. See e.g. Conroy (1999) on the transition period between voluntary welfare provided by the Catholic Church and families and the expansion of public welfare during the post-war decades.

²³The new unemployment insurance now also encompassed agricultural employees, which was a huge improvement since the agricultural sector still employed a significant number of people. Unemployment insurance was not further expanded until 1968/1976, when the duration of the benefits and the earnings-related proportion of the benefits were increased (Maguire, 1986, p. 260).

²⁴During the 1960s, approx. 600'000 people emigrated from the country, mainly young men and women in their early twenties.

was introduced in 1908, was substantially reformed and expanded in 1961.²⁵ After the implementation of the new legislation, the pension scheme included blue-collar as well as white collar workers. But when Ireland joined the EEC in 1973, the Irish started to opt out of common social provisions. This means that a chance to thoroughly redesign the social policy legacy was missed.

During the 1980s, the Commission on Social Welfare published a report which documented the need for fundamental reforms. Even though it was widely acknowledged that health care, education and other social policies did not meet modern standards, the severe economic crisis impeded the government from taking action. Only during the 1990s, together with the various programs for ‘national recovery’, social policies were adjusted, mostly in collaboration with the social partners. In the meantime, the economic circumstances changed, and the economic boom did not allow the government to ignore the pending reform of the welfare state system.²⁶

In summary, the delayed development of the Irish welfare state has its roots in the delayed industrialization and the dominant agricultural sector. Moreover, the Catholic church, as a voluntary provider of welfare, was interested in maintaining its dominant position (Fanning, 1999). Even though the Irish social security system displays a lot of similarities with a liberal welfare state, the unemployment, sickness, maternity and occupational injury insurances are not means-tested but earning-related. This makes them different from benefit schemes usually found in liberal welfare states. In common with Germany and Switzerland, the social partners together with the government were the major players in the reform processes and the exact design.

7.5 Empirical Analysis of Recent Labor Market Reforms

Policy-making and reform of social policies in Ireland differ from Germany and Switzerland. Unlike in Switzerland and Germany, the Irish government is in the position to shape and introduce new legislation solely according to their partisan preferences and is only restricted by budgetary constraints. The government has the majority in both parliamentary chambers and policy-making is not restricted by institutional constraints - such as sub-national or regional entities with the ability to block legislative action. Extra-parliamentarian actors have little access to the legislative process.

²⁵Pension became compulsory for blue- and white-collar workers. At the age of 70, flat-rate benefits (up to a certain earnings ceiling) were introduced. The retirement age was reduced to the age of 66 between 1973 and 1977.

²⁶Conroy (1999) argue that the Irish welfare state made a big leap forward during the 1990s and even skipped the intermediary phase of development.

Policy-making in Ireland is heavily inspired by the Westminster-model, where the parliament is not seen as the real law-maker. However, even though the role of the parliament as law-maker might be minor, the Dáil is still an important forum for the parties in government and opposition to express their opinion.

Even though the extra-parliamentarian actors have little access to the policy-making process, labor unions and employers' organizations are important for the regularly negotiated social partnership agreement between the government, labor unions and employers' organizations. These agreements establish goals for medium-term economic development and performance. In addition to wage-agreements, the agreements usually covering a three-year period also set the broader framework for the further development of the social welfare system. However, the exact design of the policies and legislation that is presented to the parliament is not discussed in this forum.

Whereas different welfare state institutions exist independently of one in Germany and Switzerland thus are reformed separately, most social policies that constitute the Irish social security system are summarized in the Social Welfare Act. The Irish Social Welfare Act covers the main social insurances, such as the pension scheme, unemployment benefit and unemployment assistance scheme, health care and child care schemes. The Act is subject to changes on a yearly basis. Often, the changes are incremental and only concern contributory rates and benefits. New schemes are simply added to the existing act. The changes to the Social Welfare Act that have an influence on the budget are already announced in the Budget Speech at the beginning of the year and are included in the Financial Bill. Both the Financial Act and the Social Welfare Act are presented by the respective Ministers and followed by lengthy discussions in parliament.²⁷ The parliamentary debate following the presentation of the annual budget to some extent anticipates the debate after the presentation of the Social Welfare Bill. The arguments defending or criticizing the two bills raised on both occasions often overlap. The following study therefore draws on both the parliamentary minutes of the Financial Bill and the Social Welfare Bill.

In common with Germany and Switzerland, the Irish social security scheme also distinguishes between unemployment insurance benefits (pay related social insurance) and unemployment insurance assistance. Unlike in Germany or Switzerland where the administrative responsibilities for social assistance programs often lie with the sub-national authorities (or even communities), unemployment assistance in Ire-

²⁷The Financial Bill is presented at the beginning of each calendar year and followed by discussions in parliament that can last until May. The Welfare Bill is usually presented in February/March and the final vote takes place in April.

land is administered by the Department of Social and Family affairs.²⁸ The payment related contributions to the social insurance scheme cover unemployment and pension benefits. Both benefits are related to previous payments. The structure of the insurance fund is comparable to the fund in Switzerland and Germany and is mainly financed by employers and employees.

The following table summarizes the various changes to the unemployment scheme during and since the early 1990s.²⁹ A fair amount of reforms were implemented by different party governments. Social policy was designed by a coalition between Fianna Fáil and the Progressive Democrats or the Labour Party until the mid 1990s and again after 2000. In between, a center-left coalition of Fine Gael, the Labour Party and Democratic Left was in government and thus was in charge of social policy. This center-left coalition was unusual for Ireland because it was one of the most left-wing governments in recent Irish history. While Fine Gael is positioned only slightly more on the left compared to the other major party, Fianna Fáil, the inclusion of Democratic Left, a truly left-wing party, pulled the coalition towards the left political spectrum. I therefore examine the main social policy reform of this coalition, the Social Welfare Acts in 1996.

For comparison, I choose to examine the 2001 Welfare Act because this was the main social welfare reform by the conservative coalition of Fianna Fáil and the Progressive Democrats. Besides the Act in 1991, which was also implemented by a coalition between the Fianna Fáil and the Progressive Democrats, the other social policy reforms under the leadership of the Fianna Fáil were designed together with the Labour Party. The coalitions between Fianna Fáil and the Labour Party are better characterized as a center than as a right-wing government, while the coalition between Fianna Fáil and the Progressive Democrats can be clearly classified as center-right.

Table 7.1: Reform Processes in Ireland

Year	Main Content of the Reform	Governing Coalition
1990	Social Welfare Act: Change of earnings ceiling in pay-related social insurance schemes, implementation of carer's allowance scheme and lone parents' allowance.	Fianna Fáil and Progressive Democrats

²⁸In 2006, the terms unemployment benefits and unemployment assistance were abolished. They are now called jobseeker's benefits or jobseekers allowance. This change strengthens the emphasis on active labor market policies. Someone without a job is not considered as unemployed but as job-seeking.

²⁹The sources are: <http://www.irishstatutebook.ie> (data base of Irish legislative acts), http://www.ilo.org/dyn/natlex/natlex_browse.home (the database of the International Labor Organization on Social Security legislation).

Table 7.1: *continued*

Year	Main Content of the Reform	Governing Coalition
1991	Programme for Economic and Social Progress (1990-1993), the program was negotiated among the social partners and also includes measures for social protection in various areas, but also unemployment.	Fianna Fáil and Progressive Democrats
1991	Social Welfare Act: Change of earnings ceiling in pay-related social insurance schemes, change of contribution scheme, new rates of benefits. Extension of social insurance benefits to part-time workers.	Fianna Fáil and Progressive Democrats
1992	Minor changes to the contributory schemes for payment related social insurances. Introduction of a part-time job incentive scheme.	Fianna Fáil and Progressive Democrats
1993	Social Welfare Regulation (amendment that provides that a person who has lost at least one day of insurable employment in any week will be regarded as having suffered a substantial loss of employment).	Fianna Fáil and Labour Party
1993	Social Welfare Act: PRSI exemption schemes for employers, training for job-seekers, changes in benefits and contributions.	Fianna Fáil and Labour Party
1994 (February)	Programm for Competitiveness and Work (1994-1997): states that the social insurance system should be maintained.	Fianna Fáil and Labour Party
1994 (March)	Social Welfare Act: Regulation (provision that a person under age 55 who receives money in respect to redundancy in excess of a prescribed amount may be disqualified for receiving unemployment benefits for a period of up to nine weeks), implementation of survivors pension, minor changes to the contributory scheme.	Fianna Fáil and Labour Party
1995	Social Welfare Act: Minor changes to the contributory scheme, extension of the contributory pension scheme for widows/widowers	Fine Gael, Labour Party, Democratic Left (since Dec. 1994)

Table 7.1: *continued*

Year	Main Content of the Reform	Governing Coalition
1996	Social Welfare Act (Treatment Benefits): Exempts people of age 55 or over who are signing for credited contributions in respect of proved unemployment from the requirement of having to have 13 paid contributions in the relevant contribution year in order to qualify for benefits, changes to the contributory scheme, policy changes directed towards long-term unemployed (e.g. back to work allowance), and PRSI exemptions for low-paid workers.	Fine Gael, Labour Party, Democratic Left
1997	Partnership 2000 (1997-2000); includes active labor market policies for target groups and the further implementation of active labor market policies in general. New rules for seasonally unemployed people.	Fine Gael, Labour Party, Democratic Left
1998	Social Welfare Act: Adjustment of the contributions and benefits, small changes of contributory ceilings	Fianna Fáil and Progressive Democrats
1999	Social Welfare Act: Adjustment of contributory rates and benefits, implementation of a PRSI carer's benefit scheme.	Fianna Fáil and Progressive Democrats
2000	Social Welfare Act: implementation of a new scheme for carers, adjustment of pension rates, improved pension rates for people with pre-1953 pensions, minimum rate of £100 for social welfare old age pensioners.	Fianna Fáil and Progressive Democrats
2001	Social Welfare Act: Change of contributory ceilings, reduction of PRSI rates, change of social insurance contributions for self-employed	Fianna Fáil and Progressive Democrats

National elections held in 1989, 1992, 1997, and 2002.

7.6 Financial Act and Social Welfare Act 1996

In 1996, the Irish cabinet consisted of a three party coalition of Fine Gael, Labour and Democratic Left.³⁰ The three-party government came into power after the coalition

³⁰Democratic Left only existed for a transitory period between 1992 and 1999. It was formed in 1992 by former members of The Workers' Party. In 1999, Democratic Left merged with the Labour Party.

government between Labour and Fianna Fáil collapsed in 1994.³¹ Democratic Left was represented by one minister only, Proinsias De Rossa, who was the party leader and served as Minister for Social Welfare. Even though this so-called ‘rainbow-coalition’ included parties with fairly divergent policy-preferences and ideologies, the cooperation worked well, mainly because the cabinet took decisions by consensus rather than by majority vote.

Nonetheless, the cabinet faced criticism from the opposition parties who complained that crucial bills were heavily influenced by De Rossa, the minister from Democratic Left. The government was thus de facto more left-wing than its nominal allocation of jurisdictions would suggest. This explains why Ireland during these years appeared so far ‘off the regression line’ in the partial regression plots of chapter 4. The Kim-Fording measure used in the quantitative analysis weights the parties’ ideologies with the number of seats in government, but cannot account for the disproportionate informal influence of Democratic Left on social policy through its only cabinet member. The government was de facto more left-wing than the quantitative measure would suggest. Accordingly, social policies were more redistributive than the quantitative government ideology score of the empirical macro model implies. Taking this into account, we can conclude that Ireland is a case which is very well explained by my theoretical argument.

The 1996 bill was announced as one that would bring major changes to the existing welfare state legislation. The social policy reforms presented by the newly formed center-left government primarily aimed at addressing the needs of the very poor, or ‘outsiders’. De Rossa, on behalf of the cabinet, presented the social welfare bill as the *‘first integrated approach to address the most pressing social and economic problem, long-term unemployment’* (parliamentary minutes, 12.03.1996). Even though the Irish economy was booming, long-term unemployment was still a major problem of the Irish economy. The government thus proposed programs designed to reintegrate those people into the labor market who were excluded for many years. The minister for Social Welfare, De Rossa, justified the measures proposed in the budget and the welfare act as *‘they are intended to give particular help to our unacceptably large number of people who are long-term unemployed because this group is not benefiting enough from the current dynamic growth in employment [...] That group needs positive help and support and this budget provides it.’* (parliamentary minutes, 23.01.1996b).³²

³¹The first negotiations to form a new government between Fianna Fáil and Labour failed late in that year. After this failure, Labour initiated talks with the three main opposition parties. The new government was formed at the very end of the year.

³²Other members of the coalition also emphasized that the social needs of ‘outsiders’ should finally be addressed. Joe Costello from the Labour Party, for instance, stated that *‘this is the first time the*

The following changes related to the labor market and unemployment benefits proposed in the 1996 financial and the social welfare bills can be assigned to the expenditure dimension. I assign the following issues to this dimension. First, the government cut the rate that employers have to contribute to the social insurance scheme. Second, the government proposed the introduction of recruitment subsidies for employers who create jobs for long-term unemployed people. Third, a back-to-work allowance that allowed long-term unemployed people accepting a job to retain – in addition to their wages – a certain percentage of their previous social welfare payments. Fourth, community employment schemes were introduced to reintegrate the long-term unemployed.

The government also proposed important measures that considerably affected redistribution. First, the government proposed to increase the ceiling of the key social security scheme PRSI (‘Payment-Related Social Insurance’). This ceiling defines the maximum amount of a person’s income that is subject to social insurance payments.³³ An increase of this ceiling has redistributive effects because people with high incomes contribute relatively more to the social insurance scheme. This measure corresponds to the major reform issue in the Third Partial Unemployment Insurance Reform from 2001 in Switzerland discussed in the next chapter. Second, the government suggested that social insurance contributions only have to be paid by people earning more than 80 per week. Before, the threshold was set at 50 per week. This measure leads to lower contributions from the very poor and thus increases their net income. Finally, the government proposed to compensate long-term unemployed for the difference between a low-wage job and benefits that they would get from social insurance if they remained unemployed. The aim of this measure was to create incentives for the long-term unemployed to escape the so-called ‘welfare traps’, i.e. to take a job that pays less than social insurance. I assign this measure to the redistribution dimension because it guarantees the size of transfers to the poor while simultaneously reducing expenditures. This measure is similar to one of the policies by the German conservative government in the 1994 ‘*Beschäftigungsförderungsgesetz*’ described in the previous chapter. Of the three policy propositions, the first two have greater redistributive effects than the third.

long-term unemployment problem has been the main focus of a budget. I am delighted to support the measures announced in the budget to tackle it’. Minister of State at the Department of the Environment, Liz McManus of Democratic Left, explicitly highlighted the failure of previous governments to design social policies that also help the very poor: ‘*For decades, social and economic policy has failed to address the needs of two groups in society, those without work and those in low paid jobs’.* (Both quotations are from the parliamentary minutes, 31.01.1996f).

³³In Ireland, as in Switzerland, social insurance contributions only apply to a fixed amount of the annual salary. A person who earns more than the amount where the ceiling applies does not have to pay social insurance contributions on the income beyond the ceiling.

The following table summarizes the most important reform issues included in the Social Welfare Bill/Financial Act 1996:

Table 7.2: Relevant Reform Issues Financial and Social Welfare Bill 1996

Dimension I: Redistribution	Dimension II: Expenditure
Increase of minimum income subject to social insurance payment	Lowering of employer's contributions to the scheme (promoting enterprise)
Increase of PRSI ceiling	Recruitment subsidy to create jobs for long-term unemployed
Compensation for acceptance of low-income job	Community employment schemes
	Back-to-work allowance

7.6.1 Actor Positions on Redistributive Issues

Besides the actual level of social welfare benefits for the unemployed, a much debated issue in Irish social welfare and labor market politics is the take home pay or net income of employees. The 'rainbow coalition' government was committed to securing transferal of resources to the very poor while simultaneously increasing the net earnings of the low-income working force. To increase the take home pay of these groups, the government introduced a scheme that exempted the first £50 of the weekly income from contributions to the PRSI system in 1995. In 1996, this amount was increased to £80. With this new policy, contributions to the PRSI system only apply to weekly earning exceeding £80. The measure was mainly introduced to relieve employees with a low income from payment of the full rate of PRSI (5.5 percent of their weekly income). Even though workers from all income brackets benefit from the increase of the PRSI free allowance, employees with the lowest pay benefit the most.

The Minister for Enterprise and Employment (Richard Bruton, Fine Gael) stressed that the reform also helped to improve the incentives to accept a job: *'[we] reinforced a strategic shift in the structure of employees' PRSI by introducing an allowance last year of £50, rising this year to £80 per week [...]. This will open new*

opportunities for lower paid and all areas of employment' (parliamentary minutes, 24.01.1996c). The conservative opposition, however, criticized the exclusive focus on the very poor while ignoring the needs of middle- and high-income workers. Fianna Fáil, the biggest party in the opposition, agreed that some low-income families would benefit from this measure and be slightly better off, but they demanded that the government should also take measures directed at the middle-income families (see parliamentary minutes, 23.01.1996b). Members of the opposition parties also explicitly disapproved of the idea that the reform would lead to greater redistribution. In particular, they opposed the plan that employees with higher earnings would contribute relatively more to the PRSI system than before.

Similar to the new PRSI allowance for low incomes, the opposition opposed the governments plan to increase of the PRSI ceiling because the reform would shift the burden towards high-income groups. The Irish social insurance system was designed so that contributions to the insurance fund only applied up to a certain income. In 1996, the government increased this ceiling by £800 (from £21,500 to £22,300). The plan to raise the ceiling essentially coincides with demands from interest groups. The INOU (Irish National Organization of the Unemployed), for instance, even asked to abolish the ceiling on PRSI payments because it favors high earners in a disproportionate manner (see 'The Irish Times', December 20, 1995). Again, the main opposition parties disapproved with the governments plans. Fianna Fáil argued that the combined effect of the two measures would be negligible (see parliamentary minutes, 31.01.1996f, Martin Cullen). In contrast, the Progressive Democrats, who generally oppose payment related social security systems, opposed the government plans because they expected that the redistributive effects were considerable: *the Government has merely shifted the burden of PRSI from the lower paid to the top of the structure. [...] It has shifted the burden of taxation but has never considered reducing it*, (Michael McDowell, parliamentary minutes, 23.01.1996b).

Overall, the two measures can be viewed as a significant change in Irish social policy. For the first time, a government designed a reform that exclusively focused on the needs of the very poor. Moreover, the redistributive effects of the reform were considerable because it had a positive impact on net incomes in the lowest bracket while simultaneously shifting the burden of social insurance towards the higher income brackets. Poor people benefited from the reform because their take home pay increased, but at the same time their social security entitlements and the coverage of benefit schemes (e.g. the duration of benefits) were not altered by the 1996 Social Welfare Act.

The third measure, which had some redistributive effects, was less contested because it also aimed at changing the incentive structure for the long-term unemployed. In a manner similar to the German government in 1994, the Irish government intended to promote part-time jobs. To raise the incentives to work part-time, the government proposed that long-term unemployed people who accept part-time or occasional employment will continue to receive social benefits. Specifically, the government proposed to compensate workers for the difference between income from part-time work and the amount of social security that they would get while being unemployed. The promotion of part-time jobs was accompanied by a simplification of the unemployment assistance scheme. The simplification should ensure that the unemployed be able to assess correctly which welfare benefits they will enjoy while being employed part-time. I assign this policy to the redistributive dimension because it includes compensation measures for the very poor. Although it does not increase the income of the long-term unemployed, it guarantees their benefits despite an attempt to reduce the costs of the social security system.

With this reform plan, the government aimed at changing the incentives to accept jobs that many unemployed people had so far declined. Due to the particular design of various social benefits, people living on welfare benefits had little incentive to take a low-paid job or to engage in occasional employment because social assistance ceased when the person was in a working relationship. The income of an unemployed person who accepted a part-time, low-income job thus was often below the amount provided by social assistance. The reform should address these financial disincentives, which was also supported by the more conservative opposition parties. The Progressive Democrats, who have a very critical attitude towards the PRSI schemes in general, acknowledged that the government was starting to fight the disincentives set by the welfare system: *‘[...] there is one message of hope, it [the government] is beginning to see that PRSI operates as a disincentive; it is a regressive tax on employment,* (Michael McDowell, parliamentary minutes, [23.01.1996b](#)). Fianna Fáil mainly emphasized the increasing number of part-time jobs available and their importance for the Irish economy. Even though the parties in opposition acknowledged the usefulness and importance of this change, they asserted that the ‘rainbow coalition’ did not evaluate the potentially negative effect of other welfare schemes and income supplements on the willingness of unemployed people to take on a part-time job.

Other issues affecting the redistributive dimension are the extension of the PRSI scheme and the promotion of part-time jobs, which went hand in hand with a simplification of the calculation of unemployment assistance. From 1996 onward people working within community employment schemes (job creation schemes) were entitled

to full coverage by the social insurances included in the PRSI scheme. Previously, these workers have been entitled to benefits for occupational injuries only but now they had the possibility to contribute to the pension fund and also to get an occupational pension after retiring. The extension of the PRSI scheme to community workers was little discussed in parliament and generally well approved. It closed one of the last gaps in the social welfare system, after the inclusion of the self-employed into the PRSI scheme.

7.6.2 Actor Positions on Expenditure Issues

The 1996 Social Welfare and budgetary Bills also included considerable changes to the expenditure dimension. Unlike in Germany and Switzerland, the changes implemented by the left-wing ‘rainbow coalition’ increased public expenditure and expanded spending for social welfare issues. This was possible because the Irish economy was booming and tax incomes increased during the 1990s. All parties agreed that long-term unemployment was a serious problem of the Irish economy, which needed to be taken care of. Nonetheless, many measures proposed by the ‘rainbow coalition’ were opposed by the conservative parties.

Policy Positions for the Issue ‘Recruitment of Long-term Unemployed - Subsidies for Employers (£80)’

<i>Against Proposal</i>	<i>Support of Proposal</i>
Progressive Democrats	Fine Gael
Fianna Fáil	Labor Party
	Democratic Left

In line with targeting the lower paid and long-term unemployed in society, the government attempted to create incentives for employers to hire long-term unemployed people by offering an £80 per week subsidy for jobs filled by people who were out of work for at least three years. Another measure to raise incentives for employers to create additional jobs was to lower the employer contribution to the PRSI fund. Again, the measures were targeted at low-wage employees. The employer contribution to the PRSI fund for salaries up to £13,000 was reduced (from 9 percent to 8.5 percent) while the threshold to which this reduced rate applied was increased by £1,000 (from

£12,000 to £13,000). At the same time, the ceiling up to which employers had to pay PRSI contributions was increased by £1,000 up to £26,800. These changes altered the structure of employers' contribution to the PRSI. After the reform, employers had to pay proportionally more PRSI contributions for high-salary earners than for employees with low salaries. The goal was to raise incentive for employers to create more jobs for the low-skilled workforce.

Members of the Labour Party, although welcoming the initiative, were mostly concerned that this measure disproportionately favors employers: *'we need to be extremely careful to ensure that proper guidelines are in place to safeguard against its [the implementation of the recruitment subsidy] resulting in the displacement of existing workers by long-term unemployed people - on the back of a subsidy such as this - with the potential of benefiting employers only,* (Roisin Shortall, parliamentary minutes, 01.02.1996a). This concern coincides with the critique from labor unions documenting the overlap between labor unions and Irish left-wing parties fund. The Irish Congress of Trade Union (ICTU) generally supported the new budget, but worried that it neglects the interest of PAYE workers, i.e. employees in a regular working relationship who contribute to the PRSI fund (see 'The Irish Times', January 24, 1996).³⁴

Policy Positions for the Issue 'Lowering of PRSI Contributions for Employers, Increasing the Employer PRSI-Contributions for High-Salaries'

<i>Against Proposal</i>	<i>Support of Proposal</i>
Fianna Fáil	Fine Gael
Progressive Democrats	Labor Party
	Democratic Left

The reactions from the opposition towards these measures were mixed. Although the opposition generally welcomed PRSI reductions, the Progressive Democrats considered the measures taken by the government to be insufficient. Mairin Quill (Progressive Democrats) stated that, *'the key to ensuring competitiveness is a reduction in costs for industry. In particular we must seek to reduce the cost of employing people. That means substantial cuts in personal taxation and PRSI both for employees and em-*

³⁴PAYE is the abbreviation for 'pay as you earn' and includes workers who contribute to a social insurance scheme such as pension, and unemployment insurance through regular contributions.

ployers, (parliamentary minutes, [30.01.1996e](#)). Members of the Fianna Fáil argued that *‘the PRSI breaks given are insignificant. They have been written off as useless by all the industry federations,* (David Andrews, parliamentary minutes, [08.02.1996g](#)).³⁵ The position of the employer organizations was more complex, however. Whereas SIPTU (Service, Industrial, Professional and Technical Union) was sceptical, especially about the implementation of the recruitment subsidy, the Small Firms Association welcomed this measure (see ‘The Irish Times’, January 24, 1996). Overall, a main concern of Fianna Fáil again was the negligence of the interests of middle- and high-income groups. Bertie Ahern, the leader of Fianna Fáil, criticized that the reform did not include sufficient measures to alleviate the burden shared by the regularly employed workforce: *‘The tax and PRSI concessions announced in the budget are minimal from the point of view of all but the lowest paid individual taxpayers,’* (parliamentary minutes, [23.01.1996b](#)).

In addition to the changes discussed above, the social welfare bill also provided a three percent increase of the weekly benefits paid to people dependent on social welfare. This measure, however, simply followed the recommendations by the Commission on Social Welfare made in the mid-1980s, which - among other things - suggested that the weekly benefit rates should increase to an adequate level within the following years.³⁶ Based on these suggestions, all governments increased the benefits on an annual basis. This increase in benefits thus does not constitute a proper reform issue by the ‘rainbow coalition’. The steady increases in social welfare payments, however, were not uncontested. Whereas the employer confederations opposed the three percent increase, the Irish National Organization for the Unemployed (INOUE) criticized the peak labor union organization (ICTU) for not asking more than a 3.5 percent increase (see ‘The Irish Times’, December 20, 1995). The INOUE, which was established in 1987, was one of the first NGOs that participated in the discussions preceding the partnership agreements. However, due to the difficulties of mobilizing unemployed people, the voice of the INOUE was less prominently heard than the labor unions.

Overall, the conservative opposition would have preferred tax reduction and substantial reform of the taxation system instead of the additional measures aimed

³⁵Martin Cullen, member of Fianna Fáil, takes a similar position arguing that *‘employers, large and small, have told me that they will not base their decision to recruit somebody on the basis of an £80 per week subsidy but on purely competitive criteria, which result in real jobs’*, (parliamentary minutes, [31.01.1996f](#)).

³⁶The Commission on Social Welfare was established in 1983 and presented its report in 1986. The main task of the commission was to revise the Irish social security system and to establish new guidelines for its future development. The following principles should guide the further development of the Irish welfare system: adequacy, redistribution, comprehensiveness, consistency and simplicity.

towards the very poor. Both Fianna Fáil and the Progressive Democrats stressed their disappointment with the Budget and the Social Welfare Bill presented by the government. They expected that the government should take advantage of the booming economy, which would have allowed the implementation of tax cuts.³⁷ Fianna Fáil and, more prominently, the Progressive Democrats proposed that major tax reductions could boost employment and thus also help the long-term unemployed.³⁸

7.6.3 Political Constraints

Policy-making processes in Ireland are hardly restricted by institutional constraints. Even though Ireland also has a bicameral system, the Seanad has limited competencies in the legislative processes. Because the Taoiseach has the right to appoint eleven senators, the governing coalition always has the majority in the Upper Chamber. Moreover, the Seanad cannot block bills, but only delay the final vote by a maximum of three months. The bills presented to the parliament usually undergo small changes only, which do not alter the core of the legislative proposal. The amendments proposed by the parties in opposition are usually discussed during consultations on the committee stage and are mostly rejected. As mentioned previously, the Irish governments - together with the peak labor and employers' organizations - negotiated three-year macro-economic programs, which set the lines for broader macro-economic policies and, more importantly, laid the ground for the development of the industrial wages.

The annual Social Welfare Bill presented to the parliament and the Financial Bill need to be in line with the broader principles and lines that have been defined within the program. However, the final design of the proposals and reforms is in the hands of the respective government. Interest organizations have only limited access to the policy-making process during the legislative process. Thus, interest groups exert only limited direct on the Financial Bill and the Social Welfare Bills and the government can largely choose the policies it prefers. In the Bill presented in 1996, we can clearly see the strong role of Democratic Left in the government, especially for social policy. Even though Democratic Left only had one government seat, De Rossa and Democratic Left were *'running the show'* (Mary Harney from the Progressive

³⁷Liam Aylward from Fianna Fáil: *'there were great expectations about this budget. The economy was doing so well that substantive cuts for taxpayers were expected, but unfortunately, that did not happen. [...] the Minister for Finance made much of his concessions to the low paid and unemployed. [...] In reality he failed a large number of people.'* (parliamentary minutes, 08.02.1996g).

³⁸So for example Mairin Quill, Progressive Democrats: *'the key to ensuring competitiveness is a reduction in costs for industry. In particular we must seek to reduce the cost of employing people. That means substantial cuts in personal taxation and PRSI both for employees and employers'*, (parliamentary minutes, 30.01.1996e).

Democrats) and pulling the ‘rainbow coalition’ towards the left on the social policy dimension. John O’Donoghue (Ceann Comhairle (speaker), Fianna Fáil) even suggested that *‘in delivering the Budget Statement, the Minister for Finance, Deputy Quinn, showed all the sincerity of a hostage speaking at gun point. When the Minister for Social Welfare, Deputy De Rossa, demanded a political ransom from the Government, it decided to pay, and the Minister, Deputy Quinn, was sent out to read the terms of surrender. The Minister, Deputy De Rossa, is the real Taoiseach’*, (parliamentary minutes, 25.01.1996d). Bertie Ahern (Fianna Fáil) also complained that *‘economic policy has been hijacked by Labour and the Democratic Left, a party with one percent of national support’*, (parliamentary minutes, 23.01.1996b).

7.6.4 Discussion

Irish governments – together with the peak labor and employers’ organizations – negotiated three-year macro-economic programs, which set the lines for broader macro-economic policies and, more importantly, laid the ground for the cautious development of the industrial wages. Which topic to include and to emphasize in the yearly Financial and Social Welfare Bill is to a great extent up to the government in power. With little political and institutional constraints and a marginalized Fine Gael within the ‘rainbow coalition’, the left-wing government was able to design the Social Welfare Bill such that it addressed the needs of those societal groups that were generally neglected, specifically the long-term unemployed people and other groups that are not represented by trade unions and other interest organizations. This focus on was not appreciated by the center-right parties who accused Labour that *‘it has deserted the trade union movement again. The PAYE workers, the trade union members and the small entrepreneurs have been let down by this government’*, (Bertie Ahern, parliamentary minutes, 17.04.1996). The emphasis on long-term unemployed and other labor market ‘outsiders’ was equally criticized by labor unions who, to some extent, opposed the creation of public employment schemes and the implementation of recruitment subsidies.³⁹ The opposition mainly called for a serious tax reform and accused the government that the budget hardly rewarded pensioners and tax payers.⁴⁰ However,

³⁹Jim Kemmy (Labour Party) reflected on the government’s policy plans and the preferences of the union uniting people employed in the service sector as following: *SIPTU was especially critical of the Government policy to give £80 per week to employers who take on a long-term unemployed person for three years or more. I analysed their criticism but the reality is that the Government had to discriminate in favour of the long-term unemployed to make a dent in the numbers who have been unemployed for more than three years. [...] To give long-term unemployed some chance, action had to be taken in their favour, which I support*, (Parliamentary Minutes, Dáil Éireann, 01.02.1996).

⁴⁰Michael J. Woods (Fianna Fáil): This budget is a poor reward for pensioners and tax payers in times of plenty, high growth, low inflation and low interest rates. This happy economic environment

Table 7.3: Reform Issues and Direction of Changes for ‘Financial and Social Welfare Bill 1996’

Reform issues	Effect on		Dimension	
	‘Insiders’	‘Outsiders’	Redistribution	Expenditure
Increase of ceiling/contributory ceiling of core social security programs (PRSI)	+	-	×	
Exemption of the first £80/week income from payments to core social security programs (PRSI)	+	-	×	
£80 recruitment subsidy for employers when hiring long-term unemployed	neutral	+		×
Back to work allowance for long-term unemployed	(-)	+		×
Implementation of community employment schemes	neutral	+		×
Compensation of long-term unemployed for taking low-wage or part-time jobs	-	+	×	
Compensation for part-time jobs	+	+	×	
Cut rate for employer’s contribution to the PRSI schemes	neutral	neutral		×

Legend: + implicates that the implemented measure had a positive effect for the group indicated. - implicates that the reform negatively effects ‘insiders’/‘outsiders’. × indicates which dimension the legislative change predominantly affects.

these political processes and social policy outcomes of the 1996 Social Welfare Bill confirm that unconstrained left-wing party governments are willing and able to implement policies that are beneficial to societal groups which are generally underrepresented in political systems and often left behind. After many years of center and center-right governments, the parliamentary discourses and media coverage also documents how unusual the government's emphasis in social policymaking on the poorly organized 'outsiders' in Ireland was. It was possible only because the left-wing government did not have to find a compromise with the center parties.

7.7 Financial Act and Social Welfare Act 2001

In 2001, Fianna Fáil was governing together with the Progressive Democrats. The change in government took place in 1997 and for the first time in the history of Fianna Fáil, the party formed a pre-election agreement with the Progressive Democrats. Whereas Fianna Fáil won quite a number of additional seats in parliament (if not votes), the Progressive Democrats lost six seats and were represented with four Teachta Dála (TDs) only. The coalition between Fianna Fáil and the Progressive Democrats could only be formed with the help and the support of three independents. Nominally, the Progressive Democrats were fairly weak, but just as for the Democratic Left in the previous government, their influence on the policy agenda was quite strong. Mary Harney, the party leader, was appointed as deputy prime-minister (Tanáiste) and was in charge of the important Ministry of Enterprise, Trade and Employment.

With regard to economic performance, the economy was growing persistently between 1996 and 2000, but experienced a downturn in 2001 for the first time in years. Still, the economic boom during the previous years had a significant impact on the level of unemployment and state revenues. Unlike in 1996 when unemployment was still high (close to 12 percent) and long-term unemployment was a serious problem in Irish society, the Irish government found itself in a different situation in 2001. The level of unemployment was below 4 percent (the lowest unemployment rate since 1964 when the level of unemployment was at 4.6 percent) and significantly below the average level of unemployment in other EU countries.

The Budget, as well as the Social Welfare Bill 2001, was heavily influenced by the positive economic situation and the prospect of healthy economy and near full employment. But although money spent on social welfare increased substantially, the is one of the main products of the social partnership initiated and led by Fianna Fáil in Government (Parliamentary Minutes, Dáil Éireann, 23.01.1996).

increase was mainly used to adjust the rates and benefits to the increasing wages and to keep up with inflation. Despite the strong rhetoric used by Dermot Ahern, the Minister for Social, Community and Family Affairs, the shifts in the Irish social welfare system were much less pronounced than in previous Bills proposed and implemented by the preceding left-wing government. When he announced the 1999 Social Welfare Bill, Ahern promised a *‘a radical shift in the way we look at social welfare. In the past, social welfare started out from an assumption that the State should try to prevent abject poverty and should try to alleviate grinding disadvantage. The State, it was felt, should not allow people to be pushed over the edge. However, in the past that was felt to be enough. Nobody felt that social welfare could be a positive force, could register that we value older people, we value what carers contribute’*, (parliamentary minutes, [24.02.1999](#)). In 2001, he opened the second reading of the Bill by claiming that *‘we have turned around our social welfare system from one that simply compensates people for economic failure to one that helps people to help themselves’* (Dermot Ahern, Fianna Fáil, parliamentary minutes, [21.02.2001b](#)).

The focus of the social welfare bills presented by the Fianna Fáil-Progressive Democrat government mirrors the different approach of the governments towards social policies and their reform. Budgets and Social Welfare Bills by Fianna Fáil-Progressive Democrat coalitions did not include specific measures to target unemployed people and particular problems on the labor market, and the government did not implement any encompassing new programs or policies. This was not only the case during the incumbency of the conservative government after 1997, but also during the period preceding the left-wing ‘rainbow coalition’ when unemployment was still high and the Irish economy was not performing well. The main focus of the Fianna Fáil-Progressive Democrat government was a reform of the Irish tax system aiming at reducing income tax.⁴¹ Mary Harney (Tánaiste, Progressive Democrats) characterized the governments’ program as follows: *‘this government is committed to cutting tax rates [...], if low tax works for corporations, it works for the workers who work in those corporations. If the profits generated by workers are to be taxed at 10 percent or 12.5 percent, it is not fair that the worker should have to pay tax at more than 40 percent or 20 percent,’* (parliamentary minutes, [07.12.2001a](#)).

Five major issues can be identified. With regard to the redistributive dimension, the PRSI ceiling for employees increased, which means that the income threshold at which employees were required to contribute to the social insurance fund was higher. At the same time, the contributory rate (for employees) to the insurance fund was re-

⁴¹The governments’ focus on tax reform did not come as a surprise since the call for lower taxes accompanied the parliamentary debates during the previous legislation.

duced by 0.5 percent. Whereas the first measure mainly affects people in higher income brackets, the second measure is beneficiary to all. Both issues were not contested and hardly discussed in parliament. On the expenditure dimension, the government increased the social welfare benefits in all categories of social spending (unemployment benefits and assistance, pension, etc.), which was a standard procedure to align the benefits to higher costs of living because of inflation. In addition, the ceiling for wages subject to PRSI contributions by employers was abolished. The government did not change the characteristics of the social welfare programs in place and did not introduce new schemes that were directly relevant to the unemployment insurance scheme.⁴² The most significant changes that affected the income distribution of individual workers and the population were part of the Financial Bill, which included significant cuts in taxes. The issue of consecutive cuts in taxes also dominated the debates of the two bills in parliament. In contrast, the comparatively small changes more directly related to social policies and mentioned above did not play a major role in the parliamentary debate.

Table 7.4: Relevant Reform Issues Financial and Social Welfare Bill

Dimension I: Redistribution	Dimension II: Expenditure
Increase of PRSI ceiling for employees	Increase of social welfare benefits (unemployment benefits and other)
Reduction of the main employee PRSI rate (4.5 percent to 4 percent)	Abolition of PRSI ceiling for employers
(Tax cuts)	Reduction of Social Insurance contributions for the self-employed (5 percent to 3 percent)

7.7.1 Actor Positions on Redistributive Issues

The two issues which had an impact on the redistributive dimensions did not provoke much discussion or criticism in parliament. To increase the PRSI ceiling relevant for the employees' contribution was common during the previous years and was not considered

⁴²Various changes included in the 2001 Financial Bill/Social Welfare Act indirectly affected the Irish labor market. The extension of child support, parental leave, and the increasing acceptance of carers' work in general aimed mainly at making the labor market more attractive for women.

to be an ideological issue. The increase of the ceiling went hand in hand with the further increase to wages and the good performance of the Irish economy. Similarly, the slight decrease in the level (percentages) of employees' PRSI contributions was not prominently discussed either. The diminished contributions resulted in a slight increase of the net income by employees, a fact that was generally welcomed. The relatively uncontested measures concerning the PRSI system stand in stark contrast to the critique of changes affecting the general taxation system.

Most of the debate in parliament that affected redistributive dimensions of (social) policies centered on changes affecting the tax system. The center-right government cut taxes for the fourth, consecutive time, which was one of the major policy projects of the Progressive Democrats. After several years of tax cuts, Mary Harney, the Tánaiste, proposed another 2 percent cut for the top rate taxes in the 2001 Financial Bill. The governments' policy of cutting taxes on a yearly basis was strongly criticized by the opposition, but also by parts of the trade union movement (especially SIPTU, which mainly represents women, low-skilled and part-time workers). The critique of the governments' tax policy concentrated on the government's focus on expansion of the privileges of the rich while doing too little for those on low and middle incomes. CORI (Conference of Religious of Ireland) emphasized that *'the Government's approach to the poorest and most excluded in Irish society is not acceptable and is contrary to the aims and objectives of the Programme for Prosperity and Fairness [...] for this government to claim that social justice is at the heart of its action is not credible,'* (in: 'The Irish Times', March 13, 2001). Derek McDowell from the Labour Party emphasized that *'a reduction in the upper rate of tax is of no benefit whatever to two-thirds of taxpayers and it is worth very little to the majority of the rest. [...] Reducing tax rates in itself favors the better off,* (parliamentary minutes, 06.12.2000).

The government contended that a substantial number of people were fully exempt from paying taxes. However, the growing number of workers exempt from tax payments essentially confirmed criticism by the volunteer associations that the boom of the Irish economy only partially benefited the unskilled, and workers with low levels of education. The reductions in unemployment were mainly achieved by the expansion of part-time and low-wage jobs, which further polarized Irish society. The fact that a growing part of the Irish workforce was living on salaries too low to be taxed is confirmed by figures showing that Ireland had the second largest proportion of low-paid workers after the United States. Moreover, the continuing policy of tax cuts for companies and people in the top income brackets almost provoked the collapse of the thus far successful social partnership. Interest groups representing the unemployed

and groups in society that unequally benefited from the economic boom threatened to leave the agreement. In particular, the continuation of the Programme for Prosperity and Fairness that was launched in November 1999 was in danger because the volunteer associations threatened to resign from this agreement.

7.7.2 Actor Positions on Expenditure Issues

An increase in social welfare payments was offered for all categories of social security payments. This increase, however, was moderate even though nominal spending on welfare and social policies increased from £4.5 billion in 1997 to more than £6 billion in 2001.⁴³

Besides the uneven cuts in income taxation discussed in the previous section, the minimal increase in benefits was another major reason for the near failure of the social partnership program. The Irish National Organization of the Unemployed (INOUE), for instance, commented that *‘the £8 a week raise in unemployment payments was the absolute minimum increase that could have been made without provoking a crisis in social partnership’*, (*‘The Irish Times’*, December 7, 2000). Politicians from the Labour Party and Fine Gael supported the INOUE’s position: *‘Given the rate of inflation projected for next year, the increase of £8 per week across a range of social welfare assistance and benefit payments is pathetic. [...] Social welfare spending has fallen year after year from 11.5 percent of GDP when the Government took office to around 7 percent this year. [...] It can clearly be seen where the real priorities of the Fianna Fáil Progressive Democrats Government lie,’* (parliamentary minutes, [07.12.2001a](#), Tommy Broughan, Labour Party). Even the *‘Irish Times’* followed this position and commented on the insufficient increase in social benefits and the governments’ tax policy: *‘This is a government which sees tax relief as returning to people what they have earned. Benefit payments, meanwhile, are regarded as State largesse to the needy, largesse which drives up Government expenditure,’* (November 28, 2000). The second issue related to the expenditure dimension, the abolition of the PRSI ceiling for employers, is rather surprising because it does not correspond to the asserted policy preferences of the government. It led to an increase in government expenditures. It was partially criticized by the opposition parties and especially by employers’ organizations. The abolition of the employers’ ceiling essentially generated additional

⁴³The increase in nominal spending was mainly caused by new programs funded through welfare state policies, such as career allowances, increased family allowances and extended maternity leave programs. However, relative spending in social welfare decreased significantly during the Fianna Fáil/Progressive Democrat government, from 11.5 percent of GDP in 1997 to approx. 7 percent in 2001.

Policy Positions for the Issue ‘Increase of Social Welfare Benefits’	
<i>Against Proposal</i>	<i>Support of Proposal</i>
Labour Party	Fianna Fáil
Fine Gael	Progressive Democrats
Volunteer associations	

funds for the social insurance schemes exclusively financed by employers. The major parties in opposition were divided regarding this issue, with Labour supporting it and Fine Gael opposing the abolition of the PRSI ceiling for employers. The abolition of the ceiling corresponds to the expected policy preferences of a left-wing party, and Derek McDowell commented as follows on the measure: *‘The Minister has my support in removing the ceiling for employers as there is a need to claw back the reduction in corporation tax in a fair and reasonable way. In most places of employment there are employees on salaries above and below the ceiling. There would be relatively few places of employment, therefore, where the employer would be at a significant disadvantage. It is an equitable and reasonable move which I am happy to support’* (parliamentary minutes, [28.02.2001d](#)).

Fine Gael opposed the proposal. Several Fine Gael parliamentarians expressed concerns about the potentially decreasing competitiveness of the Irish economy if the costs of labor paid by employers increased and consequently should lead firms to hire less people: *‘The proposal to abolish the employers’ PRSI ceiling threatens competitiveness and employment, particularly high earning employment. We will reintroduce a ceiling’* (Jim Michell, Fine Gael, parliamentary minutes, [27.02.2001c](#)). Nonetheless,

Policy Positions for the Issue ‘Abolition of PRSI ceiling for employers’	
<i>Against Proposal</i>	<i>Support of Proposal</i>
IBEC	Fianna Fáil
Fine Gael	Progressive Democrats
	Labour Party
	ICTU

the employers' organizations in general welcomed the budget, but also warned the government that IBEC will seek to change the abolition of the PRSI ceiling (see 'The Irish Times', December 7th, 2001). In a manner similar to the concern expressed by members of the Fine Gael, the employers organizations feared a loss in competitiveness. In addition, they emphasized that the measure contradicts the general rationale of the previous Budgets and other measures taken in this Budget. The government defended itself against criticism by referring to the substantial reduction in business taxation and the reductions in the level of PRSI to be paid by employers during the past years. This, the government demanded, should be taken into account while evaluating the overall measures implemented through the Social Welfare Bill 2001.

In general, the two bills reinforced the rather orthodox economic policies of the Fianna Fáil/Progressive Democrats Government and *'result in an increasing polarization between the super rich and the very highly paid on the one hand, and the poor and low middle income earners, on the other hand'*, (Joe Higgins, Socialist Party, parliamentary minutes, [28.02.2001d](#)). Because the next general elections were soon to be held, the budget was considered as an 'election budget with a Government that succumbed to the temptation to attempt to buy votes by large-scale tax cuts' ('The Irish Times, November 28, 2000). The Bills, however, well represent the overall policy priorities of the Fianna Fáil-Progressive Democrat government. The set of policies that can be attributed to the redistributive dimension is dominated by changes affecting the taxation of income, with an emphasis on tax cuts that privilege people in higher income brackets. The changes that altered the redistributive characteristic of genuine social policies (such as the contributory schemes) were limited to the standard increase in the employees' PRSI ceiling and a very limited decrease to the PRSI contributory rate for employees. Policy changes affecting the expenditure dimension included moderate increases to social insurance benefits and social welfare assistance. However, in most categories these increases were just enough to compensate for the generally increasing costs of living and the persistently high level of inflation.

7.7.3 Political Constraints

The governing coalition among Fianna Fáil/Progressive Democrats faced good economic conditions, which significantly reduced pressure on social institutions. Whereas unemployment was high at the beginning of the Irish economic recovery, which also marks the beginning of the successful Irish social partnership, the labor market was characterized by near full employment in 2000/2001. At the same time, labor unions became more critical of these partnership agreements between the government, employ-

ers' organizations and labor unions. After years of wage restraints, the labor unions expected that their constituencies should be rewarded and should finally receive generous benefits as a consequence of the economic boom. The government saved the partnership agreement by accommodating both the labor unions and the employers organizations with a pay review, tax cuts and a minimal increase in benefits.

Even though the institutional setting did not change between 1996 and 2001, the de facto constraints that the two governments faced have changed slightly. In particular, the government of Fianna Fáil and the Progressive Democrats had to accommodate organized interests to save the social partnership agreement as ICTU and other volunteer organizations implicitly threatened to leave the Programme for Prosperity and Fairness. The threat was credible because the power balance between the actors negotiating the partnership program has shifted. In the beginning of the partnership programs, the three participating groups had similar interests and depended on each other. In 2001 however, the power balance had shifted towards organized labor. With near full employment and even a possible shortage of labor, the unions had much greater bargaining power than in 1996 when unemployment was still high. However, the prospects for the negotiation of the subsequent agreement were not very positive. The voices that criticized the social partnership approach have increased during the previous years and even though the ICTU was still supporting the approach of centralized wage bargaining, other unions within ICTU and outside criticized the governments' policy.

7.7.4 Discussion

Despite these shifts in relative power and economic performance, the 2001 reform admirably documents how social policy preferences and actual welfare state reforms differ for a conservative government. The needs of outsiders were not an issue that the government took seriously or even took into account when designing the reform. Redistribution thus did not change considerably and, if it did, it only helped the well-organized insiders for reasons discussed in the previous paragraph. And although expenditures increased, this expansion was mainly a standard increase to set off inflation, a policy that all governments followed. Given the fairly large economic boom that the government enjoyed, this effect on the expenditure dimension was rather minor.

Due to the exceptional economic performance of Ireland during the 1990s and later, the government was not forced to cut spending. The reform pressure on the spending dimension thus was not as pronounced as in other countries, such as Ger-

Table 7.5: Reform Issues and Direction of Changes for ‘Financial and Social Welfare Bill 2001’

Reform issues	Effect on		Dimension	
	‘Insiders’	‘Outsiders’	Redistribution	Expenditure
Tax cuts for higher income brackets	+	–	×	
Increase of PRSI ceiling	+/-	neutral	×	
Reduction of contribution rate (for regular employees)	+	neutral	×	
Minimal increase of social welfare benefits (adjustment to annual inflation)	+	–	×	×
Abolition of PRSI contributory ceiling for employers	neutral	neutral		×
Reduction of social insurance contributions for the self-employed	neutral	neutral		×

Legend: + implicates that the implemented measure had a positive effect for the group indicated. – implicates that the reform negatively effects ‘insiders’/‘outsiders’. × indicates which dimension the legislative change predominantly affects.

many but also Switzerland. Nonetheless, the examined reform processes illustrate the proposed mechanisms very well. The 1996 Social Welfare Bill in particular exemplifies the impact that ideologically diverse party governments have on the design of social policy reforms and the reactions of the parties in opposition. Whereas the ‘rainbow-coalition’ government aimed at generating a more inclusive society by strengthening the redistributive effect of the welfare state system, the opposition called for tax cuts and/or a reduction of debts. However, the government did not care and did not have to care since the opposition did not have any leverage or the possibility to block the government’s plans. If the left-wing government had faced institutional constraints, it would have had to accommodate the conservative opposition and cut spending or at least could not have increased spending as much. The strong focus on the needs of the ‘outsiders’ (the long-term unemployed, mainly) would not have been possible within an institutional system where constraints are high. Such comprehensive measures directed at outsiders would not have been possible if the government had had to gain the support of the opposition as is the case in a high institutional constraints country.

The second Social Welfare Bill/Budget analyzed in this chapter exemplifies how different the focus of a conservative government is. Quite similar to the critiques expressed during the parliamentary debate in 1996, the governing coalition between Fianna Fáil and the Progressive Democrats mainly focused on cutting taxes. The effect for the ‘outsiders’ was marginal. The increase to benefits offered by the government hardly covered the increasing costs of living, a fact that has been widely criticized by the labor unions. They made clear that the benefits offered to their clientele (mainly ‘insiders’) in this package were close to the minimum that they would accept. However, in a setting where institutional constraints are low, governments do not need to accommodate the ‘insiders’ and conservative governments put little or no emphasis on improving the situation of ‘outsiders’.

Chapter 8

Germany

8.1 Introduction

Chapter 5 laid out the selection of countries and the choice of the policy field that I will scrutinize in the following chapters. To establish a common ground for the subsequent examination of particular unemployment benefit and labor market reforms in Germany, I first start with an overview of the German political system and historical background information about the economic environment prior to the reform processes. The two reform processes that I will examine in greater detail fall into two different legislative periods. The first reform took place under the last term of the Kohl government that consisted of a coalition between the Christian Democrats and the Liberal Party. The second reform was implemented by the Schröder-government, formed by Social Democrats and the Green Party that took office in 1998. Both reforms took place in a distinctive political and economic environment. The first reform was overshadowed by the declining popularity of the Kohl-government and an economic downturn, the second reform was initiated by the Schröder government at the end of his first term in office.

8.2 Institutional Framework and Political Actors

The institutional and political landscape of post-war Germany is characterized by a horizontal and vertical dispersion of power, a competitive party system and a stable relationship between politics, labor unions and employer organizations. In order

to understand the German institutional framework and the interactions between the various political actors, it is important to keep in mind that the Federal Republic is a relatively young state whose political institutions were re-constructed following the Second World War. They have been designed to ensure that a single political actor can accumulate only limited power.¹ The high horizontal fragmentation of political power results in multiple veto points and political constraints for policy-making on the national level.

The ‘*Bundesländer*’ are represented in the second chamber of parliament (‘*Bundesrat*’). Originally, the second chamber was thought to represent the interests of the ‘*Länder*’, but nowadays, it has become an additional forum for national party politics and competition over issues and policies. Nonetheless, although the second chamber (‘*Bundesrat*’) has the power to block legislative processes, this happens only occasionally.² Still, the ‘*Bundesrat*’ is important in shaping legislation and also is able to prolong legislative processes, especially when the opposition has a majority in the second chamber. This was the case during the following years: 1972-1982, 1991-1998, and 1999-2005.

Despite the federal structure, social policy-making is mainly done at the national level, something that is common to all three countries included in the second part of the empirical analysis. The national character of social policy is also emphasized by the role that the ‘*Bundestag*’, which is the lower chamber of the parliament, plays in social policy-making. Most of the legislative action takes place within this chamber. In comparison, the lower chambers in Switzerland and Ireland are similarly important for the legislative processes. The fact that the lower chambers are functional equivalents in each of Switzerland, Germany and Ireland facilitates the task of comparing policy-making processes across the countries.

¹Two examples that greatly influenced policy-making in Germany are the independent and powerful central bank ‘*Bundesbank*’ and the strong federal constitutional court (‘*Bundesverfassungsgericht*’). Both institutions have the capacity to either limit the government’s room to maneuver or to alter/block legislative acts in retrospect. Compared with other western countries, the ‘*Bundesbank*’ always enjoyed a high degree of autonomy and was considered to be the most powerful central bank in the west (Schmidt, 1987, p. 150). Because of the impact that the constitutional court has on legislative action and politics, scholars framed the term ‘governing with judges’ (see e.g. Stone Sweet, 2000). The reason why both institutions are equipped with far-reaching competencies is related to past experiences with totalitarian regimes.

²According to Brunner and Debus (2008, p. 235) only 66 out of 6107 (1.1 percent) legislative proposals requiring the consent of both chambers (‘*zustimmungspflichtige Gesetze*’) have been blocked by the ‘*Bundesrat*’.

Party System and Party Competition

Political parties are crucial actors in the policy-making process. It is mostly through political parties that the political will and policies are shaped in representative parliamentary democracies. According to the theoretical framework, the reform processes that I will analyze should be influenced by party preferences and party politics. Therefore it is useful to highlight the most important features of the country's party system. According to the German constitution, party competition plays an essential role in the development of policy programs. The notion of 'Germany as a party state' (*Parteienstaat*) describes the important role that was granted to political parties by the German constitution.³

Historically, the political landscape was dominated by the Christian Democrats (*Christlich Demokratische Union*, CDU) and the Social Democrats (*Sozialdemokratische Partei Deutschlands*, SPD). They took turns in governing or occasionally governed together in a 'grand coalition'.⁴ The third major party, the Liberal Party (*Freie Demokratische Partei*, FDP), has been acting as a pivotal player between the two mass parties (Schmidt, 1987, p. 163). According to Blondel's categorization of party system, which takes into account the number and the importance of parties, Germany had a 2 1/2 party system, with the FDP being the 'half-party' (Blondel, 1968, p. 184f).⁵ Both, the CDU and the SPD are *Volksparteien*, or so-called mass-parties, whose constituencies are not merely class-based.

The first success of the Green Party at the national level in 1983, slightly changed the post-war party system and balance between the different parties. Fragmentation of the party system increased further after the first elections in the unified country were held in 1990. Due to exceptional rules, the former Communist Party (*Partei des Demokratischen Sozialismus*, PDS), entered the *Bundestag* without surpassing the 5 percent hurdle. This was achieved by winning the minimum number of direct mandates required. In the 1994 national elections, the PDS successfully defended these (direct) mandates and was able to stay in the parliament. The increasing

³'Party state' mainly refers to the constitutional will that the Federal Republic be governed by competing parties. The German constitution is much clearer about the importance and tasks of the political parties than the Swiss constitution, for example. The prominent role of political parties is additionally strengthened by the fact that parties are to a large extent financed by the state.

⁴The first 'grand coalition' was led by Kiesinger (CDU) between 1966 and 1969. The second 'grand coalition' was led by Merkel (CDU) between 2005 and 2009. 'Grand coalitions' occur more often on the state level (see e.g. Shikano and Linhart, 2010; Schniewind, Freitag and Vatter, 2009).

⁵Between 1957 and 1983 these three parties (together with the CSU, the Bavarian sister party of the CDU, were the only ones represented in the *Bundestag*'. The major reason why small and niche parties are not represented in the national parliament is a 5 percent hurdle that artificially limits the number of parties entering the *Bundestag*'.

support for the Green Party, together with a revitalization of the party system after reunification increased the number of parties competing for seats and the variety of policies espoused at the national level. Even though the PDS enjoys strong support in the eastern part of Germany, its success in the old *'Bundesländer'* is very limited. Limited support in the West and a pronounced leftist manifesto are the reasons why the PDS is considered unsuitable for coalition on the national level.⁶ Therefore, it is mainly the Green Party that is considered to be a viable left-wing coalition partner for the SPD on the national level.⁷ Due to the gradual transformation of the party system, the FDP lost its role of pivotal player and the power to make or break a government.⁸ Since 1998, it is the SPD that has had the most options to form a coalition government on the national level.

In many ways, the development of the German party system resembles changes in other Western European party systems. The number of parties represented in parliament has increased during the last decades in many European countries. This is true for Switzerland and Ireland as well.

Trade Unions and Employers' Organizations

Important with regard to the case studies and the research question of this project is the interaction between interest groups and politics. Both unions and employers' organizations have vested interests in unemployment legislation. Although the agreement of the peak organizations is not formally needed to reform social policies in Germany, unions and employers' organizations have been and still are important political actors. Although the industrial relations in Germany are corporatist, the German type of corporatism differs from the Swedish or Austrian corporatism. The latter is more centrist and the government plays a more important role than in Germany. Due to the fact that state intervention is absent in Germany, German industrial governance is not tripartite but mostly bilateral (where bilateral consultations and negotiations are also held between labor unions and the government, and employers' organizations and the government).

⁶However, Mecklenburg-Vorpommern and Berlin were governed by a coalition that included the PDS.

⁷On the national level the Green Party was part of the government coalition only once, together with the SPD. More recently, coalitions between the Christian Democrats and the Green Party have been formed on the sub-national level (e.g. in Hamburg 2004).

⁸Until 1998 (and with a short exception between 1966-1969 when Germany was governed by a grand coalition for the first time) the FDP was always part of the government.

Industrial relations in the postwar era were very robust and stable with strong and independent trade unions and employers' organizations. These characteristics contributed to economic success after World War II. The key features of the German model, has are still in place but have started to show signs of decay (see e.g. [Streeck and Hassel, 2003](#); [Streeck, 2003](#); [Manow, 1997](#); [Hassel, 1999](#)). They can be summarized by the following three points:

- Collective agreements are negotiated between the peak organizations (*'Tarifautonomie'*) without the interference of the central government. The coverage of the collective agreements was broad and stable even when union membership and density started to decrease in the 1990.⁹
- Unions and employers' organizations are organized by industry and by sector. The collective bargaining processes take place within the sector, but are highly coordinated between sectors and across regions. This ensured high and egalitarian wages across sectors and regions. Coverage of the collective agreements has been broad and encompasses most companies.
- Industrial conflict in Germany was remarkably low. Only Switzerland and Austria have a similarly low number of strikes ([Schmidt, 1987](#)). One of the reasons why unions only rarely invoked strikes is the good relationship between unions and employers' organizations, which invest in vocational training and competitive products.

After the reunification of Germany, the system of industrial relations was extended to the new *'Bundesländer'*, and the way in which the German model functions has not altered profoundly ([Manow and Seils, 2000b](#), p. 137). However, with the increasing internationalization of the economy, the German model of broad sectoral agreements came under pressure, mainly because companies are differently affected by globalization and structural change. During the last decade a trend towards the decentralization of bargaining was observed and in some sectors agreements are reached at the plant level rather than at the sectoral level. Additionally, fewer workers councils are formed at the firm level. These councils are important to pass on firm-specific interest to the unions. They are also important to recruit new union members.

⁹Union membership and density in Germany was relatively stable between 1960 and 1980. During the 1980s, however, union density decreased. This trend was shortly stopped due to reunification. However, after the peak in the early 1990s, union density started to decrease sharply (see e.g. [Fitzenberger, Kohn and Wang, 2006](#); [Wallerstein and Western, 2000](#); [Schnabel and Wagner, 2005](#)).

Even though union membership has been decreasing and the strong focus on sectoral agreements has weakened during the last years, unions and employers' organizations remain important political actors in social policy-making. Often members of peak-organizations are invited to commission hearings in parliament to present their opinions on reform plans or to act as experts on behalf of the semi-sovereign unemployment insurance companies. Therefore I will empirically analyze the policy positions of the peak organizations in the most important economic sectors.

8.3 Economic Environment From the 1970s until the Mid-1990s

Before the German economy was hit by the first oil-crisis in 1973, the period after the Second World War up to the starting point of the macro-level analysis presented in Chapter 3 was a story of success. The German economy was characterized by high economic growth rates and low (or literally inexistent) unemployment. The German '*Wirtschaftswunder*' (economic miracle) benefited from several factors. First, the stable relationship between employers' organizations, trade unions and the government (see previous paragraph) created an inclusive environment in which conflicting interests were channeled without leading to disruptive conflicts. Second, the decentralized political system, where the state has limited capacities to interfere, provided business with the necessary entrepreneurial freedom.¹⁰ In addition to the favorable domestic institutional setting, the international economic environment was stable and the Bretton Woods system of fixed exchange rates was still working.¹¹

Starting in the early 1970s, the steadily running motor of the healthy German economy began to falter. One of the reasons for this was the breakdown of the Bretton Woods system in 1973. Together with the first oil-crisis, the end of the international monetary order negatively affected the industrial sector in most western European economies.¹² At the beginning of the 1970s, economic growth declined sharply and even became negative in 1974. The German economy was able to recover quickly, but the second oil-crisis in 1979 again led to a steep decrease in economic growth. After

¹⁰Katzenstein (1987) described Germany as a semi-sovereign, weak state. According to Streeck (2003) the German economy and welfare state benefited from this weakness during the years of the economic miracle. However, this former strength of the German institutional setting is now considered to be a weakness.

¹¹The Bretton Woods agreement was crucial to the period of economic development after the Second World War, often referred to as the period of 'embedded liberalism' (Ruggie, 1982).

¹²The collapse of the international financial system together with the first oil crisis led to a joint increase in inflation and unemployment caused by declining demands, a phenomenon called stagflation.

Figure 8.1: Annual Economic Growth Rates in Germany: 1970-2005



Source:

OECD Factbook (2008)

the second oil shock, the German economy did not fully recover for years, and growth rates remained below the OECD average for ten consecutive years, starting in 1977.

Several factors explain why the German economy increasingly faced problems from the mid-1980s:

- The traditionally strong industrial sector found itself under more and more pressure during the early 1980s. The export oriented German industry, had benefited from the chronically undervalued Deutsche Mark during the Bretton Woods system of fixed exchange rate. However, it came under pressure when the German ‘*Bundesbank*’, committed to price stability and low inflation rates, followed a restrictive monetary policy. This caused a gradual increase of the D-Mark compared to the US Dollar between 1975 until the early 1990s (see e.g. [Manow and Seils \(2000a\)](#), [Scharpf \(2000a, ch. 2\)](#); [Schmidt \(1987, p. 153\)](#)).
- The shrinkage of the industrial sector during the 1970s and 1980s transformed Germany into a post-industrial society, where more than half of the economic product was produced in the service sector. Although the service-sector contributed a major share to the gross national product, employment in this sector did not grow accordingly. The main obstacle to job creation in the low-wage sector is the relatively high non-wage labor costs that are characteristic of Germany. Since most jobs in the service sector belong to the low-wage category, employers in this sector remained reluctant to create new jobs. Additionally, skill formation in Germany is strongly related to the respective industrial sector in which workers are employed and hence is not easily transferable to a different sector (see [Thelen, 2004](#); [Hall and Soskice, 2001](#)). The relatively low and slow job growth in the service industry largely contributed to the rising level of unemployment.
- Employment relations in the German industry are traditionally based on long-term and full-time contracts. The ability of employers to dismiss individual workers is heavily restricted. Hence, the rigid German employment regulations did not allow business to adjust to the rapidly changing economic conditions and the increasing importance of technologic innovation ([Kitschelt and Streeck, 2003](#)). 4) In addition to the aforementioned factors, the decentralized political system and the federal veto points made it difficult to efficiently reform the relevant economic policies.

With the achievement of near full employment during the 1960s (between 1960 and 1973 the average level of unemployment was 0.8 percent ([Schmidt, 1987](#),

Figure 8.2: Unemployment Rate in Germany (as % of Total Labor Force)



Source: Comparative Welfare States Dataset (1997/2004) and OECD Factbook (2008)

p. 140), Germany was taken aback by the sudden and steep rise in unemployment. The German population considered full employment to be the norm rather than the exception (see e.g. [Bleses and Seeleib-Kaiser, 2004](#)). By the mid-1970s the level of unemployment reached 4 percent and subsequently fell below this level only for a very short period at the beginning of the 1980s. During the late 1990s, unemployment rose again to unprecedented heights, with a peak of 9.4 percent in 1997. Whereas the unemployment rate in most OECD countries started to decrease at the beginning of the 1990s, unemployment in Germany further increased and was significantly above the OECD mean until 2005. The high level of unemployment, which is influenced by rigid legislation, stands in stark contrast to the persistently positive performance of the German economy in general.

In order to smooth out structural change and help firms to downsize their labor force, German employers' associations and unions negotiated generous programs to facilitate early retirement.¹³ The option for early retirement subsidized by the government resulted in a lower official unemployment rate. In other words, the government directly helped to cushion the structural change of the economy and offered the industrial sector to partly externalize the costs of structural adjustment (see [Manow and Seils, 2000b](#)). This pattern was already established during the 1970s and contrasts with the otherwise reluctant attitude of German politics to interfere in the economy.

Apart from the increasing level of unemployment and slower economic growth caused by structural change (which affected all post-industrial societies), the German economy, compared to other OECD countries, was still prosperous and internationally competitive. Even the heavy financial burdens caused by the re-unification process with the former German Democratic Republic did not change this picture. As the figure 8.1 shows, the economy recovered surprisingly quickly after the reunification shock in 1992/1992. The overall economic success of the German industry in an open economy mainly relies on a skilled work force and a focus on producing high quality products rather than low-cost goods.¹⁴ The success of the social market economy (*'soziale*

¹³The negotiation and establishment of early retirement programs became a recipe often used by German governments and peak organizations. The first legislative act facilitating early retirement was implemented during the economic crisis of 1929/1930. Subsequently, German governments regularly helped to facilitate withdrawal from work (see [Ebbinghaus, 2006](#); [Trampusch, 2005](#)).

¹⁴In the 'Varieties of Capitalism' literature ([Hall and Soskice, 2001](#); [Thelen, 2001](#)), Germany is the most typical proponent of a 'coordinated market economy'. The competitive advantages of 'coordinated market economies' in the global economy rely on several factors: 1) a particular financial system that offers long-term support for firms allowing them to develop long-term strategies; 2) long-lasting work-contracts and strong commitments of the employees to their employer; 3) industry-level wage bargaining; and 4) an education and training system that produces highly skilled workers.

Marktwirtschaft'), as the interplay between the economy and politics in Germany is often called, has proved to be successful during most times.¹⁵

8.4 Welfare State Development

According to Esping-Andersen's (1990) well-known typology of welfare states, Germany represents the ideal type of a continental welfare state.¹⁶ Synonymously, the terms Bismarckian welfare state or 'social insurance' state are used to characterize the German welfare state. In a social-insurance based welfare state, the key social security programs (e.g. pension, sick-pay, unemployment insurance) are organized as insurance schemes. Although membership is compulsory, it is not universal and is mainly linked to (regular) employment and previous contributions.¹⁷ It was Bismarck who brought social insurance bills into the parliament where they passed after lively and controversial debates (see Alber, 1986, p. 5). The first social insurance schemes were implemented in the late 19th century and protected blue-collar workers against sickness (implemented 1883); industrial accident (1884) and old age (1889). In 1911 these three individual legislative acts were combined in a single act which led to the first National Insurance Code (*Reichsversicherungsordnung*). A contributory unemployment insurance scheme was not added to the system until 1927.¹⁸ The implementation of social insurance schemes was made necessary by new demands created by the gradual industrialization.

From the beginning, the emphasis was on cash-benefits. Workers and employers equally contributed to the social insurance scheme, and the aim of the newly implemented policies was to maintain the income of the worker in case of illness and after retirement (see Alber, 1986, 1987; Bleses and Seeleib-Kaiser, 2004). Although financial contributions by the state were minimal, the parliament and the government were always responsible for the design of the legislative acts. Compared to other Eu-

¹⁵The 'social market economy' describes a system where the state is setting the regulatory framework for the economy without suppressing competition and other basic elements of free markets.

¹⁶The other two categories in Esping-Andersen's typology are social-democratic (or Scandinavian) welfare state (with Sweden as a typical example) and the liberal welfare state (with the UK as a typical example).

¹⁷Social insurance welfare states differ from universalist welfare states in which benefits and entitlements are usually means-tested and not (exclusively) bound to previous contributions to the relevant scheme. The Scandinavian welfare states are considered to be universal (Esping-Andersen, 1990). See Bergh (2004) for a recent re-evaluation of the universality of Sweden's welfare state and a critical discussion and characterization of the term 'universal'.

¹⁸The relatively late introduction of the contributory unemployment insurance scheme was not unique to Germany. Most other industrializing European countries also implemented pension and sickness schemes first (see Mares, 1997, 2000).

European states at that time, Germany had a very advanced social security system with a pioneering character.

During the Second World War, most parts of the social insurance schemes remained largely intact and some aspects of welfare state policy were even expanded. For instance, compulsory pension insurance was extended to self-employed people, and policies targeting families were implemented. The National Socialist regime did not dismantle the welfare state because it was dependent on the public support of the work force. The maintenance and partial expansion of the social insurance schemes was one way to stabilize the regime (see [Reidegeld \(2000\)](#) and [Alber \(1986, p. 10f\)](#)). However, the formerly autonomous and self-administrated insurance bodies were abolished by law in 1934, and the system was run by the state authorities during the war. After the defeat of the regime, the pre-war status quo was restored and consolidated by the implementation of the Social Insurance Adjustment Law in 1949 (*‘Sozialversicherungs Anpassungsgesetz’*). This law, though heavily amended, is still in use. Recommendations by the Allied forces to reorganize the system and implement social policies based on the principle of ‘social citizenship’ were not taken into account.¹⁹ The post-war years were the most successful years of the German welfare state. The insurance schemes all benefited from the fast economic recovery and very low unemployment rate (between 1964 and 1973, the mean unemployment rate was 0.7 percent (see [Bleses and Seeleib-Kaiser, 2004, p. 22](#)).

The following principles summarize the German social security system:

- Membership in the social security insurances is compulsory. However, the insurance schemes are not administered by the federal state but by autonomous bodies.
- The entitlements to the various benefits are tied to past contributions to the relevant insurance schemes and are earnings-related rather than means-tested.²⁰
- The financing of the social insurance funds is based on equal contributions by workers and employers with additional, but minor, contributions from the government.

¹⁹To base the social security system on the principle of ‘social citizenship rights’ would have been to change the paradigm established during the pre-war decades and to move away from an insurance based system towards a more universal system. The notion of ‘social citizenship rights’ goes back to the seminal work by [Marshall \(1992, first published: 1950\)](#) who distinguished between civil, political, and social rights.

²⁰During the 1980s, the insurance-based system was weakened and steps towards a more universalistic system were made. However, this change mainly concerned the pension scheme (see e.g. [Jochem, 2001, p. 200f](#)).

These principles have shaped the development of the social security system and the functioning of the welfare state until today. Even though social policies in most mature welfare states are in flux, scholars agree that Germany continues to be a typical proponent of a continental welfare state. Social policies in continental welfare states are typically geared towards a male breadwinner whose income is needed to support the dependent family.²¹

The benefits provided by the insurance system ensure that the living-standard of the insured person can be kept maintained in case of unemployment, sickness/disability, and retirement. The strong focus of the social insurance system on the male breadwinner is due to the dominant role Christian that democratic parties played in the development of the welfare state. Their view of the ‘ideal standard family’ was based on a single (male) wage earner with women fulfilling the role of caretakers for children or elderly people.²² The strong impact of a conservative approach based on Christian values led to the relatively late development of child and elderly care policies and a rather low level of female labor market participation. The strong and expansive German welfare state that emerged in the aftermath of World War II was mainly made possible by the German ‘*Wirtschaftswunder*’. Until the 1970s, Germany had the most expansive and expensive welfare state in the Western world. Its institutions are widely supported and because the Social Democrats but also the Christian Democrats were equally engaged in building up and implementing the various programs, reforms are usually highly contested and difficult to realize.

²¹The characterization of Germany as a welfare state centered geared towards the ‘male breadwinner’ was brought forward by [Lewis and Oster \(1994\)](#) who criticized the existing categorizations of welfare state as neglecting the role of women and the family. Their typology differentiates between welfare states with a strong focus on the ‘male breadwinner’ in which women are treated as dependent wives with regard to their social benefit rights, and others less focused on the ‘male breadwinner’, where women and other family members enjoy the benefits of social policies regardless of their family status or the (employment) status of their husband. A country falling into the second category is Sweden, where women much more participated in the labor market more than their counterparts than in continental European states.

²²This view has its origins in the Christian/Catholic principle of ‘subsidiarity’, according to which the responsibility for providing help and care should always lie with the smallest unit (e.g. the family rather than the community or the state). Welfare state policies in Germany and other countries with strong Christian-democratic parties are heavily influenced by this principle. For a more detailed discussion of the impact of the subsidiarity doctrine, see [van Kersbergen and Manow \(2009\)](#); [Lewis and Oster \(1994\)](#). Scholarly interest in the impact of Christian-democratic parties on welfare state development and policies has increased recently and studies emphasize the importance of Christian-democratic parties in the development of various continental welfare states (see e.g. [Seeleib-Kaiser, van Dyk and Roggenkamp, 2008](#); [Manow and van Kersbergen, 2008](#); [van Kersbergen, 1995](#)).

8.5 Empirical Analysis of Recent Labor Market Reforms

The German unemployment insurance law is divided into two tiers. My analysis will focus on reforms that belong to the first tier of the unemployment insurance law, i.e., the unemployment insurance benefits (*‘Arbeitslosengeld’*) rather than the unemployment assistance benefits (*‘Arbeitslosenhilfe’*). The two schemes differ with regard to their payments, administration and eligibility requirements. Whereas the unemployment insurance benefits are earnings-related, the unemployment assistance benefits are means-tested. In a manner similar to Switzerland and Ireland, labor market policies and employment protection are mainly based on national legislation. The following table gives an overview of the most important labor market reforms, including reforms that are directly related to the unemployment insurance scheme (including active labor market policies, but not showing the various changes related to working hours and changes to the old-age part time scheme, etc.).²³

Table 8.1: Reform Processes in Germany

Year	Title of the Reform	Party Government
1991	Act of 21 June 1991: Amending the provision of the employment promotion act and other provisions of social law (the amendments mainly concern the employment provision act of 25 June 1969. Contribution Rate Adjustment Act (increase of unemployment insurance benefits).	Coalition between CDU/CSU and FDP
1992	Legislative act amending the decree on the period for the drawing of compensatory benefit for short time working in case of structural unemployment	Coalition between CDU/CSU and FDP
1993	Amendment to the Employment Promotion Act (<i>‘Arbeitsförderungsgesetz’</i> , AFG); focusing on active labor market policies, but also includes changes regarding the eligibility and the duration of benefits	Coalition between CDU/CSU and FDP
1994	First Act to realize the ‘Saving, Consolidation- and Growth Program’ (<i>‘Erstes Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms’</i>); focusing on active labor market policies, adjusting particular unemployment benefits for target groups (bad weather benefits), various other changes affecting benefits.	Coalition between CDU/CSU and FDP

²³The table draws on the information from <http://dip.bundestag.de/> (the legislation data base of the German *‘Bundestag’*), Ebbinghaus and Eichhorst (2006), Aust, Bönker and Wollmann (2002), and the NATLEX database <http://www.ilo.org/dyn/natlex/>.

Table 8.1: *continued*

Year	Title of the Reform	Party Government
1994	Employment Promotion Act 1994 (<i>'Beschäftigungsgesetz, BeschfG'</i>); Labor market policies targeting part-time workers, implementation of short-term training programs without losing unemployment benefits. Measures targeting people older than 58 years. Other minor adjustments to the SKWPG program.	Coalition between CDU/CSU and FDP
1996	Unemployment Assistance Reform act. Adjustments to parts of the employment promotion act. Introduction of the old-age part time work (gradual retirement)	Coalition government, CDU/CSU and FDP
1997	First Act to amend the Third Book of the Social Code. Amends provisions of the Third book of the social code regarding payment of unemployment benefit and other laws. Reform of the employment promotion act (<i>'Beschäftigungsförderungsgesetz'</i>).	Coalition between CDU/CSU and FDP
1998	Act on the Reform of Employment Promotion, employment promotion is integrated into the Third Book of the Social Code (<i>'Sozialgesetzbuch'</i>), changes in the contributory system, new assessment periods for eligibility.	Coalition between CDU/CSU and FDP
1999	Second Act amending the Third Book of the Social Code (<i>'Sozialgesetzbuch'</i>). Amends Third and Fifth Book of the Social Security Code. Deals mainly with calculation and payment of unemployment benefits and measures aimed at employment creation.	Coalition between SPD and Bündnis 90/die Grünen
2000	Act on improving cooperation between labour offices and welfare institutions (organizational reform). Decree to provide for more efficient cooperation between labor offices and welfare institutions that provide benefits and assistance to the unemployed.	Coalition between SPD and Bündnis 90/die Grünen
2001	JobAQTIV Act (<i>'Gesetz zur Reform der Arbeitsmarktpolitischen Instrumente'</i>)	Coalition between SPD and Bündnis 90/die Grünen
2002	Hartz I and Hartz II (<i>'Erstes und Zweites Gesetz für Moderne Dienstleistung am Arbeitsmarkt'</i>). Approval by the government and Bundesrat in November 2002, coming into force in 2003.	Coalition between SPD and Bündnis 90/die Grünen

National elections held in 1990 (first election after unification), 1994, 1998, 2002.

The large number of reforms during this period shows that the unemployment insurance scheme was under severe pressure and that both the Kohl and the subse-

quent Schröder government put a lot of effort into restructuring the insurance scheme in attempts to loosen the rigid labor market regulations. Out of the reforms included in the table above, I will analyze the ‘*Beschäftigungsförderungsgesetz*’ from 1994 (Employment promotion act) and the 2001 JobAQTIV reform. The first reform took place under a conservative party government and the second reform took place during the first term of the red-green coalition government. The first reform process analyzed here only brought rather limited changes in social policy. The second reform process is often considered to mark a change of paradigm in labor market policy-making and social policy. Even though the JobAQTIV legislation is not as comprehensive as the following ‘Hartz-Reforms’, it is the first reform that followed the principle of ‘*Fördern und Fordern*’, which established a more active labor market policy. The so-called Hartz-reforms were negotiated at the very end (and after) the period that is covered by the quantitative analysis and were implemented only after 2002. I therefore refrain from taking into account the Hartz-reforms. For each reform, I will proceed as follows. First, the content of the reform proposal is quickly described and located in the two-dimensional policy space. Second, the positions of the involved actors will be analyzed based on parliamentary debates and written documents prepared for the consultation process. Third, the legislation, which passed the parliamentary vote, will also be analyzed using the same criteria and the differences between the reform proposals and the final reform will be discussed and set in the wider context of the project.

8.6 Beschäftigungsförderungsgesetz (BeschfG1994)

Even though the first Employment Promotion Act goes back to 1969, the ‘*Beschäftigungsförderungsgesetz*’ (BeschfG1994) was one of the early legislative instruments that focused on active labor market policies. During this period, the discourse on labor market policies in Germany (as well as in other European countries) changed from more passive labor market policies, such as provision of benefits, towards policy measures aimed at the activation and reintegration of the unemployed into the labour market. There was also a move towards taking action to restructure the labor market in order to generate new jobs or preserve those already in existence.

The reform bill was presented by the conservative CDU/CSU/FDP government. The parliamentary committee for work and social issues (‘*Ausschuss für Arbeit und Soziales*’) was leading the drafting process of the reform. According to the government, the reform of the ‘*Beschäftigungsförderungsgesetz*’ was necessary to address the problematic situation of the German labor market. Unemployment was persistently

high and the rigidity of the German labor market additionally increased the reform pressure.²⁴ After German unification, the unemployment level increased from roughly 5 percent (in 1990) to 8.5 percent in 1994. During the same period social expenditure increased from 22.5 percent in 1990 to 26.1 percent in 1994 (source OECD Factbook 2008). These factors immensely increased the pressure on the expenditure dimension.

The following peak-organizations participated in the public hearing and submitted written statements to the leading commission. On the employer side, the policy positions and arguments of the *'Bundesvereinigung der Deutschen Arbeitgeberverbände'* (BDA), the *'Arbeitsgemeinschaft der selbständigen Unternehmer'* (ASU), the *'Deutscher Industrie- und Handelstag'* (DIHT), and the peak-organization of the craft-men (ZDH) are the most important ones which are covered in this analysis. With regard to labor unions, I analyze the role of the DGB (*'Deutscher Gewerkschaftsbund'*), the DAG (*'Deutsche Angestelltengewerkschaft'*) and the ÖTV (*'Gewerkschaft Öffentliche Dienste'*).

The main issues of the reform can be classified along the two dimensions as follows. On the redistribution side, self-employment is encouraged by the continuing payment of benefits for a period of six months when an unemployed person starts a business. This support is provided by the unemployment insurance scheme and is equal to the last unemployment benefit/unemployment assistance that the person was entitled to. This reform issue was mainly targeted at skilled lower-middle class craftsmen and highly-skilled workers. It mostly favors the electorate of both the CDU/CSU and the SPD because they both rely on the support of these societal groups.

The second issue is the promotion of part-time work. Employees giving up a full-time job for part-time employment continue to be entitled to unemployment insurance benefits based on their previous (full-time job) income. This entitlement is valid for a period of three years. Unemployed people accepting a part-time job, even when they were looking for a full-time position, will receive payment of the difference between a full-time and a part-time salary from the unemployment insurance scheme. According to the governing parties, the promotion of part-time jobs would create additional jobs and increase the flexibility of the labor market. The impact of this law to some extent favors the less privileged in society, at least for the three-year period after changing from a full-time to a part-time job. The government emphasized that women and low-skilled workers would be the beneficiaries of this change. Less

²⁴See also *'Beschlussempfehlung und Bericht des Ausschusses für Arbeit und Sozialordnung'* – 11. Ausschuss (1994a, p. 1f): *'The German 'Bundesrepublik' is in a difficult economic transition period. [...] It is necessary to exploit the existing room to maneuver in order to improve the conditions for the effective adjustment of demand and supply on the labor market [...].'* Authors translation.

privileged sections of the work force would be encouraged to participate in the labor market and be offered better conditions by guaranteeing their entitlements, at least for a limited period.

However, the overall reform does not affect the contributory scheme of the unemployment insurance, i.e. employees with low and high income still contribute the same percentages of their salary. This is largely in line with the preferences of the conservative party government that adheres to a pure insurance design. The following table shows the main issues of the reform:

Table 8.2: Relevant Reform Issues Employment Promotion Law 1994

Dimension I: Redistribution	Dimension II: Expenditure
Adjustments for part-time workers (eligibility for unemployment benefits)	New regional placement agencies administered by private organizations
Improvement of social welfare of employees, changing from full-time work to part-time work	Cutting salaries of jobs in (public) employment schemes Duration of benefits (target: people setting up their own business)

On the expenditure axis, the major issues proposed by the government concerned the introduction of private placement-centers with the aim to bring unemployed people and potential employers closer together. The *‘Bundesanstalt für Arbeit’* was often criticized for being too slow in reacting to changes on the labor market and therefore not being able to efficiently help unemployed people. Competition between private and public placement centers should have a vitalizing effect on the labor market. According to the proponents, the structural changes of the economy call for more flexible arrangements than the public placement centers are able to offer. The idea underlying this policy was to reduce expenditures through a market-oriented approach, an idea proposed by the (market-) liberal Free Democrats, which were part of the coalition government. The second issue on the expenditure dimension was the implementation of restrictions on salaries/benefits for people employed in the so-called ‘second labor market’ (the ‘second labor market’ refers to jobs that are subsidized by the government). Their wages should not exceed 80 percent of the salaries paid to

employees in the main job market. Again, this measure should encourage people to give up subsidized jobs and accept a regular work relationship.

8.6.1 Actor Positions on Redistributive Issues

The governing coalition stressed that the existing number of part-time jobs was insufficient. Gisela Babel (FDP) emphasized that *we are convinced that there are enormous reserves [for part-time jobs]. We all agree that with more flexible allocation of labor we can include more people into the labor market*, (parliamentary minutes, 12. Wahlperiode, 219. Sitzung, [14.04.1994b](#), p. 18932). Even though the Social Democrats and the Green Party generally agreed that the creation of part-time jobs should be supported, the government proposal was not well received by the opposition and was heavily criticized in the debate. The most important critique was that the job creation program would simply turn out to be a measure to help companies to create part-time jobs that are not protected by social security schemes. Gerd Andres (SPD): *'I would like to share the view that several part-time jobs evolve out of one full-time job. However, the reality, which is unfortunately characterized by the fact that more and more protected full-time jobs are converted into unprotected part-time jobs, has to be taken into account'* (parliamentary minutes, [14.04.1994b](#), p. 18943 [The following translations are all those of the author]).

Policy Positions for the Issue 'Promotion of Part-time Jobs'	
<i>Against Proposal</i>	<i>Support of Proposal</i>
Social Democrats (SPD)	Christian Democrats and Christian Social Union (CDU/CSU)
Bündnis90/Die Grünen	Liberal Party (FDP)
PDS/Linke Liste	BDA
ZDH	DAG
DGB	ASU
ÖTV	

And the Green Party added that *'the promotion of part-time jobs is a reasonable plan, [...] but as for the other parts of the suggested reform, an overall concept is missing,'* (parliamentary minutes, 219. Sitzung, [14.04.1994b](#), p. 18938). The par-

liament clearly admitted the need for more part-time jobs (Germany was one of the countries with the smallest percentage of part-time jobs available). However, the left-wing parliamentarians expected that the creation of part-time jobs, as proposed by the *‘Beschäftigungsförderungsgesetz’*, will mainly create jobs that are unprotected by social insurances schemes (most social insurance schemes are tied to a normal work-relationship, meaning a full-time job).

More part-time jobs without major changes of the core-social insurances system would in the end lead to a reduction in redistribution and the exclusion of part of the work-force from the social insurance scheme. Generally, the social partners also agreed that part-time jobs should be promoted. However, they mainly disagreed with the means proposed by the incumbent. The ZDH (craftsmen employers organization) criticized that *‘the improvement of unemployment benefits for people accepting a part-time rather than a full-time job was inconsistent with the insurance principle and would manipulate the entitlement scheme [...]*, (comment FAO *‘Ausschuss für Arbeit und Soziales’*). On the union side, the ÖTV stated that *‘the measures are insufficient. In order to generate a significant impact, better social security measures for part-time employees are necessary*, (comment FAO *‘Ausschus für Arbeit und Soziales’*).

The second issue on the redistribution dimension concerned the additional unemployment insurance benefits of 26 weeks for people starting their own business. The additional support was meant to encourage entrepreneurial people to set up their own business and in the end to create new jobs. This reform issue only had a temporary impact on redistribution and its scope was limited to those who had the capacity and background to establish a business on their own. Volker Kauder (CDU/CSU) from the government coalition stressed that *‘we need a huge self-employment-offensive. All experience shows that the self-employed create new jobs within very short periods. Unlike in the US and other European states, we have too few unemployed people that take the risk of starting their own business’* (parliamentary minutes, 219. Sitzung, 14.04.1994b, p. 1842). Even though the idea was well received, the opposition parties in parliament together with the peak-unions were against the plan as proposed in the bill.²⁵ Mainly because the deviation from the existing law was minimal and insurance benefits for a period of 26 weeks was not considered enough to establish a small and stable business. The employers’ organizations criticized the proposal for different reasons. The DAG mentioned in its comment that *‘the allocation of financial means for start-up firms and self-employment is not a core task of unemployment benefit insurance and*

²⁵Werner Schulz (Bündnis90/Die Grünen): *‘the idea that the government plans to improve the conditions for self-employment is not wrong. The measure, however, is insufficient’* (parliamentary minutes, 219. Sitzung, p. 18938).

Policy Positions for the Issue ‘Promotion of Self-Employment, 26 Weeks of Unemployment Benefits for Start-up Businesses’	
<i>Against the Government Proposal, Asking for Additional Support from Insurance Scheme</i>	<i>Support Government Proposal</i>
Social Democrats (SPD)	Christian Democrats and Christian Social Union (CDU/CSU)
Bündnis 90/Die Grünen	Liberal Party (FDP)
PDS/Linke Liste	BDA
ZDH	ASU
DAG	
DGB	
DIHT	
ÖTV	

contributors to it (written statement FAO the ‘*Ausschuss für Arbeit und Soziales*’). A similar argument was made by the DIHT. The main beneficiaries of this measure, however, were the well-educated and skilled people (the core workforce), who lost their job and decided to start something on their own.²⁶

8.6.2 Actor Positions on Expenditure Issues

Private placement centers should help to decrease costs and increase efficiency in the job market. These private centers should compete with the public placement centers. The service of the private placement centers will not be paid by the unemployed or by tax money but solely by firms and companies aiming to hire new employees. The implementation of private placement centers was contested and criticized by the opposition in the parliament. Whereas the CDU/CSU together with the FDP argued that the permission of private placement centers would bring jobs and the unemployed closer together and therefore increase the chances for unemployed people to find a job more quickly, the Social Democrats doubt that this change will have any effect on the

²⁶Evidence from more recent start-up programs show that only a small percentage of needy people start their own business [Wolff and Nivorozhkin \(2008\)](#) and though these self-employment programs of the German government have been positively evaluated, studies show that a large percentage of the recipients are male and have qualifications and skills which are above average ([Caliendo et al., 2007](#)).

number of jobs available. In addition, the SPD fears that private placement centers will mainly increase the headhunting capacities of bigger firms (see parliamentary minutes, 12. Wahlperiode, 14.04.1994b, p. 18930) whereas unemployed people with little education will not benefit from this change and will be left behind.

Policy Positions for the Issue ‘Implementation of Private Placement Centers’	
<i>Against the Government Proposal</i>	<i>Support Government Proposal</i>
Social Democrats (SPD)	Christian Democrats and Christian Social Union (CDU/CSU)
PDS/Linke Liste	Liberal Party (FDP)
Bündnis90/Die Grünen	BDA
DGB	DIHT
DAG	ASU
ÖTV	ZDH (development of new concept where private and public placement centers collaborate)

The conservative parties in government, especially the FDP, claimed that private placement centers are necessary to act as a role model for the public institutions and that the interest of private actors in offering these services has increased significantly (parliamentary minutes, 219. Sitzung, 12. Wahlperiode, 14.04.1994b, p. 18933). In addition, private placement-centers are more flexible and better able to establish closer ties with companies and firms, which will help them to fill open positions more quickly. Similar arguments are made by the employers’ organizations, who mostly welcome the proposal. The BDA claimed that the creation of private placement centers was long overdue (written statement FAO the ‘*Ausschuss für Arbeit und Soziales*’).

The left-wing parties did not agree that private placement centers would improve the labor market situation. They criticized the government of commercializing unemployment.²⁷ The PDS/Linke Liste also made the criticism that the targeted groups of the proposal are the highly educated and skilled workers and that ‘*unem-*

²⁷Gregor Gysi (PDS/Linke Liste): ‘[...] your arguments cannot hide the fact that the government is trying to commercialize unemployment with negative effects for the unskilled labor force. This is an attempt to set up a business to organize unemployment and the unemployed, rather than leaving the responsibilities with the public authorities’ (parliamentary minutes, 219. Sitzung, 12. Wahlperiode 14.04.1994b, p. 18936).

ployed people who are hard to place will be left behind, dependent on the public placement centers, whereas unemployed people with more options will be placed through private centers, (Gregor Gysi, parliamentary minutes, 219. Sitzung, 14.04.1994b, p. 18936). The DGB argued in the same direction, making the criticism that labor force will be traded like goods (*‘Beschlussempfehlung und Bericht des Ausschusses für Arbeit und Soziales’*, 1994a, p. 30).

The second expenditure issue concerns a decrease by 20 percent in the support and payments of employees in public job creation schemes. People working in public employment schemes should only get up to 80 percent of the salary that an employee in the first labor market would earn.²⁸ The government framed this reform issue as incentive for unemployed people working in the ‘second labor market’ to enter the first labor market again and stressed that more people will benefit despite cuts in individual earnings. The emphasis on job creation should be in the main labor market and subsidized jobs should be a temporary solution only.

Policy Positions for the Issue *‘Vergütung für Arbeitsbeschaffungsmassnahmen’*
(Job Creation scheme, setting an upper limit to salaries (max. 80 percent of
a salary in a normal work relationship)’)

<i>Against the Government Proposal (normal wages, less restrictions)</i>	<i>Support Government Proposal</i>
Social Democrats (SPD)	Christian Democrats and Christian Social Union (CDU/CSU)
PDS/Linke Liste	Liberal Party (FDP)
Bündnis90/Die Grünen	ASU
DGB	DIHT
ÖTV	ZDH
DAG	
BDA (Less Benefits, More Restrictions)	

The plan to cut compensations for people in job-creation schemes ran against strong opposition by the Social Democrats and the Green Party. The attempt to compensate people in employment schemes at a ratio of 80 percent was considered

²⁸The ‘first’ labor market is the common, competitive labor market. The so-called ‘second’ labor market refers to jobs within (public) job-creation schemes.

an attack on the tariff autonomy of the social partners and an effort to circumvent social partnership. Renate Jäger (SPD) claimed that: '[...] *it becomes obvious that the government is trying to suspend tariff autonomy and to establish low-wage jobs by law [...]. This is dangerous, especially now that the unions are willing to negotiate new collective agreements in some sectors.*' (parliamentary minutes, 12. Wahlperiode, 219. Sitzung [14.04.1994b](#), p. 18944). The DGB, together with the other unions, suspected that this measure would decrease the chances for people in the second labor market to be re-integrated into the normal labor market (see written statement FAO the '*Ausschuss für Arbeit und Soziales*'). Members of parliament from the government parties, however, replied that '*it is time to finally bury the fiction that subsidized jobs, created as a social-policy measure, are worth as much as jobs in the real labor market.*' (Heinrich Kolb, FDP, parliamentary minutes, 219. Sitzung, [14.04.1994b](#), p. 18946). In order to increase the pressure for people in the second labor market, the DIHT suggested a decrease in payments to people working in job creation schemes ('*Arbeitsbeschaffungsmassnahmen*') even more (50 percent instead of the proposed 80 percent) and criticized the government for not using the existing room to maneuver.

8.6.3 Political Constraints

The '*Bundesrat*' (upper chamber, representatives of the state governments) is the most important veto player in the legislative process. At the time when the '*Beschäftigungsförderungsgesetz 1994*' was debated in the two chambers, the SPD-led opposition had the majority in the '*Bundesrat*' (9 SPD vs 7 CDU/CSU '*Länder-representatives*'). The bill, which was heavily criticized by the SPD, the Green Party and the PDS/Linke Liste in the '*Bundestag*' would not have passed the SPD-dominated '*Bundesrat*'. However, there was disagreement as to whether or not the law needed the approval by the '*Bundesrat*' to pass. Whereas the governing coalition in the '*Bundestag*' claimed that the reform proposal did not need the approval of the upper chamber, the majority in the '*Bundesrat*' insisted that the legislative proposal included changes which touch on the competencies of the states and thus required the approval of both chambers.²⁹ Oskar Lafontaine, prime minister of Saarland, sharply criticized the reform proposal, mentioning the same points as the parliamentarians in the lower chamber (see '*Pro-*

²⁹The part of the reform, on the basis of which the '*Bundesrat*' claimed to have the right to approve/disapprove the bill is not examined in this case study. It concerned a passage that aimed at fighting illegal employment, which would have required the '*Länder*' to collaborate with the border police. This detail was overlooked by the drafting committee and offered the '*Bundesrat*' – at first sight – some leverage to block the law.

tokoll des Bundesrats, 669. Sitzung' 20.04.1994, p. 194A). Consequently, the bill was rejected.

After the defeat of the law in the *'Bundesrat'*, the *'Ausschuss für Arbeit und Soziales'* quickly redrafted the reform and eliminated the paragraphs that needed the approval of the states. These issues were integrated into a separate reform. The 'new' reform proposal contained the same key measures described in the previous paragraph, but did not need to be approved by the *'Bundesrat'* anymore. This strategic move allowed the coalition government to circumvent the *'Bundesrat'* and prevented a block of the reform process. Although the SPD-led *'Bundesländer'* and the opposition parties in the *'Bundestag'* heavily criticized this strategic maneuver, their hands were tied and the reform was finally approved after the fourth reading of the bill.

8.6.4 Discussion

The conflicting lines during the debates of this reform process are clear and correspond to the assumptions of the theoretical model. The government was under great pressure to reform the labor market in order to stabilize the social insurance scheme and ameliorate conditions in the labor market. The main issues included in the *'Beschäftigungsförderungsgesetz'* attempted at cutting expenditures for labor market policies and reducing the redistributive and encompassing effect of labor market policies. Most measures indirectly affected unemployed people negatively and made it more difficult for people with little education and professional skills to find a new job and to live on their unemployment insurance benefits or unemployment assistance.³⁰ Not all issues were contested by the opposition per se, but most of them, and especially the redistributive issues, were criticized. Moreover, the legislation that was finally implemented only offered superficial solutions to the more complex problem of the rigidity of the German labor market and the ongoing structural change to the German economy. Table 8.3 offers a summary and an overview of the most important reform issues implemented through the 1994 employment promotion law and also indicates how labor market 'insiders' and 'outsiders' were affected. The reform as whole did not dismantle the unemployment insurance scheme as such, e.g. it did not alter the contribution scheme or the entitlements for regular unemployed people and therefore affected the core of the redistributive scheme only in minor ways. One reason why the govern-

³⁰Gregor Gysi (PDS/Linke Liste): *I do not criticize the fact that the government aims at cutting expenditure or the opening up of new sources of income. I criticize that this reform is mainly at the expense of the weakest members of our society while the wealthy are always treated with care*, (see parliamentary minutes, 219. Sitzung, 12. Wahlperiode, 14.04.1994b, p. 18935).

Table 8.3: Reform Issues and Direction of Changes ‘*Beschäftigungsförderungsgesetz*’

Reform issues	Effect on		Dimension	
	‘Insiders’	‘Outsiders’	Redistribution	Expenditure
Promotion of part-time work (3 year top up if person takes a part-time job after being unemployed or changes from full-time to part-time employment)	+	–	×	
Start up help (‘ <i>Überbrückungsgeld</i> ’), additional six months of unemployment benefits if person starts a business	+	–	×	
Immediate eligibility to participate in qualification and training measures	+	–/+	×	
Reducing the salaries for participants in public employment schemes	+	–		×
Private placement centers	+	(+)		×

Legend: + implicates that the implemented measure had a positive effect for the group indicated. – implicates that the reform negatively effects ‘insiders’/‘outsiders’. × indicates which dimension the legislative change predominantly affects.

ment coalition between the CDU/CSU and the FDP did not draft a reform with a more radical impact on the redistributive scheme might have been the fact that the government could not count on the support of the Bundesrat. This argument will be further examined in an analysis of an additional reform process that took place under the Schröder-government (coalition between the SPD and the Green Party). His government had a majority in both chambers and did not need to fear the potential defeat of reform proposals in the Bundesrat.

8.7 Gesetz zur Reform der Arbeitsmarktpolitischen Instrumente 2001 (JobAQTIV)

In common with the preceding conservative government, the coalition between the Social Democrats and the Greens experienced significant pressure from high unemployment and a high budgetary deficit. When the government took office in 1998, the level of unemployment was at 9.3 percent. The reform of the labor market was thus a central issue in the social-democratic election campaign and was also a cornerstone of the coalition treaty and the government's program.³¹ However, before the government presented its own strategies and policies to address the condition of the labor market, it canceled some of the most recent measures by the conservative Kohl-government, specifically measures that were intended to deregulate the labor market, such as lower degrees of dismissal protection (*'Kündigungsschutz'*). The reversal of these laws was in line with traditional social democratic labor market policy-making in Germany that closely reflected the interests of the major labor unions. Nonetheless, the general direction of the Schröder government was more unconventional in the sense that it aimed at combining social democratic aspects of social policies with an integration of business preferences in an attempt to increase labor market efficiency.

At the beginning of the left-government regime, conflicts between Oskar Lafontaine, representing the traditional left wing of the German Social Democrats, and Gerhard Schröder, pursuing a reform-oriented 'Third-Way' approach, inhibited the development of a clear social policy path.³² Only after the unexpected resignation of Lafontaine as Minister for Finance in March 1999, the government's social policy reforms took shape. In order to meet the promises made during the campaign, the government also re-established the 'Alliance for Jobs' (*'Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit'*).³³ After Lafontaine resigned, the government's labor market policy shifted from a focus on income protection towards the re-activation of the unemployed workforce. The JobAQTIV legislation was the first step in this direction by the newly elected left-wing government and therefore is a relevant policy reform for

³¹One of the declared goals of the Social Democrats emphasized during the election campaign was to significantly decrease the number of unemployed people from 4.2 to 3.5 millions.

³²In 1999, Gerhard Schröder published a paper together with Tony Blair on the future of European Social Democracy. The paper aimed at bringing together traditional social democratic values such as equality, fairness, and solidarity together with a pragmatic economic policy. In their view, economic policy-making should not be ideologically grounded but should take into account globalization and increasing competition between industrialized countries.

³³The previous *'Bündnis für Arbeit'*, which was established in 1995/1996 during the last years of the Kohl-government, failed because of the withdrawal of the employers' organizations from the alliance. The second 'Alliance for Jobs' was active during the first legislative period of the Schröder-government only.

this project. In addition, at the time of the reform opposition parties had a majority in the second parliamentary chamber, the ‘*Bundesrat*’, which means that institutional constraints for social policy-making were high.

Table 8.4: Relevant Reform Issues JobAQTIV 2001

Dimension I: Redistribution	Dimension II: Expenditure
Measures targeted at elderly employees and young people	‘Profiling’ of newly unemployed people (increasing efficiency)
Job-rotation (temporary jobs for long-term unemployed if employed people participate in qualification measures)	Job rotation (subsidies and financial support (between 50 percent to 80 percent of the salary) for employers/firms if they temporarily employ long-term unemployed people)
Increased support for long-term unemployed (more rights for qualification measures)	Increase of the duration temporary employment is allowed (‘ <i>Leiharbeit</i> ’)
No decrease in unemployment assistance if unemployed person participates in qualification measures	Decrease in unemployment insurance/assistance if person denies job offers
Facilitate the combination of family and work	Financial support for employer’s who offer jobs to long-term unemployed
Immediate rights for unemployed to participate in job creation and qualifying measures	

The major goal of the JobAQTIV reform was to lower the duration of unemployment by increasing labor market flexibility through greater training and education measures for people with and without work.³⁴ In addition and in a manner similar to the ‘*Beschäftigungsförderungsgesetz*’ (1994), the reform aimed at increasing the efficiency of the job placement centers by establishing improved reintegration procedures after people lost their jobs. Overall, the JobAQTIV legislation indicates the new direc-

³⁴AQTIV is the abbreviation for A = ‘*Aktivierung*’ (activation), Q = ‘*Qualifizierung*’ (qualification), T = ‘*Trainieren*’ (training), I = ‘*Investieren*’ (investment), V = ‘*Vermitteln*’ (brokerage/improved placement).

tion of labor market policies under the left-wing coalition government. The emphasis was on re-activating the unemployed rather than insuring them. The slogan of the reform sequence was *'Fördern und fordern'*, which could be interpreted as 'encouraging and challenging people'. This shift was further pronounced in the subsequent series of the so-called 'Hartz-reforms'.³⁵ The new policies also focused on integrating women and people with lower skills and little education. This is in contrast to traditional labor market policies in Germany, which were mainly directed towards the core labor market force, i.e. the unionized and skilled male population.

On the redistributive axis, the government proposed to increase the support for long-term unemployed people by creating new employment and training opportunities. Easier access to training and qualification measures for long-term unemployed people and people with little professional experience should help them to improve their skills job prospects. Waiting periods or bans against the entry of unemployed people into training schemes were diminished or canceled. The right to participate in qualifying measures immediately after losing a job is at the heart of the new policy of activation. The principle that people first have to 'earn' the right to participate in skill enhancement measures by waiting for a certain period is not compatible with the newly established principle of *'Fördern und Fordern'*.³⁶

Two measures that targeted specific groups also belong to the redistributive dimension of the reform. First, older employees were encouraged to participate in professional training and qualification measures. The intention was to reduce the risk that older people lose their job. Similar measures applied to young employees who had just finished their vocational training or were unable to find a professional training position. They were intended to receive special treatment in order to integrate them into the labor market and prevent them being forced to postpone their professional career due to unemployment.

On the expenditure dimension, the government proposed to subsidize employers who employ long-term unemployed and also offered financial support for companies participating in the job-rotation program. Even though these measures do not immediately lower the costs for social insurance payments, the government hoped that this greater financial support would be balanced by a lower number of unemployed people

³⁵The 'Hartz-Commission' was established in 2001 and was chaired by Peter Hartz, a former Volkswagen manager. The correct name of the legislative acts was *'Gesetze für moderne Dienstleistung am Arbeitsmarkt'*. From 2002, four different 'Hartz'-reforms were implemented, all aimed at strengthening the principle of activation and at increasing labor market efficiency and flexibility.

³⁶Previously, people had to be unemployed for at least six months before they were given the right to participate in further (sponsored) education.

in the long run. However, the government also cut expenditure by implementing new and more rigorous rules for the payment of unemployment assistance. The principle of ‘activation’ demands that unemployed people be obliged to accept job offers that are ‘reasonable’, i.e. jobs within a certain distance from the domicile, that demanded a lower level of qualifications etc. If a person declines a job offer or refuses to participate in qualifying measures, unemployment assistance/benefit payments is reduced.³⁷ Some of the proposed measures had an impact on both the redistributive and the expenditure dimension. While the job-rotation measure offered long-term unemployed people to reintegrate into the first labor market, it also rewarded employers for employment of long-term unemployed people. The same applies to activation issues offered for young people.

The general theme of the reform was to improve the employment structure and to increase employability of individuals by means of specific measures and training. Particularly important for the improvement of the employment structure was the focus on mothers (or parents in general) and the attempt made to improve their chances of re-entering the labor market.

8.7.1 Actor Positions on Redistributive Issues

The central idea of improving the professional qualifications of employees was generally well received. The opposition parties in parliament and the organized interest groups acknowledged that measures targeting older people and young people in the labor market were necessary. The speaker for social policy and labor market issues of the SPD in parliament, Andrea Nahles, emphasized that *‘by implementing this legislative change, for the first time in history, we open up the opportunity for the job centre to take over qualification and education measures and therefore enable people to maintain their employability before they lose employment’*, (parliamentary minutes, 2001b, p. 19513). Criticism evolved around the the government’s proposition how the additional vocational training should be financed. The intention of the government was to finance the qualifying measures through the unemployment insurance scheme. This suggestion was heavily criticized for different reasons. The liberal party (FDP), for instance, accused the government of ‘socializing’ advanced qualification measures while weakening the social insurance scheme (parliamentary minutes, 14. Wahlperiode, 27.09.2001a, p. 18519).

³⁷The government expected that an average decrease of one month of unemployment per person resulting from better job placement strategies and additional qualification measures would save up to 2 billion DM/year (see parliamentary minutes, 2001b, p. 19516).

Qualification measures for elderly and young workers financed through the unemployment insurance scheme	
<i>Against the Government Proposal</i>	<i>Support Government Proposal</i>
FDP	SPD
BDA (<i>'Bund Deutscher Arbeitgeberverbände'</i>)	Bündnis90/Die Grünen
ZDH (<i>'Zentralverband des Deutschen Handwerks'</i>)	CDU/CSU
DGB (<i>'Deutscher Gewerkschaftsbund'</i>)	

The labor unions and employers organizations that were consulted before the second reading of the bill also positively evaluated the proposal. However, critique was raised about the way the qualification measures for older employees in medium and small sized firms would be financed. Whereas the government planned on financing the additional training measures through the unemployment insurance schemes, the labor unions would have preferred that tax money be spent on this issue.³⁸ The claim of the DGB to finance additional training measures for elderly employees through taxes rather than the social insurance scheme clearly shows the intention to protect the interests of the *'insiders'*. People benefiting from this particular legislative change are still part of the work-force but the likelihood that they may lose their job is increased due to their age. Therefore, financing the qualification measures through the unemployment insurance scheme makes intuitive sense. However, the peak labor union feared that the money spent on qualification measures would in the end increase the pressure to lower unemployment insurance benefits or lead to an increase in contributory rates for employees. Whereas the labor unions called for qualification measures financed through taxes, the most important employers' organization (BDA) also opposed the plan to finance the measures through the social insurance scheme. Unlike the labor unions, the BDA called for more self-responsibility on the part of employees and employers (written statement to the *'Ausschuss für Arbeit und Soziales'*, 10.10.2001, p. 3).

The implementation of the job-rotation scheme would give long-term unemployed people the opportunity to get 'on-the-job training'. Meanwhile, the principal holder of the position being rotated would have the possibility to participate in further

³⁸Ursula Engelen-Kefer (DGB): *'We completely agree that additional qualification measures are needed. However, we think that they should not be financed through the contributory insurance schemes but through tax money'*, minutes *'Ausschuss für Arbeit und Soziales'*, 10.10.2001, p. 9.

professional development. This measure was positively evaluated. The exponents of Bündnis90/Die Grünen emphasized that the implementation of the job-rotation principle would potentially establish a bridge between long-term unemployed people and the first labor market (parliamentary minutes, 2001b, p. 19517). The possible re-integration of long-term unemployed into the first labor market was one of the most important concerns of the liberal FDP, mainly because they opposed a further increase to the second labor market (job creation schemes) subsidized by the state. The main concern was that the job-rotation scheme would not be attractive for small and medium size firms because of the bureaucratic costs.³⁹

Job-Rotation to integrate long-term unemployed people and to further qualify the job-holder	
<i>Against the Government Proposal</i>	<i>Support Government Proposal</i>
BDA (<i>'Bund Deutscher Arbeitgeberverbände'</i>)	SPD
	Bündnis90/Die Grünen
	CDU/CSU
	FDP
	DGB

The BDA (peak employers' organization) was opposing both, a job-rotation scheme for the long-term unemployed organized through the public employment agency and financed by the unemployment insurance scheme. The main reason for the BDAs opposition was the concern that the unemployment insurance scheme and the employment agencies would have to engage in tasks and duties for which they were not intended. With regard to the job-rotation scheme, the BDA opposed the idea of combining further education for older employees with the aim of reintegrate the long-term unemployed (written statement to the *'Ausschuss für Arbeit und Sozialordnung'*, p. 5).⁴⁰

³⁹Karl-Josef Laumann (CDU): *'According to my opinion, these instruments lead to an inflated bureaucracy in the job placement centre without really helping the unemployed'*, (parliamentary minutes, 2001b, p. 19515).

⁴⁰*'Unmisserverständlich klargestellt werden muss jedoch, dass mit dem Instrument 'Job-Rotation' die Chancen von Arbeitslosen auf dem Arbeitsmarkt verbessert, nihct jedoch zielgerichtet die Weiterbildung ovn Arbeitnehmern in Betrieben gefördert werden soll. Deshalb lehnt es die BDA entschieden ab, dass der Gesetzentwurf die Jobrotation in erster Linie als Instrument zur Förderung der Weiterbildung ausweist.'*, (written statement to the *'Ausschuss für Arbeit und Sozialordnung'* (p. 5).

8.7.2 Actor Positions on Expenditure Issues

Whereas the establishment of private placement centers provoked a lot of criticism by the left-wing opposition in 1994 (when the *‘Beschäftigungsförderungsgesetz’* was discussed in parliament), the JobAQTIV legislation aimed at further strengthening the role of private agencies and also proposed the development of systematic ‘profiles’ of people when they first enter unemployment. The parties in the opposition generally welcomed this change, Bündnis90/Die Grünen, although part of the governing coalition, asked to accompany the measures with improved quality control and rules to be fulfilled by the private agencies. They argued that in particular long-term unemployed people and those who have a difficult standing in the labor market also need qualified personnel to help them to re-enter the labor market. This was also the request of the peak labor unions, which did not change their positions regarding the issue of private placement agencies and further strengthening of the role of private actors to help the unemployed when finding a job. Even though Ursula Engelen-Kefer (DGB) men-

‘Profiling’ and strengthening the role of private placement centers	
<i>Against the Government Proposal</i>	<i>Support Government Proposal</i>
	SPD
	Bündnis90/Die Grünen
	CDU/CSU
	FDP
	DGB
	BDA
	ZDH (<i>‘Zentralverband des Deutschen Handwerks’</i>)

tioned during the hearing that past experiences with private placement agencies were not only of a positive nature and that it would be important to establish quality control and standards, similar to those existing for the public placement agencies (hearing of the *‘Ausschuss für Arbeit und Sozialordnung’*, 10.10.2001, she acknowledged that ‘profiling’ can possibly be a helpful tool to ensure that unemployed people find a new job quickly. The employers’ organizations especially welcomed the fact that the ‘profiling’ would take place immediately after someone lost his job. This was seen as an important step to prevent long-term unemployment.

To subsidize employers that participate in the job-rotation scheme, by taking over a long-term unemployed person while regular employees are participating in additional vocational training, was not subject to more extensive debates. The labor unions acknowledged that the government included an issue in the reform that was raised previously and was also part of the discussions taking place within the ‘Alliance for Jobs’. However, the realization of the suggestion was criticized by the DGB, mainly because the legislation did not exclude formerly long-term unemployed people who were placed by a temporary employment agency. The labor unions were skeptical about the increasing importance of temporary employment in general. The point that was criticized most is that employees on temporary contracts are paid below the negotiated wages and therefore undercut the sectoral agreements.⁴¹

Job-Rotation (financial issues and the eligibility to participate of temporary employees)	
<i>Against the Government Proposal</i>	<i>Support Government Proposal</i>
PDS	SPD
IG Metall	Bündnis90/Die Grünen
DGB	CDU/CSU
BDA (<i>‘Bund Deutscher Arbeitgeberverbände’</i>)	FDP

The PDS especially criticized that employees working for temporary employment agencies would also be entitled to participate in the programs subsidized by the state or the unemployment insurance scheme. The reason why the PDS but also labor unions were fiercely opposed to temporary employees benefiting from subsidized ‘on the job training’ or extra vocational training is because they are paid less than normal employees. The ‘IG-Metall’ even complained that the new legislation would further increase the crowding out of older skilled workers who are part of negotiated agreements and therefore have higher salaries.⁴²

⁴¹ *‘The principle of the wage bargaining autonomy, which is ensured by the social state, must not be broken’*, (DGB, written statement for the ‘Ausschuss für Arbeit und Sozialordnung’, 10.10.2001.)

⁴² To strengthen the rights of temporary employment agencies by extending the period someone is allowed to work on a temporary contract was also highly disputed. Again, the labor unions, but also the Bündnis90/Die Grünen, criticized that what was intended to be a bridge between being unemployed and a re-integration into the first labor market through a temporary contract should not be further extended (see e.g. parliamentary minutes, 27.09.2001a, p. 18520, or the minutes of the hearing organized by the ‘Ausschuss für Arbeit und Sozialordnung’, 10. Oktober, p. 17).

The opposition in general called for a more encompassing and drastic reform of the labor market, including cuts in unemployment insurance benefits and contributions. Their main argument was that even though deregulating the labor market would have a negative impact on wages, employment security would increase. This was something that the FDP did not associate with the JobAQTIV legislation proposed by the government.⁴³ One issue that was mentioned throughout the discussion but that was not included in the JobAQTIV legislation was the combination of the unemployment assistance and the social assistance scheme. The conservative and liberal parties in particular called for this step, in response to hopes for a more powerful tool to promote employment by focusing on re-integrating people into the working process without the frictions that the coexistence of the two schemes were causing. The combined scheme should be financed through tax money and guarantee a means-tested income independent from previous earnings.⁴⁴ The government was about to give in on this issue, but to present a reform proposal before the elections was not possible (see minutes of the ‘*Ausschuss für Arbeit und Sozialordnung*’, 103. Meeting, October 10th, p. 15). On the one hand this was because this legislative change would have touched upon the responsibilities of the ‘*Länder*’, and on the other hand it was because the labor unions, but also the exponents of the traditional left were clearly against such a change.⁴⁵ During the public hearing the representative of the ‘*IG-Metall*’ said: ‘*We categorically oppose a combination of the unemployment assistance and the social assistance scheme. They follow a completely different logic, whereas the unemployment assistance still aims at securing (to some extent) the standard of living, social assistance mainly aims at minimizing frictions*’ [without mentioning what frictions he was referring to – EH], (minutes of the hearing of the ‘*Ausschuss für Arbeit und Sozialordnung*’, 103. Sitzung, 10. October 2001, p. 6).

In addition, the conservative and liberal parties in opposition asserted that the reform of the labor market should also aim at strengthening and increasing the low-wage sector and that the 630 Mark-jobs should be abandoned.⁴⁶ During the parliamentary debate, Horst Seehofer (CDU/CSU) proposed to increase the low-wage sector

⁴³Irmgard Schwaetzer (FDP): ‘*Why doesn’t the government acknowledge that for most employees a decrease in salary would be better than losing their job entirely*’ (parliamentary minutes, 14. Wahlperiode, 190. Sitzung, 27.09.2001a, p. 18519).

⁴⁴The frictions between the two schemes were mainly caused by the different duties and rights that the beneficiaries had. People on unemployment assistance, for example, were eligible to participate in training schemes whereas people on social assistance had no rights for further vocational training.

⁴⁵During the debate on the JobAQTIV legislation, Karl-Josef Laumann, responsible for social issues within the CDU accused of not being brave enough to propose the combination of the two social security schemes to the parliament (parliamentary minutes, 2001b, p. 19515).

⁴⁶The 630 DM jobs were created by the former government, mainly to suppress the shadow economy. It was also in order to allow women to take on part-time jobs that are subject to minimal social insurance payments only and not subject to income taxes. First, employees with 630 DM jobs were

by specifically subsidizing unemployed people who accept a low-wage job by topping up their salary (parliamentary minutes, 14. Wahlperiode, 27.09.2001a, p. 18515). According to the parties in opposition, the government also missed the chance to make sure that people living on social assistance or unemployment assistance would not receive more money than someone with a job in the low-wage sector.⁴⁷ Besides the degressive characteristic implemented within the unemployment assistance scheme, the duration or level of unemployment insurance benefits did not change. Even though this has been criticized, the government did not propose to cut benefits and their duration period.

8.7.3 Political Constraints

The coalition between the Social Democrats and the Greens only had a majority in both chambers during the first year in power. Soon after, elections within the ‘*Länder*’ shifted the balance of power and the government was facing a majority of the parties in opposition in the ‘*Bundesrat*’. The fact that the government had no majority in the ‘*Länderkammer*’ might have had an impact on the design and content of the proposed legislation. None of the changes proposed in the JobAQTIV reform proposal touched on the competencies of the ‘*Länder*’ and therefore the legislation did not need the approval by the ‘*Bundesrat*’ and the ‘*Bundesrat*’ did not appeal the mediation committee to extend the process either.⁴⁸ Further, the government also tried not to lose the support of the labor unions, a fact that has been criticized and mentioned during the parliamentary debate. Irmgard Schwaetzer from the FDP accused the government of failing to initiate proper reform of the labor market because of the ‘flirtatious association’ with the labor unions.⁴⁹ The Liberal Party also mentioned the fact that the closeness between the left-wing party government and the labor unions had catastrophic consequences for the unemployed. This indicates that the

not necessarily covered by social insurance, as social insurance payments were optional only. This was changed by the Social Democratic/Green Party government after the elections.

⁴⁷Similar discussions and changes occurred in Ireland where the government had to eliminate so called ‘welfare traps’ that worked as disincentives to accept jobs.

⁴⁸Changes that would have been in the realm of the ‘*Länder*’, would have mainly affected the expenditure dimension (e.g. if the legislation had had an impact on the budget of the sub-national units). It can be argued that since the government was under pressure to cut expenditure it might have tried to impose more financial burden to the sub-national units, e.g. shortening the period of unemployment insurance benefits are paid often lead to an increase in social assistance payments. Social assistance however, is administered through the ‘*Länder*’ and therefore a change would have needed the support of the ‘*Länderkammer*’.

⁴⁹Irmgard Schwaetzer (FDP): ‘*Sie, Herr Riester, haben in der Arbeitsmarktpolitik versagt. Sie werden Ihre Ziele nicht erreichen. Deshalb kann ich Ihnen nur sagen: Wachen Sie auf! Geben Sie endlich den Schmusekurs mit den Gewerkschaften auf. Er hat katastrophale Folgen für die Arbeitslosen gehabt,*’ (parliamentary minutes, 27.09.2001a, p. 18519).

opposition was not convinced that the policy decisions and changes implemented by the government so far had a positive impact on the ‘outsiders’.

8.7.4 Discussion

The timing and the content of the JobAQTIV law were influenced by several types of constraints. First, the government had to signal that the announcements made during the electoral campaign in 1998 to reform the labor market and significantly decrease the level of unemployment were not only empty promises. In the run up to the next elections in 2002, the government was under pressure to propose strategies and solutions to the problem of unemployment and a rigid labor market. Second, the reason why the government was reluctant to engage in reform activities earlier was also caused by the fear that the labor unions would withdraw from the ‘Alliance for Jobs’. This fear was due especially to the fact that the traditional left was poorly represented in the government since the resignation of Oskar Lafontaine. The government did not attempt to impair the relationship with the labor unions because their support was needed. The positive development of the unemployment figures between 1999 and 2000 additionally lowered the reform pressure. However, towards end of the first term of the Schröder government, the unemployment level increased again and surpassed the level of 4 Mio. unemployed, a serious problem for Schröder, who wanted to be re-elected and had promised to reduce unemployment to 3.5 Mio. during the last electoral campaign.⁵⁰ The JobAQTIV legislation as it was been implemented in November 2001 included attempts to re-integrate ‘outsiders’ of the labor market and help people with little skills and education to get ‘on the job-training’ and acquire further (professional) education. However, these positive attempts on the redistributive dimension directed at ‘outsiders’ were moderated by the concessions made towards the ‘insiders’. This happened mainly through the promotion of additional professional training for (older) employees in regular work relationships. The additional training should be financed through the unemployment insurance scheme. This fact that was criticized by the labor unions and the employers’ organization. According to the government, the JobAQTIV legislation was financing itself during the first year and would lead to fewer payments in unemployment insurance benefits and unemployment assistance benefits in the future. Retrenchment should not happen through cuts in benefits but through increased efficiency in the placement of the unemployed. Even though the parties in opposition called for a more encompassing reform of the social insurance

⁵⁰Schröder actually told the electorate that he should not get re-elected if unemployment is not down to 3.5 Mio. after his first term in office.

scheme (especially unemployment assistance and social assistance), which would open opportunities for more extensive retrenchment, the governing coalition between the Social Democrats and the Greens did not include these suggestions

The legislative change brought about by the JobAQTIV law, is nonetheless an important landmark in German labor market policy-making and the way in which structural change and the challenges to the social security schemes, especially the unemployment insurance system, are approached. It is a first shift away from a passive system of guaranteeing income security and the maintenance of living standards towards a more active labor market policy which aims at activating the unemployed. The direction of reform discussed above became more pronounced with the presentation of the ‘Hartz’- reforms. Due to a scandal within the placement agencies a new window of opportunity to reform the labor market opened up.⁵¹ The fact that the elections were approaching and the Social Democratic Party had to demonstrate closeness to achievement of its electoral promises further facilitated the drafting process of a more encompassing labor market reform based on the principles established by the JobAQTIV law and further developed by the ‘Hartz’-Commission.

⁵¹The scandal consisted of inaccurate statistics concerning the performance of the placement agencies. Figures relating to people successfully placed in new jobs were consistently exaggerated.

Table 8.5: Reform Issues and Direction of Changes ‘*Job-AQTIV 2001*’

Reform issues	Effect on		Dimension	
	‘Insiders’	‘Outsiders’	Redistribution	Expenditure
Secure work for specific groups (elderly/young people) by offering them the opportunity to participate in training measures	+	+/-	×	
Job-rotation scheme (unemployed person - temporarily - takes the job of a person that participates in qualifying measures)	+	+	×	×
No more waiting bans for people who lost their job to participate in training/qualification measures, ‘profiling’ of newly unemployed through private agencies	+	-	neutral	neutral
Subsidies for employers/firms if temporarily employing long-term unemployed person	-	+		×
Implementation of degressive character to the unemployment assistance scheme (if person declines a job, qualification measures)	neutral	--		×
Increase of the maximum period temporary employment (<i>Leiharbeit</i>) is allowed	+/-	+/-		×

Legend: + implicates that the implemented measure had a positive effect for the group indicated. - implicates that the reform negatively effects ‘insiders’/‘outsiders’. × indicates which dimension the legislative change predominantly affects.

Chapter 9

Conclusion and Discussion

During the past decade, the pressure to reform the social security schemes of mature welfare states has constantly increased. International economic interdependence, and structural and demographic changes have affected party governments and their room to maneuver in Western democracies. The mutual and uncontested understanding among scholars in comparative welfare state research that government partisanship has a significant impact on the development and reforms of welfare state was challenged by the above-mentioned phenomena. This study evolved from the fundamental question as to whether or not party politics and political competition still manifest themselves in divergent social policy solutions implemented by party governments with differing ideological backgrounds. The study examined this question by particularly focusing on the impact of party governments on two segments of labor market participants and two dimensions of social policy-making. The core research question on which this thesis is based is fundamental because electoral competition between political parties is largely based on the competition between different policy solutions and policy proposals. Policy proposals and reforms that have an impact on social security schemes and the organization of labor markets have increased in saliency during the past years and large segments of society have high expectations regarding social security schemes and services. Therefore, we would expect that parties still aim at distinguishing themselves from their competitors. This study aimed at examining whether party governments are able to implement distinctive policies and how these policies affect labor market ‘insiders’ and ‘outsiders’. This chapter first summarizes and discusses the main findings in the light of the theory presented at the beginning. The second section qualifies and critically scrutinizes the empirical evidence and offers alternative approaches that

help to interpret the findings. The third and final section discusses the implications for future research on theoretical, empirical and methodological grounds.

9.1 Main Findings and Implications

This study was guided by the question regarding the manner in which ideologically different party governments affect the redistributive generosity of core welfare state programs and other dimensions of welfare state policy-making and how different groups in society, mainly labor market ‘insiders’ and labor market ‘outsider’s are affected by the respective government. The room to maneuver and the policy-making capacities of party governments are conditioned by the level of political and institutional constraints that are present in a country. The study thus contributes to the existing literature in two ways: Firstly, unlike the majority of scholars interested in the impact of party governments on welfare state policy-making, I focused on more than just the expenditure dimension while examining the impact of party government on welfare state change in open economies. Secondly, the theoretical framework acknowledges that the policy-making capacity of party governments is significantly mediated by institutional and political constraints. The constraints do not affect leftist and conservative governments in the same way.

Based on a ‘nested analysis’ design, I first examined the impact of party governments on the redistributive and the expenditure dimensions in a quantitative framework. This first part of the empirical analysis separately analyzed the (joint) impact of party government and constraints on these two dimensions of social policy-making. The results of the analysis yield the conclusion that the ideology of a party in government has an impact on the generosity of the core social security programs of the welfare state. Whereas leftist party governments have a positive impact on the redistributive generosity of these programs, right-wing and conservative party governments do not have a statistically significant effect on this dimension of welfare state policy-making. This result confirms the first hypothesis postulated in the theoretical chapter.

More importantly, the analysis also showed that the impact of party governments, mostly left-wing governments, is additionally mediated by political constraints. This mediating effect of political constraints leads to a disproportionate redistributive effect towards labor market ‘insiders’ who are covered by core social security programs. This result is in line with recent scholarship by [Beramendi and Cusack \(2009\)](#)

who come to the conclusion that leftist party governments are not necessarily able to create egalitarian policy outcomes. Based on the results of the quantitative analysis, a first, tentative conclusion of this study is that policies designed by social democratic governments in settings with high institutional and political constraints may lead to an increasing gap between labor market ‘insiders’ and labor market ‘outsiders’. The mechanisms between constraints and party government do not hold for conservative or right-wing parties in office. These results add to the research by [Korpi and Palme \(1998\)](#), who observe similar effects and characterize this finding as the ‘paradox of redistribution’. The middle class, which mostly consists of the core workforce, is the social group that is most privileged by the redistributive efforts of the state. Further, the results of the quantitative analysis confirmed the findings by other scholars of comparative welfare state research that party governments have lost their room to maneuver on the expenditure dimension. Unlike during the formative years of welfare state policies, it is no longer possible to differentiate between leftist and conservative positions on the expenditure dimension, at least on statistical grounds. Shifting the scholarly attention towards other dimensions of social policy-making is therefore utterly important. This shift towards dimensions of social policy-making other than spending may also help to advance our knowledge regarding the ability of party governments to shape policies in times of scarce resources.

The conclusions that can be drawn about the impact of party governments on the redistributive generosity pertain only to the effects that government policy has on labor market insiders. Based on these results alone it is not possible to see how ideologically different party governments affect labor market ‘outsiders’ and whether and under what circumstances party governments implement policies that are beneficial to the so-called ‘loser’s of globalization’. Therefore, the second part of the empirical analysis, which is based on case studies from three different countries, followed a two-fold aim: Firstly, the case studies should further substantiate the results of the quantitative analysis by examining their underlying mechanisms and secondly, they should open up the focus and assess how labor market ‘outsiders’ are affected by various party governments. The analysis of labor market/unemployment insurance reform processes within three countries showed that institutional constraints enable organized interests to capture the dynamics of politics. It also showed that and left-wing/social democratic party governments are particularly responsive to organized interests. Again, higher levels of political constraints lead to more compensation for ‘insiders’ and hinders to some extent egalitarian and inclusive policy-making, which would be beneficial to ‘outsiders’.

The cases selected from the three countries, Switzerland, Ireland, and Germany exemplify the manner in which policy outcomes are affected by party governments and constraints. The Swiss reform process serves as an example and benchmark case for how reform outcomes are shaped in countries where policy-making processes are constrained by multiple actors and institutions. Due to the fact that policy proposals must first be approved by the oversized coalition government and undergo an additional consultation process, in which interested organizations and other actors are free to participate, the legislative changes proposed are often very inclusive. It is very likely that they accommodate the most influential interest groups and this leads to increased compensatory measures for labor market ‘insiders’. However, the high constraints, especially the threat of organized interests to invoke a popular referendum, hinder the governments ability and willingness to propose reforms that mainly focus on retrenchment. Due to the fact that social policy issues are usually salient and get a lot of attention, the threat of a popular referendum also leads the reform issues towards more egalitarian redistribution. With regard to the ‘room to maneuver’ for parties in government or governments in general, the Swiss case well demonstrates that high institutional constraints may also take pure party politics out of policy-making processes.

As opposed to the Swiss case, the Irish case studies show that parties in government have very distinct policy aims which differ significantly across ideologically different party governments. In the Irish political setting, which only presents limited institutional and political constraints, the parties in power were able to transform their visions and ideas about the society, which are influenced by their ideological background, into concrete policies. The two reform processes examined and discussed in the previous chapter well exemplify this. The leftist ‘rainbow’ coalition government managed to implement changes that predominantly focused on labor market ‘outsiders’ and aimed at improving their situation in the labor market. The social welfare minister from Democratic Left was able to implement encompassing social policy reforms that led to an increase in overall redistributive generosity. Whereas the JobAQTIV reform and the content of the social welfare bill of 1996 partly aimed at similar outcomes, mainly to activate and integrate long-term unemployed into the first labor market, they were not equally successful in doing so. The Irish government that was to some extent dominated by a Minister for Social Affairs from Democratic Left, was able to successfully translate its ideological preferences and promote policies designed to help long-term unemployed and low-skilled workers. It could do this without making concessions to the skilled work force represented by organized interests, mainly labor unions. The reforms particularly helped the very poor in the society by increasing

the redistributive effort of the state. The calls for a comprehensive reform of the tax system and for lower taxes in general by the opposition parties died away. The same happened to the complaints by labor unions and employers' organizations. Their concern was that government was not doing enough for employees already integrated in the labor market, especially since the economy was booming. They either expected the government to significantly cut taxes or to increase social insurance benefits. Had this left-wing government faced political constraints by the conservative parties in opposition, the government would have had to partly accommodate their demands by implementing changes in the tax system or increasing the social security benefits for the 'insiders', mainly skilled workers.

In stark contrast to the changes implemented in 1996 stands the reform led by the Progressive Democrats in 2001. Though only a minor partner in the coalition, the Progressive Democrats played a pivotal role in shaping the Social Welfare and Financial Bill. In accordance with the party's preferences, overall welfare state effort decreased and the government did not attempt to address the increasing wage inequality and the low-paid sector. In order not to endanger the trilateral agreements, the government decided to grant minimal adjustments to the benefits of labor market 'insiders'. These two reforms show that the policy-making capacity of governments is intact and that parties are able to translate their preferences.

How the political constraints and the institutional setting interfere with a party government's policy preferences and plans has been demonstrated in the German case studies. Neither government was able to fully design and implement policies according to their party preferences. Both party governments were obliged to accommodate the opposition to some extent. Additionally, the coalition between the Social Democrats and the Green Party had to consider the interests of the labor unions. Even though the government was under pressure to cut spending, no cuts in unemployment insurance benefits were suggested (yet). Further, although the government already planned to combine the unemployment assistance with the social assistance scheme, which would save costs and improve efficiency, it did not include this in the proposal, knowing that the labor unions would oppose such a change. Though the 'Job-AQTIV' law is an important landmark in German labor market policy-making and already included many aspects of the subsequent series of reforms known as 'Hartz-reforms' (see e.g. [Leschke, Schmid and Griga, 2006](#); [Fleckenstein, 2006](#); [Berthold and von Berchem, 2003](#)).¹ The Job-AQTIV legislation was a first shift away from a passive

¹The better known and more influential 'Hartz-reforms' further promoted instruments such as the 'self-employment' scheme (known as 'Ich-AG'), tightened and further enforced the 'capability to work' definition and put more emphasis on personnel service agencies (temporary job agencies), to

system of guaranteeing income security and the commitment to maintain the standards of living towards a more active labor market policy which aimed at activating the unemployed and increasing the flexibility of the rigid German labor market. Though the Hartz-legislations also included cuts in benefits for the core workforce and reduced the duration in which unemployment benefit is paid, many of the measures designed to open up the labor market and decrease the shadow economy, had a negative effect on unskilled labor. This view is also supported by [Martin and Thelen \(2007, p.34\)](#), who conclude that the Hartz reforms deepened the divide between labor market ‘insiders’ and ‘outsiders’. In this sense, Hartz-reforms, which are seen as atypical reforms to be undertaken by a social democratic government, are still partly in line with the theoretical framework presented in this thesis.

Unlike many studies in comparative social welfare states that examine the impact of differing party governments, the results of this study imply that government partisanship and varying party ideology still have an impact on welfare state changes. The analysis of the reform processes within the different countries also shows that the discussions in parliament continue to be characterized by diverging party preferences and struggles over redistributive and spending issues. In this respect, politics and political processes over welfare state issues seem to be the same as they were during the formative years of welfare states. When we focus on the outcomes of the political struggles, however, we can see that the effects of policy changes are different nowadays than they were in the past. Pushed to the extreme, my argument yields the somewhat counter-intuitive result that left-wing parties together with labor unions increase rather than decrease inequality in society, at least when compared to the expectations that generally exist when people think of left-wing governments. Overall, the impact of conservative party governments on redistributive equality is certainly worse and several empirical studies show that stretches of conservative ruling have a statistically significant negative effect on inequality and also lead to an increase in poverty (see e.g. [Brady and Leicht, 2008](#); [Bradley et al., 2003](#); [Mahler, Jesuit and Roscoe, 1999](#); [Wright, 2000](#)).²

This result is counter-intuitive in the sense that left-wing parties tend to focus on the well-being of the poor in public debates and also claim to help the disadvantaged in society. However, where organized interests have access to the policy-making pro-

name a few. Already discussed during the preparation phase of the Job-AQTIV legislation – but only implemented in the course of Hartz IV – was the merger of unemployment assistance and social assistance into a single means-tested scheme (see [Konle-Seidl, Eichhorst and Grienberger-Zingerle, 2007](#), for an overview over the changes implement by Hartz I-IV).

²However, [Scheve and Stasavage \(2009\)](#) and [Wallerstein \(1999\)](#), for example, could not find a statistically significant relationship between right-wing party rule and an increase in (earnings) inequality.

cess, social democratic or left-wing governments under pressure to reform and retrench social policies, will try to accommodate the demands of labor unions on dimensions other than spending. I do not claim that the intentions of these party members to help the very poor or the ‘outsiders’ in modern societies are not genuine. However, the traditionally strong ties with organized interests, mainly labor unions, are an obstacle to the translation of the party’s ‘true’ preferences. During the formative years of welfare states, the close ties between labor unions and social democratic party governments led to an outcome that was beneficiary to most people regardless of their employment status. However, this has changed dramatically due to the developments discussed at the beginning of this thesis. The mechanisms of social policy-making therefore have not changed but the outcome of these processes has changed due to the continuing strong link between party governments and organized interests. This is particularly true for social democrats and leftist parties.

To some extent, labor unions, which publicly denounce social inequality, may help to reinforce rather than relieve the problem. When groups (implicitly) compete for scarce social policy resources, labor unions, which by definition are interest groups, primarily defend the interests of their members. These members, who provide the funding for the unions, are ‘insiders’ rather than ‘outsiders’. It therefore follows that labor unions first defend the interests of the ‘insiders’ while the interests of ‘outsiders’ are secondary. In times of fiscal austerity, most resources available for social policy tend to be spent on issues that are of concern to ‘insiders’. This is particularly true when it comes to the reform of core social policies, such as the unemployment insurance scheme, active labor market policies, and pensions. This mechanism is especially apparent in political settings where interest groups have many access points to the policy-making process. To some extent, this explains why countries with a higher level of political constraints which were connected with more egalitarian policies during the formative years and the golden age of welfare states, have not been able to cope well with the adverse effects of globalization. However, this conclusion needs further empirical examination and research.

The results of the study also indicate that labor markets in post-industrial democracies become more segmented and that the so-called dualization of the labor markets is increasing further. The most important features of labor markets in post-industrial economies are the prevalence of a larger number of part-time and fixed-term employees (contractors), and an increasing number of people in precarious working relationships. Depending on the national context and the general structure of the labor market, people in atypical employment (part-time, contractors) face the risk of social exclusion or are systematically disadvantaged in the labor market. The risk of

suffering from atypical employment, however, is not equally distributed across people in society. Often, women, elderly workers and people with little education are groups that are most vulnerable in this regard. Divided labor markets have become a characteristic of the most recent wave of globalization (e.g. Goldthorpe, 1984; Rueda, 2006; Blanchard, 2006; Lindbeck and Snower, 2001) and the fear of losing employment regularly ranks high in public opinion polls (Scheve and Slaughter, 2006; Kenworthy and McCall, 2008). This makes labor market policies a salient issue for party governments of any ideological background. In order to address the challenges related to increasing social inequality and societal risks for particular groups in society, party governments are under pressure not only to reform social security schemes but also labor market institutions. The aspects that governments emphasize while designing and implementing these reforms, however, differ greatly in scope and range. This study contributed to the dualization literature with regard to the political factors that influence dualization and the role political parties but also labor unions have to play. Future research should further examine the political factors that drive labor market dualization and how this unhealthy development can be stopped or how the consequences of atypical work for society can be alleviated.

In connection with that, the role of organized interest needs to be reconsidered. The important role labor unions play in some countries because of their organizational strength and ability to gain access to political processes, e.g. in Germany, was generally perceived favorably with regard to equality in society. In practice, however, a large group of ‘outsiders’ exists in these countries and studies show that their performance with respect to reducing inequality has not been impressive during the past decades. This thesis presents a partial explanation for this empirical phenomenon. The strong linkage between left parties and labor unions and the influence of the latter in some political systems pulls social policy towards the concerns of the middle class and away from those who need help most. The participation of groups and citizens in policy-making is certainly useful and a central aspect of democratic politics. However, political systems with many access points but no important direct democratic instruments do not necessarily yield normatively desirable outcomes in the distributive struggle over scarce resources. The results based on the case studies suggest that a useful alternative could be to delegate more power to citizens. If outsiders can exert the same political pressure as insiders (by means of participation in referendums or popular initiatives), then this will bring about change as governments will be forced to design policies that also benefit the very poor. However, the implementation of direct democratic instruments is certainly no guarantee for more egalitarian politics because bringing an issue to the public sphere is costly and not all groups have enough

resources available to successfully launch a public initiative or a referendum. In addition, depending on the country context, labor market ‘outsiders’ (low skilled people in low-wage jobs) are often immigrants who do not have the right to vote and would need organized interests or political parties to adopt their issue.

One of the reasons why political scientists are interested in whether or not party politics has an impact on the outcome of public policies is because this impact is expected by the electorate. For most people, this is the reason why they vote and make a decision for or against a particular party in government. Knowing that a change in government will have no effect on the kind of policies implemented, may lead to a declining interest in politics and may lead to a further decrease in political participation, which eventually has a negative effect on the well-functioning of democracies. This may also lead to the emergence of extremist groups. However, the empirical results of the study imply that political competition and party politics still matter, although in a slightly different way than usually expected. The structural changes to the economy and increasing internationalization have altered the configuration of the labor market. Therefore the demands made by the workforce have also changed. The manner in which party governments are able to address and meet these demands is influenced by the political constraints present in a country and the degree to which extra parliamentary actors have access to the policy-making process. Influence of external actors, mainly labor unions, is not new. What has changed is the fact that social democratic government in political systems where constraints are high will not necessarily pursue (or are not able to pursue) and translate the policies most in line with partisan preferences.

To approach the research question at different levels and using diverging empirical strategies has proven to be helpful in examination of the question of interest. Lieberman’s (2005) ‘*nested analysis*’ approach, that combines quantitative with qualitative empirical evidence opened up a fruitful way to tackle the research puzzle. Whereas the results of the quantitative analysis provided a first picture of the general processes going on on the macro-level, the country studies examining carefully chosen reform processes helped to establish the causal mechanisms and also enriched the overall story with anecdotal evidence from political actors shaping the reform processes. However, combining different levels of analysis and different research methods in a meaningful way and presenting the outcomes in a coherent manner is challenging and is not as straight forward as it seems. The realization of a research project that is based on a mixed-method strategy requires the researcher to engage in a number of trade offs and compromises that sometimes only reveal themselves during the research process. The trade-offs and compromises are first related to the time that can be

spent on the project. The time aspect influences most of the decisions that need to be taken during the long journey towards the completion of the thesis. While bringing together both quantitative and qualitative analysis, both types of analyses are to some extent restricted. The number of statistical models that can be tested is finite as is the number of cases and reform processes that can be examined in the qualitative part.

A second trade-off or set of problems occurs when the researcher switches from the quantitative framework to the qualitative framework. Although the ‘nested analysis’ framework by Lieberman (2005) can be used as a rough guide to choose meaningful cases, the guidelines are not sufficient for the theoretical framework underlying this project. Some of the weak points are addressed in Rohlfing’s (2008) contribution that discusses practical issues and problems that potentially occur in research projects based on mixed-methods design. An important point raised by Rohlfing is that there is no established measure or threshold that tells the researcher whether a ‘case’ is still in line with the theory or not. In addition, theoretically interesting and meaningful cases may not necessarily be those that are best explained by the statistical model. Therefore it is crucial to define additional criteria guiding the case selection. This issue has not been addressed by either Rohlfing or Lieberman.

To define additional criteria was also necessary because the change from the quantitative to the qualitative framework also included a change in the level of analysis.³ Whereas in the quantitative framework the empirical evidence was based on aggregated macro-level data, the case studies focused on processes that eventually drive these macro-level outcomes. Ideally, the concepts on which the macro-level analysis is based represent the sum or the total of the underlying reform processes. However, we cannot be completely sure whether or not this is the case because these aggregate concepts are often influenced by a number of developments and constraints that are beyond the influence of politics and party governments. Further, they may not even take place on the country level. This is obviously not the case if the case studies focus on the same level of analysis and the explanatory concepts are measured in exactly the same way for the aggregate analysis as well as the analysis that focuses on processes on a different level. In comparative welfare state research, however, this is often not

³In this study, the reform processes that take place on the meso-level were mostly chosen according to the reform content and the party government in charge of the process. This strategy leaves room to pick cases that fit particularly well, which should – in the end – be a representative example of the government performance in certain policy field during the whole legislative period. To focus on the reform of unemployment insurance schemes and labor market policies was a hard test of the theoretical assumptions and the results show that the lines of reasoning comply with the two dimensions set previous to the examination of the cases.

the case. This is to a great extent related to the kind of data most research relies on, something I will elaborate further in the concluding paragraphs of this thesis.

9.2 Concluding Remarks on the Results and Alternative Approaches to Examine the Impact of Party Politics

This section intends to critically evaluate the empirical results in the light of theory presented in Chapter 3. It discusses whether the rigid framework was helpful to assess the impact of party government on the two dimensions of social policy-making and more importantly, whether the assumptions made regarding the impact of party governments on different groups of labor market participants can be sustained using the empirical evidence at hand. In addition, the results are linked to theoretical and empirical work by other scholars in the field.

As already discussed in the concluding section of the quantitative part, the results of the macro analysis mainly confirm that leftist party governments increase the redistributive generosity towards labor market ‘insiders’, in particular, when political constraints are high. Whether this beneficiary treatment of labor market ‘insiders’ *in fact* comes at the expense of labor market ‘outsiders’ is unclear because the data used do not tell whether the effect of leftist government is disproportional. It was the attempt of the country case studies included in the second part of the empirical analysis to further illuminate this question. The country studies mainly focus on one field of social policy-making, the reform of labor market policies, including changes concerning unemployment insurance schemes. The changes implemented by varying party governments have been analyzed along the lines of their impact on the redistributive generosity of the program and on their impact on the expenditure side, the two dimensions proposed in the theoretical part. In addition, the policy changes have been evaluated in the light of their impact on either labor market ‘insiders’ and labor market ‘outsiders’. As briefly mentioned in Chapter 5, the use of the terms *change* and *impact* have to be understood in a qualitative measure, as the impact of the reforms on different groups of labor market participants was not quantified using individual or macro-economic data.

The evidence empirical evidence generated by the case studies is of qualitative nature and even though we can observe that the leftist government that was in charge of the *Financial and Social Welfare Act 1996* in Ireland (a country where constraints are low) implemented a large number of policies beneficiary for labor mar-

ket ‘outsiders’. The nature of the data (qualitative evidence), however, hinders to draw the final conclusion that the beneficiary treatment came (at the same time) at the expense of labor market ‘insiders’. The measures implemented by the constrained left-wing government in Germany, however, point in the direction that the policies were more favorable for labor market ‘insiders’. Even though the results indicate that the underlying theoretical framework has its merits, they do not satisfy a hard test of the rigid predictions made on the basis of the theoretical framework. Mostly, because the evidence does not allow to confirm that the effect of a constrained left-wing party government lead to *disproportionate* result at the costs of labor market ‘outsiders’. First, this implies that a final word on the relationship between leftist party governments and their impact on labor market ‘outsiders’ in countries, where policy-making is constrained, needs to be said still and that there is room for future research, which should try to shed light on this question. The second implication from this conclusion is to evaluate the empirical findings in the light of other approaches and link them to recent contributions to the literature. In this part, I will focus on the case studies and examine whether the findings show similar patterns that can be compared to the findings or approaches proposed by other scholars.

Recently, labor market policies and especially the use of active labor market policies has received a lot of attention by scholars of public policy and comparative politics (e.g. Rueda, 2006; Anderson, 2009; Bonoli, 2008; Dingeldey, 2007). Whereas most work examining labor market politics distinguished between passive and active labor market policies, a recent contribution by Bonoli (2010) suggests to differentiate between four ‘ideal types’ of active labor market policies. The following table, which is taken from Bonoli’s (ibid., p. 11) illustrates these ‘ideal types’. Bonoli presents his typology mainly with the aim of systematizing scholarship on (active) labor market policies and to offer a framework to compare and contrast the policies implemented across different countries and over time. Whereas policy measures of the third and fourth type are ‘classical’ active labor market policies, the measures included in the first and second type are sometimes more ambivalent to classify. They sometimes also affect the traditional instrument of passive labor market policy-making, the unemployment insurance system (e.g. cutting benefits or limiting the eligibility to benefits). We would expect that measures belonging to the first ‘ideal type’ are mostly directed at labor market ‘insiders’ and that leftist governments would prefer to refrain from implementing these measures, especially when related to cuts and sanctions etc. It seems to be a fruitful attempt to categorize the reform issues identified in the case studies according to Bonoli’s typology.

Type	Policy Objective(s)	Tools/Measures taken
1 Incentive reinforcement	Strengthen positive and negative work incentives for people on benefits	<ul style="list-style-type: none"> - Tax credits in work benefits - time limits on reciprocity - benefit reductions - benefit conditionality - sanctions
2 Employment assistance	Remove obstacle to employment and facilitate (re-)entry into the labor market	<ul style="list-style-type: none"> - placement services - job subsidies - counseling - job search programmes
3 Occupation	Keep jobless people occupied; limit human capital depletion during unemployment	<ul style="list-style-type: none"> - job creation schemes in the public sector - non employment-related training programmes
4 Human capital investment	Improve the chances of findings employment by 'upskilling' jobless people	<ul style="list-style-type: none"> - basic education - vocational training

Table 9.1 classifies the policy issues observed within the five reform processes according to Bonoli's typology. The first three rows include the reforms implemented by conservative governments, row four and five show the results for the reform implemented by left-wing governments.⁴ By classifying the reform issues identified and analyzed in the case study chapters, we can clearly see that the portfolio of reforms implemented by conservative governments differs from the reforms implemented by social democratic/left-wing governments.⁵ The emphasis on reform issues that aim at keeping people employed or offer them additional training are mostly used by left-wing governments.

⁴Sometimes, the 'ideal types' proposed by Bonoli do not exactly fit the implemented measures, or rather, the measure follows two policy goals. In cases like this, the policy measure was counted twice (happened four times).

⁵It is important to note that the number of reforms and the number of reform issues is likely to be too small to draw finite conclusions. In order to do that further reforms should be analyzed. However, it is worth looking at the evidence from a different angle and evaluate whether it is possible to further confirm the conclusions that have been drawn until now and whether we can add new insights.

Table 9.1: Distribution of Reform Issues Based on Bonoli's 'Ideal Types' of ALMP

Reform	Type 1	Type 2	Type 3	Type 4
<i>Beschäftigungsförderungsgesetz 1994</i> (Germany)	2	4	–	–
<i>Financial and Social Welfare Bill 2001</i> (Ireland)	5	–	–	–
3 rd Partial Reform of the Un-employment Insurance (Switzerland)	5	–	–	–
<i>Job-AQTIV 2001</i> (Germany)	1	3	1	3
<i>Financial and Social Welfare Bill 1996</i> (Ireland)	2	6	1	–

Reading example: The conservative government in Germany (1994) implemented two (2) measures with the aim to reinforce the incentive to work and four measures which offer assistance to the unemployed. The first three reforms have been implemented by conservative party governments.

This is in line with findings by [Huo, Nelson and Stephens \(2008\)](#), who find that social democratic governments implement 'employment friendly' labor market policies. In addition, mainly left-wing governments made use of typical active labor market policies, such as the implementation of training programs or the creation of public employment schemes. At first sight, this evidence contradicts Rueda's argument that leftist party governments have only little interest in active labor market policies (because ALMP have the potential to bring more people into the labor market and therefore may undermine the privileged position of labor market insiders). By more closely examining the results, it becomes evident that the ALMPS implemented by the German left-wing government always included a part that positively affected labor market insiders and actually helped them to keeping their job or their status (non of the measures affected the employment security of insiders).⁶ The empirical evidence further supports Rueda (2006, p. 390), who argues that social democratic governments are more likely to produce pro-insider policies when they are subject to greater amount of pro-insider pressure from unions. The fact that ALMP measures were mostly linked

⁶One example is the implementation of the job-rotation scheme, which gave 'insiders' the possibility to increase their skills by participating in further vocational training and 'outsiders' the possibility to gain on-the-job experience during the absence of the regular employee.

to policies directed at labor market insiders (and basically had a double side) is a hint in this direction.⁷

An additional way to examine the policy choices reform strategies chosen by various party governments in different institutional settings is to rely on the approach proposed by Häusermann (2010). She structures the reforms of continental pension schemes along the line of four different reform dimensions, which have gained in saliency in times of fiscal constraints and austerity. The proposed conflict dimensions, which all produce specific groups of winners and losers are *insurance*, *capitalization*, *targeting and recalibration*. In a nutshell, conflicts along the *insurance* dimension involve questions regarding the level of benefits and in general conflicts over cost control. These lines of conflict are likely to result in a division between the workforce (who is in favor of the insurance scheme) and the employers (who oppose the insurance scheme). In addition, labor market outsiders (and people with irregular work history) are likely to be opponents of the insurance scheme as well. The second dimension of conflicts is related to the *capitalization* of the policy in question, in particular, the financing mechanisms. This conflict is especially salient in pension politics because it is heavily related to demographic aging and the explicit inter-generational contract most pension schemes are based on. The dimension of *capitalization* is less important in labor market politics. As opposed to the second dimension, the third dimension is of great importance in labor market reforms. The *targeting* dimension touches upon the question of eligibility to benefit from a particular social policy or insurance program. In Häusermann's work, eligibility mainly refers to the pension scheme, in the field of labor market policies, the 'eligibility'-conflict can be related to the unemployment insurance scheme but can also have a broader meaning, e.g. whether a person is eligible to participate in a training programme etc. The lines of conflict within this dimension are straight forward. Outsiders are favorable of policy measures related to this dimension and insiders will be rather opposed. Similar to the *targeting* dimension, the *recalibration* dimension also deals with questions of eligibility. However, more specifically with the adaption of the existing system to new demands, especially the demand to implement gender-equality and to react to the increasing female labor participation and the decreasing importance of the male breadwinner model. The conflict lines are, according to Häusermann, similar to the ones observed within the *targeting* dimension.⁸

⁷The reason, why unions are able to pressure the government has to do with the political and institutional constraints, who also originate in the coordinated nature of the German economy.

⁸This is a brief summary of the main points and does not cover the details of the characteristics of the conflict dimensions and conflict lines.

These conflict lines could also be used to meaningfully analyze reform processes and political struggles in the field of labor market policy-making. The following paragraph offers an illustrating example, but by now means exhausts the possibilities this approach offers. The Financial and Social Welfare Bill implemented by the Irish ‘rainbow-coalition’ in 1996 partly focused on measures to bring people back to work because long-term unemployment was one of the most salient problems during the mid-1990s. These measures mostly belong to the *targeting* dimension. The discussions in parliament and the statements by unions show that these measures, which mostly benefited labor market outsiders, were not approved everywhere. Labor unions – to some extent – took a critical stand towards these measures and would have liked the government decide on a tax relief for PAYE workers (The Irish Times, 30.11.1995). The Irish National Organization of the Unemployed therefore criticized the labor unions of not doing enough for the unemployed (The Irish Times, 20.12.1995). This shows that the expected lines of conflict within a particular dimension in labor market policy-making show similarities with other fields of social policy-making (such as old-age pension politics). In the Irish case, however, the pressure by labor unions has only limited effects on government policy-making.

As mentioned before, this section does not exhausts the possibilities offered by these approaches, especially rich approach proposed by Häusermann based on four different lines of conflict, which help to examine and identify different reform coalitions, beneficiaries and losers of distinct reform strategies.⁹ Therefore, this section mainly shows that the evidence at hand can be interpreted from different angles, and that these different explanations do not necessarily mutually exclude each other but are meant to amend the interpretation and discussion of the results in the empirical chapters.

9.3 Future Research

The evidence of this project has implications for comparative welfare state research, theoretically as well as empirically or methodologically. Theoretically, comparative welfare state research should strengthen its focus on the way that party politics is mediated by constraints. In addition, the systematic inclusion of different dimensions of social policy change proved to be a helpful strategy when evaluating how party governments influence the development of social policies and how (and if) they are able to transform their distinct ideological preferences into social policies. Empirically,

⁹It would be fruitful to test the propositions of this approach more extensively in the field of labor market politics because this policy field has conflict lines similar to the ones present in the field of pension politics.

research should move away from highly aggregated data to capture welfare state change in times of austerity and fiscal constraints.

The joint impact of political constraints and party governments should be investigated further. In particular, the linkage between different labor unions, representing different sectors and social democratic parties and party governments in post-industrial societies should be more closely analyzed. Rueda's 'insider' - 'outsider' approach (2005; 2007) is a helpful start to examine potential new cleavages and political preferences of different sectoral groups and industries. Rueda's framework is based on a rough differentiation between 'insiders' and 'outsiders' only and it would be beneficial to integrate the role of politics and labor unions more explicitly in the theoretical framework and tie it more closely to recent developments and research on class-based voting and newly developed or revised class-schemes (see e.g. Oesch, 2006*a,b*). Even though union membership is decreasing, the ties between unions and social democratic parties are still strong. A recent study has shown that an overwhelming majority of the social democratic members of parliament are also member of a labor union, either of the peak organization or a union representing a particular economic sector. In contrast with the numbers of unionized workers, which have been constantly decreasing during the past years, the ratio of members of parliament who represent both their party and the interests of the labor union has been increasing. Comparative welfare state research should take this phenomenon into account when examining welfare state change and theorizing the political processes associated with it.

Theories aiming at investigating the impact of partisanship on social policy-making in post-industrial societies should also take into account the multidimensionality of social policies and policy-making in general and how party politics can have diverging impacts on the multiple dimensions. To break the tradition of focusing on spending (or retrenchment) is important in order to further develop theories of welfare state change and to reintegrate assumptions concerning political and partisan preferences. The interest in how different groups in society are affected by differing party governments is likely to grow in the future. The same goes for the patterns how labor markets are changing and which political economies are more likely to have large shares of labor market 'outsiders'. Empirical analyses focusing on these questions and developments should also take into account the priorities party governments give to the reform of tax systems. Even though tax reforms were not explicitly part of the empirical analysis and not a policy field that has been examined in the case studies, by analyzing the reform processes it became clear that tax reforms and tax issues are an underlying topic in most of the reform processes. The discussions in parliament related to the implementation of the Financial and Social Welfare bill 2001 in Ireland

were even dominated by issues related to the overall tax system and income taxes in particular. The tax issue was less prominent in Germany and Switzerland but references to potential tax reforms or the necessity of reforming taxes occurred during most debates. To systematically analyze changes in the tax scheme and examine the impact of these changes on various groups in society would complement the analysis and possibly provide further insight in to the way in which different social groups are privileged under one government or another. Comparative research on tax reforms and their impact on individuals, firms and societal inequality is challenging and complex, mostly because tax regimes differ greatly across countries (e.g. in some federal states taxes greatly vary across the sub-national units and it is hard to disentangle the effects). One possibility would be to focus on tax reforms that are predominantly affecting taxes connected to the labor market, such as taxes on labor, business and companies and combine the evidence with evidence gained from the analysis of social policy and labor market reforms.

A shift in theories aiming at explaining changes in contemporary welfare states and the impact of these changes on various groups in society should ideally also include a shift in the data generated to document this shift. Comparative research on welfare state change generally is based on either quantitative studies that rely on highly aggregated data or consists of case studies that focus on reform processes within a small number of countries. The first research strategy is based on indirect operationalizations of reform processes and mainly captures overall policy outcomes, such as that relating to social spending. Case study work has proven to be very important for the adaptation of theoretical approaches and their testing. Case study work is better able to capture policy shifts, critical junctures and policy punctuations, and scholars are able to more directly observe and document policy changes. Nonetheless, insight based on case studies is usually limited to certain countries, a particular period or policy field. The potential to generalize based on insights gained through case studies is therefore limited. To address these problems, more appropriate data should be generated which captures the changes in the design of policies and that will provide a more appropriate picture of the incremental changes going on in mature welfare states.

Empirically, comparative welfare state research should start building up a tradition that is not based on highly aggregated (spending) data. The use of aggregated data, especially of social and public spending data, has been widely criticized within the literature, but only a few people have tried to establish alternative measures. The focus on aggregated spending measures might have been appropriate to explain welfare state growth and the factors that influence it. However, it is difficult to address questions related to the impact of party politics on welfare state retrenchment, the persistence of

social policies in certain domains and the development of new social policies, by relying on aggregated data. One possibility to get a better picture of how social policies are changing is to generate data that is based on reform processes. Ideally, this data includes successful and failed reform efforts per country for various social policy fields and for various dimensions (or issues) of social policy-making. A collection of coded reform processes (successful and failed processes) across various policy fields has the potential to provide insight into a variety of research questions related to social policy-making in mature welfare states and other areas of comparative politics. On the one hand, and related to comparative welfare state research, data based on coded reform processes (failed and successful) could provide insight into the circumstances in which party governments are able to successfully reform social policies and whether or not changes in one dimension are systematically related to changes on other dimensions in a particular institutional setting and in a particular actor constellation. On the other hand, it would also be possible to compare whether or not systematic differences exist across policy fields. E.g. whether different issues/dimensions are emphasized in social policy fields where the ‘insider’ - ‘outsider’ cleavage is not as apparent as in labor market policy. Related to the impact of party governments and differing coalition agreements, using the data base, it would then be possible to examine how the content of reform proposals may change between different types of governments. For instance, a researcher could determine if oversized coalition governments tend to propose and emphasize certain reform dimensions more than minority governments. Related to this question, the impact of close elections on the design of policies could be evaluated as well.

Comparative welfare state research would significantly benefit from more sophisticated data on policy change, i.e. on the different steps of the reform process, information on the substantive reform issues, and the actors involved. First, and unlike the highly aggregated data on policy output that is often used to examine social policy, data on legislative actions of parliaments would provide a *direct* measure of social policy-making and social policy change. Such data could be used as an alternative to indirect concepts (e.g. social spending) that are influenced by many other variables unrelated to the theory of interest.¹⁰ Second, the data would not only be useful for quantitative analyses, but would also provide additional information for qualitative research. They could also help to guide case study research by presenting a full list of reforms, which would be useful for a proper selection of cases. This strategy is also an attempt to link comparative welfare state reforms to neighboring and related field of

¹⁰Data on social spending are influenced by factors that are not (or only to a limited extent) in control of parties in government, such as random economic shocks, and other, often unobservable, variables.

research such as the comparative research on legislative processes and policy-making. Examples are the quantification of legislative action by coding policy agendas of party governments (see e.g. Baumgartner and Jones, 1991, 1993; Jones and Baumgartner, 2005; Bräuninger, Debus and Wüst, 2005; John, 2006) and the use of roll-call data to examine legislative output and policy-making (see e.g. Hug and Schulz, 2007; Hix, Noury and Roland, 2005; Ringe, 2005, for the use of roll-call data within the European context) or the recently established SFB project at Mannheim, which focuses on the ‘political economy of reforms’ in a broader sense.¹¹

With respect to the practical issues related to the design of such a data set; the conceptualization of a reform effort, i.e. which reform processes qualify as failed/attempted reforms are crucial for the construction of an appropriate data base. Different steps may be taken to identify the universe of reform efforts: First, I will identify social policy reform proposals that were debated in parliament, but explicitly rejected in a parliamentary vote. This information comes from parliamentary databases on legislative proposals. Second, I will use a broader concept of reform efforts by comparing the agenda presented by governments at the beginning of a legislative term with the achievements (the implemented policies) at the end of the term. By following up on specific reform plans mentioned in the agenda it will be possible to identify unsuccessful reform efforts and assess at which stage they failed.

The explicit analysis of both successful and failed reform efforts is important for a number of reasons. Usually, the analysis of reform processes focuses on reforms that were approved and implemented at the end of the process. However, the analysis of ‘negative’ cases (failed reform processes or blocked attempts to reform a particular social policy) provides a more complete picture under which circumstances party governments are successful to build a ‘reform coalition’ because it allows us to draw conclusions when pivotal actors deny their support. The unit of analysis therefore is a reform effort and not a successful reform. Levy (2007) and Mahoney and Goertz

¹¹Research on policy agenda’s is influenced by the seminal work on agenda setting in the US context by Baumgartner and Jones (1991, 1993); Jones and Baumgartner (2005). Following the original research on the U.S., European scholars are currently engaged in the ‘comparative agendas project’ (see e.g. Baumgartner, Green-Pedersen and Jones, 2006; Bräuninger, Debus and Wüst, 2005; John, 2006; Sieberer, 2006; Walgrave, Varone and Dumont, 2006). This strand of research is influenced by scholarly interest in the agenda setting capacity of party governments, issues of salience, and public opinion. The agenda setting literature is issue-centered rather than actor-centered and focuses on the dynamics of issue changes, issue attention, and saliency. Legislative output and policy-making is also at the center of the study of roll-call votes. Research based on the analysis of roll-call votes also has its origins in the US. Recent developments in the field is the analysis of roll-call votes of the European parliament and the extension of the method to Western European countries, see e.g. Ringe (2005); Hix, Noury and Roland (2006, 2005); Hug and Schulz (2007). The analysis of roll-call votes gives insights into the voting behavior of members of parliament, party cohesion and coalition building in different subject areas of parliamentary work.

(2004) emphasize that the analysis of ‘negative’ cases can yield important information on the further development of theory. The potential problem of analyses that only select ‘positive’ cases, namely selection-bias and incorrect inference, was discussed e.g. by Geddes (2003) and Collier and Mahoney (1996). The extended analysis will show whether the ‘reform coalitions’ are the same across policy fields and, more importantly, over time. This encompassing analysis will show how similar the policy positions of parties and other pivotal actors need to be in order to find a common ground and to pass a reform bill.¹²

To approach fundamental research questions such as the impact of politics on policy design and policy changes using a different data base that more directly captures policy change is a promising way to analyze various topics in comparative politics and could be a strategy to move away from highly aggregated data on policy outputs and policy outcomes. This research strategy would also bring comparative welfare state research closer to related strands of research, which – in my view – would further advance the field. All too often scholars rely on the same data and the same research strategies, neglecting that political science and the analysis of public policies has advanced in related fields. To combine different approaches can be a fruitful and innovative way to extend our knowledge about policy-making processes in mature welfare states, party competition and the relationship between party governments and their assumed constituencies.

¹²For some policy fields and some countries a collection of successful reform processes exist, e.g. Häusermann’s (2007) collection of pension reforms in France, Germany and Switzerland. Comparative data on a larger set of reforms across various social policy fields is not available, to the best of my knowledge.

Bibliography

- Achen, Christopher H. 2000. "Why Lagged Dependent Variables Can Suppress the Explanatory Power of Other Independent Variables." The Society for Political Methodology, Working Papers.
URL: <http://polmeth.wustl.edu/workingpapers.php>
- Achen, Christopher H. 2002. "Toward a New Political Methodology: Microfoundation and ART." *Annual Review of Political Science* 5:423–450.
- Achen, Christopher H. 2005. "Let's Put Garbage-Can Regression and Garbage-Can Probits Where They Belong." *Conflict Management and Peace Science* 22(4):327–339.
- Adserà, Alicia and Carles Boix. 2002. "Trade, Democracy, and the Size of the Public Sector: The Political Underpinnings of Openness." *International Organization* 56(2):229–262.
- Afonso, Alexandre. 2005. "When the Export of Social Problems Is No Longer Possible: Immigration Policies and Unemployment in Switzerland." *Social Policy & Administration* 39(6):653–668.
- Alber, Jens. 1986. Germany. In *Growth to Limits: Western European Welfare States Since World War II*, ed. Peter Flora. Vol. II, Gruyter, pp. 3–154.
- Alber, Jens. 1987. *Vom Armenhaus zum Wohlfahrtsstaat. Analysen zur Entwicklung der Sozialversicherung in Westeuropa*. European Social Science Studies, Campus.
- Alber, Jens and Guy Standing. 2000. "Social Dumping, Catch-Up or Convergence? Europe in a Comparative Global Context." *Journal of European Social Policy* 10(2):99–119.
- Albright, Jeremy J. 2007. "Political Parties in Time and Space." Paper prepared for presentation at the 65th MPSA Annual Conference (April 12-15, Chicago).

- Amable, Bruno, Donatella Gatti and Jan Schumacher. 2006. "Welfare-State Retrenchment: The Partisan Effect Revisited." *Oxford Review of Economic Policy* 22(3):426–444.
- Anderson, Christopher J. 2009. "The Private Consequences of Public Policies: Active Labor Market Policies and Social Ties in Europe." *European Political Science Review* 1(3):341–373.
- Anderson, Karen M. 2001. "The Politics of Retrenchment in a Social Democratic Welfare State – Reform of Swedish Pensions and Unemployment Insurance." *Comparative Political Studies* 34(9):1063–1091.
- Armingeon, Klaus. 1997. "Swiss Corporatism in Comparative Perspective." *West European Politics* 20(4):164–179.
- Armingeon, Klaus. 2001. "Institutionalising the Swiss Welfare State." *West European Politics* 24(2):145–168.
- Armingeon, Klaus, Fabio Bertozzi and Giuliano Bonoli. 2004. "Swiss Worlds of Welfare." *West European Politics* 27(1):20–44.
- Arts, Wil and John Gelissen. 2002. "Three Worlds of Welfare Capitalism or More? A State-of-the-Art Report." *Journal of European Social Policy* 12(2):137–158.
- Ausschuss für Arbeit und Soziales. 10.10.2001. "Beschlussempfehlung und Bericht des 'Ausschuss für Arbeit und Soziales', 103. Sitzung, October 10th 2001." published online.
URL: <http://dip.bundestag.de/>
- Aust, Andreas, Frank Bönker and Hellmut Wollmann. 2002. "Welfare State Reform in Germany from 1982 to the Present." Project: Welfare Reform and Management of Societal Change (Framework Programme 5).
URL: <http://www.kent.ac.uk/wramsoc/workingpapers/index.htm>
- Baccaro, Lucio and Sang-Hoon Lim. 2007. "Social Pacts as Coalitions of the Weak and Moderate: Ireland, Italy and South Korea in Comparative Perspective." *European Journal of Industrial Relations* 13(1):27–46.
- Baltagi, Badi H. 2005 (3rd Edition). *Econometric Analysis of Panel Data*. John Wiley & Sons.
- Baltagi, Badi H. and Ping X. Wu. 1999. "Unequally Spaced Panel Data Regressions with AR(1) Disturbances." *Econometric Theory* 15:814–823.

BIBLIOGRAPHY

- Bambra, Clare. 2005. "Worlds of Welfare and the Health Care Discrepancy." *Social Policy & Society* 4(1):31–41.
- Bambra, Clare. 2006. "Decommodification and the Worlds of Welfare Revisited." *Journal of European Social Policy* 16(1):73–80.
- Basinger, Scott J. and Mark Hallerberg. 2004. "Remodeling the Competition for Capital: How Domestic Politics Erases the Race to the Bottom." *American Political Science Review* 98(2):261–276.
- Baumgartner, Frank R. and Bryan D. Jones. 1991. "Agenda Dynamics and Policy Subsystems." *Journal of Politics* 53(4):1044–1074.
- Baumgartner, Frank R. and Bryan D. Jones. 1993. *Agendas and Instability in American Politics*. University of Chicago Press.
- Baumgartner, Frank R., Christoffer Green-Pedersen and Bryan D. Jones. 2006. "Comparative Studies of Policy Agendas." *Journal of European Public Policy* 13(7):959–974.
- Becher, Michael. 2010. "Constraining Ministerial Power: The Impact of Veto Players on Labor Market Reforms in Industrial Democracies, 1973-2000." *Comparative Political Studies* 43(1):33–60.
- Beck, Nathaniel and Jonathan N. Katz. 1995. "What to Do (and Not to Do) with Time-Series Cross-Section Data." *American Political Science Review* 89(3):634–647.
- Beck, Nathaniel and Jonathan N. Katz. 1996. "Nuisance vs. Substance: Specifying and Estimating Time-Series-Cross-Section Models." *Political Analysis* 6(1):1–36.
- Beck, Nathaniel and Jonathan N. Katz. 2004. "Time-Series-Cross-Section Issues: Dynamics 2004." The Society for Political Methodology, Working Papers.
URL: <http://polmeth.wustl.edu/workingpapers.php>
- Bennett, Andrew. 2002. "Where the Model Frequently Meets the Road: Combining Statistical, Formal, and Case Study Methods." Paper prepared for presentation at the 2002 APSA Conference (August 29-September 1, Boston).
- Bennett, Andrew and Colin Elman. 2006a. "Complex Causal Relations and Case Study Methods: The Example of Path Dependence." *Political Analysis* 14(3):250–267.
- Bennett, Andrew and Colin Elman. 2006b. "Qualitative Research: Recent Developments in Case Study Methods." *Annual Review of Political Science* 9:455–476.

- Benoit, Kenneth, Michael Laver and Slava Mikhaylov. 2007. "Mapping Policy Preferences with Uncertainty: Measuring and Correcting Error in Comparative Manifesto Projects Estimates." Paper prepared for presentation at the 65th MPSA Annual Conference (April 12-15, Chicago).
- Beramendi, Pablo and David Rueda. 2007. "Social Democracy Constrained: Indirect Taxation in Industrialized Democracies." *British Journal of Political Science* 37(4):619–641.
- Beramendi, Pablo and Thomas Cusack. 2009. "Diverse Disparities: The Politics and Economics of Wage, Market, and Disposable Income Inequalities." *Political Research Quarterly* 62(2):257–275.
- Berger, Suzanne. 2000. "Globalization and Politics." *Annual Review of Political Science* 3:43–62.
- Bergh, Andreas. 2004. "The Universal Welfare State: Theory and the Case of Sweden." *Political Studies* 52(4):745–766.
- Bergh, Andreas. 2005. "On the Counterfactual Problem of Welfare State Research: How Can We Measure Redistribution?" *European Sociological Review* 21(4):345–357.
- Berthold, Norbert and Sascha von Berchem. 2003. "Job-AQTIV, Hartz, Agenda 2010 – Aufbruch zu neuen Ufern oder viel Lärm um Nichts?" *Wirtschaftswissenschaftliche Beiträge des Lehrstuhls für Volkswirtschaftslehre, Wirtschaftsordnung und Sozialpolitik, Julius-Maximilians-Universität Würzburg* (Nr. 66).
- Birchfield, Vicki and Markus M. L. Crepaz. 1998. "The Impact of Constitutional Structures and Collective and Competitive Veto Points on Income Inequality in Industrialized Democracies." *European Journal of Political Research* 34(2):175–200.
- Blanchard, Olivier. 2006. "European Unemployment: The Evolution of Facts and Ideas." *Economic Policy* 45:5–59.
- Blatter, Joachim and Till Blume. 2008. "In Search of Co-variance, Causal Mechanisms or Congruence? Towards a Plural Understanding of Case Studies." *Swiss Political Science Review* 14(2):315–356.
- Bleses, Peter and Martin Seeleib-Kaiser. 2004. *The Dual Transformation of the German Welfare State*. New Perspective in German Studies, Palgrave Macmillan.
- Blondel, Jean. 1968. "Party Systems and Patterns of Government in Western Democracies." *Canadian Journal of Political Science* 1(2):180–203.

BIBLIOGRAPHY

- Bodmer, Frank and Silvio Borner. 2005. "Wirtschaft und Politik in der Schweiz (Debatte): Ist die direkte Demokratie mitschuldig an der wirtschaftlichen Stagnation der Schweiz?" *Swiss Political Science Review* 11(3):150–156.
- Boeri, Tito, Axel Börsch-Supan, Guido Tabellini, Karl Ove Moene and Ben Lockwood. 2001. "Would You Like to Shrink the Welfare State? A Survey of European Citizens." *Economic Policy* 16(32):9–50.
- Bonoli, Giuliano. 1997. "Classifying Welfare States: A Two-dimensional Approach." *Journal of Social Policy* 26(3):351–372.
- Bonoli, Giuliano. 2001. Political Institutions, Veto Points, and the Process of Welfare State Adaption. In *The New Politics of the Welfare State*, ed. Paul Pierson. Oxford University Press, pp. 238–264.
- Bonoli, Giuliano. 2005. "The Politics of the New Social Policies: Providing Coverage against New Social Risks in Mature Welfare States." *Policy & Politics* 33(3):431–449.
- Bonoli, Giuliano. 2007a. Switzerland: The Impact of Direct Democracy. In *The Handbook of West European Pension Politics*, ed. Ellen M. Immergut, Karen M. Anderson and Isabelle Schulze. Oxford University Press, pp. 203–247.
- Bonoli, Giuliano. 2007b. "Time Matters: Postindustrialization, New Social Risks, and Welfare State Adaption in Advanced Industrial Democracies." *Comparative Political Studies* 40(5):495–520.
- Bonoli, Giuliano. 2008. "The Political Economy of Activation. Explaining Cross-National Variation in Active Labor Market Policy." *Working Paper IDHEAP* (1):1–21.
- Bonoli, Giuliano. 2010. "The Political Economy of Active Labour Market Policy." *Working Papers on the Reconciliation of Work and Welfare in Europe (REC-WP)* (01/2010):1–29.
- Bonoli, Giuliano and André Mach. 2000. Switzerland: Adjustment Politics within Institutional Constraints. In *Welfare and Work in the Open Economy Volume II: Diverse Responses to Common Challenges in Twelve Countries*, ed. Fritz W. Scharpf and Vivien A. Schmidt. Oxford University Press pp. 131–174.
- Borner, Silvio and Hans Rentsch. 1997. *Wieviel direkte Demokratie verträgt die Schweiz. Kritische Beiträge zur aktuellen Reformdebatte*. Rügger.
- Bouget, Denis. 2003. "Convergence in the Social Welfare Systems in Europe: From Goal to Reality." *Social Policy & Administration* 37(6):674–693.

- Bradley, David, Evelyne Huber, Stephanie Moller, François Nielsen and John D. Stephens. 2003. "Distribution and Redistribution in Postindustrial Democracies." *World Politics* 55(2):193–228.
- Brady, David, Jason Beckfield and Martin Seeleib-Kaiser. 2004. "Economic Globalization and the Welfare State in Affluent Democracies, 1975-1998." *ZeS Working Paper* (12):1–51.
URL: <http://www.zes.uni-bremen.de/>
- Brady, David and Kevin T. Leicht. 2008. "Party to Inequality: Right Party Power and Income Inequality in Affluent Western Democracies." *Research in Social Stratification and Mobility* 26(1):77–106.
- Brambor, Thomas, William Roberts Clark and Matt Golder. 2006. "Understanding Interaction Models: Improving Empirical Analysis." *Political Analysis* 14(1):63–82.
URL: <http://homepages.nyu.edu/mrg217/interaction.html>
- Braun, Dietmar. 2003. "Dezentraler und unitarischer Föderalismus. Die Schweiz und Deutschland im Vergleich." *Swiss Political Science Review* 9(1):57–89.
- Bräuninger, Thomas. 2005. "A Partisan Model of Government Expenditure." *Public Choice* 125(3-4):409–429.
- Bräuninger, Thomas, Marc Debus and Fabian Wüst. 2005. "Government, Opposition, and Legislative Activity."
- Breunig, Christian and Marius R. Busemeyer. 2008. "Fiscal Austerity and the Trade-Off Between Public Investment and Social Spending." Paper prepared for presentation at the Annual Meeting of the DVPW.
- Brooks, Clem and Jeff Manza. 2006. "Why Do Welfare States Persist?" *Journal of Politics* 68(4):816–827.
- Brooks, Clem and Jeff Manza. 2007. *Why Welfare States Persist: The Importance of Public Opinion in Democracies*. Studies in Communication, Media, and Public Opinion, University of Chicago Press.
- Brunner, Martin and Marc Debus. 2008. "Between Programmatic Interests and Party Politics: The German Bundesrat in the Legislative Process." *German Politics* 17(3):232–251.
- Budge, Ian and D. J. Farlie. 1983. *Explaining and Predicting Elections*. Allen and Unwin.

BIBLIOGRAPHY

- Bulsara, Hament and Bill Kissane. 2009. "Arend Lijphart and the Transformation of Irish Democracy." *West European Politics* 32(1):172–195.
- Bundesversammlung der Schweizerischen Eidgenossenschaft. 2001. "Amtliches Bulletin der Bundesversammlung (Nationalrat), Wintersession 11. Tagung der 46. Amtsdauer." published online.
URL: <http://www.parlament.ch/ab/frameset/d/index.htm>
- Burgoon, Brian. 2001. "Globalization and Welfare Compensation: Disentangling the Ties That Bind." *International Organization* 55(3):509–551.
- Burke, Helen. 1999. Foundation Stones of Irish Social Policy 1831-1951. In *Irish Social Policy in Context*, ed. Gabriel Kiely, Anne O'Donnell, Patricia Kennedy and Suzanne Quin. University College Dublin Press, pp. 11–32.
- Caliendo, Marco, Alexander Kritikos, Viktor Steiner and Frank Wiessner. 2007. "Existenzgründungen: Unterm Strich ein Erfolg." *IAB Kurzbericht* (10).
- Callan, Tim and Brian Nolan. 2000. Taxation and Social Welfare. In *Bust to Boom? The Irish Experience of Growth and Inequality*, ed. Brian Nolan, Philip J. O'Connell and Christopher T. Whelan. IPA Institute of Public Administration chapter 10, pp. 179–203.
- Cameron, David R. 1978. "The Expansion of the Public Economy: A Comparative Analysis." *American Political Science Review* 72(4):1243–1261.
- Castles, Francis G. 1998. *Comparative Public Policy – Patterns of Post-war Transformation*. Edward Elgar.
- Castles, Francis G. 2001. "On the Political Economy of Recent Public Sector Development." *Journal of European Social Policy* 11(3):195–211.
- Castles, Francis G. 2002. "Developing New Measures of Welfare State Change and Reform." *European Journal of Political Research* 41:613–641.
- Castles, Francis G. 2004. *The Future of the Welfare State: Crisis, Myths and Crisis Realities*. Oxford University Press.
- Castles, Francis G. and Deborah Mitchell. 1993. Worlds of Welfare and Families of Nations. In *Families of Nations: Patterns of Public Policy in Western Democracies*, ed. Francis G. Castles. Dartmouth Publishing Company, pp. 93–128.
- Castles, Francis G. and Peter Mair. 1984. "Left-Right Political Scales: Some 'Expert' Judgments." *European Journal of Political Research* 12:73–88.

- Castles, Francis G. and Robert D. McKinlay. 1979. "Public Welfare Provision, Scandinavia, and the Sheer Futility of the Sociological Approach to Politics." *British Journal of Political Science* 9(2):157–171.
- Chan, Tak Wing and John H. Goldthorpe. 2007. "Class and Status: The Conceptual Distinction and its Empirical Relevance." *American Sociological Review* 72(4):512–532.
- Chinn, Menzie and Hiro Ito. 2005. "What Matters for Financial Development? Capital Controls, Institutions, and Interactions." *NBER Working Paper Series* (11370).
URL: <http://www.nber.org/papers/w11370>
- Chubb, Basil. 1992. *The Government and Politics of Ireland*. 3rd ed. Longman, London.
- Clark, William Roberts, Usha Reichert Nair, Sandra Lynn Lomas and Kevin L. Parker. 1998. "International and Domestic Constraints on Political Business Cycles in OECD Economies." *International Organization* 52(1):87–120.
- Clasen, Jochen and Nico A. Siegel. 2007. *Investigating Welfare State Change: The 'Dependent Variable Problem' in Comparative Analysis*. Edward Elgar.
- Clayton, Richard and Jonas Pontusson. 1998. "Welfare-State Retrenchment Revisited: Entitlement Cuts, Public Sector Restructuring, and Inegalitarian Trends in Advanced Capitalist Societies." *World Politics* 51(1):67–98.
- Coakley, John. 1999. The Foundations of Statehood. In *Politics in the Republic of Ireland*, ed. John Coakley and Michael Gallagher. Routledge pp. 1–31.
- Coakley, John. 2002. "Religion, National Identity and Political Change in Modern Ireland." *Irish Political Studies* 17(1):4–28.
- Collier, David and James Mahoney. 1996. "Insights and Pitfalls: Selection Bias in Qualitative Research." *World Politics* 49(1):56–91.
- Collins, Neil. 2004. "Parliamentary Democracy in Ireland." *Parliamentary Affairs* 57(3):601–612.
- Conroy, Pauline. 1999. From the Fifties to the Nineties: Social Policy Comes Out of the Shadow. In *Irish Social Policy in Context*, ed. Gabriel Kiely, Anne O'Donnell, Patricia Kennedy and Suzanne Quin. University College Dublin Press pp. 33–50.
- Cousins, Mel. 1997. "Ireland's Place in the Worlds of Welfare Capitalism." *Journal of European Social Policy* 7(3):223–235.

BIBLIOGRAPHY

- Cousins, Mel. 2005. *European Welfare States*. Sage Publications.
- Crepaz, Markus M. L. 1996. “Consensus Versus Majoritarian Democracy – Political Institutions and their Impact on Macroeconomic Performance and Industrial Disputes.” *Comparative Political Studies* 29(1):4–26.
- Crepaz, Markus M. L. 2002. “Global, Constitutional, and Partisan Determinants of Redistribution in Fifteen OECD Countries.” *Comparative Politics* 34(2):169–188.
- Crepaz, Markus M. L. and Ann W. Moser. 2004. “The Impact of Collective and Competitive Veto Points on Public Expenditures in the Global Age.” *Comparative Political Studies* 37(3):259–285.
- Cusack, Thomas, Torben Iversen and Philipp Rehm. 2006. “Risks at Work: The Demand and Supply Sides of Government Redistribution.” *Oxford Review of Economic Policy* 22(3):365–389.
- Dáil Éireann. 01.02.1996a. “Dáil Éireann, Volume 460, 1 February (Financial Resolutions, 1996, General).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0460/D.0460.199602010003.html>
- Dáil Éireann. 06.12.2000. “Dáil Éireann, Volume 527, 6 December, 2000 (Financial Resolution, 2001, Budget Statement).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0527/D.0527.200012060019.html>
- Dáil Éireann. 07.12.2001a. “Dáil Éireann, Volume 527, 7 December, 2000 (Financial Resolution No. 4: General).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0527/D.0527.200012070024.html>
- Dáil Éireann. 08.02.1996g. “Dáil Éireann, Volume 461, 8 February (Financial Resolutions, 1996, General).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0461/D.0461.199602080005.html>
- Dáil Éireann. 21.02.2001b. “Dáil Éireann, Volume 531, 21 February, 2001 (Social Welfare Bill, 2001: Second Stage).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0531/D.0531.200102210006.html>

- Dáil Éireann. 23.01.1996b. “Dáil Éireann, Volume 460, 23 January (Financial Resolutions, 1996, Financial Statement, Budget 1996).” Electronic Database.
- Dáil Éireann. 24.01.1996c. “Dáil Éireann, Volume 460, 24 January (Financial Resolutions, 1996, General).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0460/D.0460.199601240004.html>
- Dáil Éireann. 24.02.1999. “Dáil Éireann, Volume 501, 24 February 1999 (Social Welfare Bill, 1999: Second Stage).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0501/D.0501.199902240025.html>
- Dáil Éireann. 25.01.1996d. “Dáil Éireann, Volume 460, 25 January, 1996 (Financial Resolutions, 1996, General).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0460/D.0460.199601250087.html>
- Dáil Éireann. 27.02.2001c. “Dáil Éireann, Volume 531, 27 February, 2001 (Financial Bill, 2001: Second Stage).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0531/D.0531.200102270022.html>
- Dáil Éireann. 28.02.2001d. “Dáil Éireann, Volume 531, 28 February, 2001 (Financial Bill, Second Stage).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0531/D.0531.200102280026.html>
- Dáil Éireann. 30.01.1996e. “Dáil Éireann, Volume 460, 30 January (Financial Resolutions, 1996, General).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0460/D.0460.199601300196.html>
- Dáil Éireann. 31.01.1996f. “Dáil Éireann, Volume 460, 31 January 1996 (Financial Resolutions, 1996).” Electronic Database.
URL: <http://historical-debates.oireachtas.ie/D/0460/D.0460.199601310003.html>
- Davidsson, Johan and Marek Naczyk. 2009. “The Ins and Outs of Dualisation: A Literature Review.” *Working Papers on the Reconciliation of Work and Welfare in Europe* (02/09):1–45.

BIBLIOGRAPHY

- Dehejia, Vivek H. and Philipp Genschel. 1999. "Tax Competition in the European Union." *Politics and Society* 27(3):403–430.
- Deutscher Bundesrat. 20.04.1994. "Plenarprotokoll des Deutschen Bundesrat, 669. Sitzung (20. Mai 1994)." published online.
URL: <http://dip21.bundestag.de/dip21/brp/669.pdf>
- Deutscher Bundestag. 14.04.1994b. "Plenarprotokoll des Deutschen Bundestages, 12. Wahlperiode, 219. Sitzung (14. April 1994)." published online.
URL: <http://dip.bundestag.de/>
- Deutscher Bundestag. 1994a. "Beschlussempfehlung und Bericht des Ausschusses für Arbeit und Sozialordnung (11. Ausschuss)." published online.
URL: <http://dip.bundestag.de/>
- Deutscher Bundestag. 2001b. "Plenarprotokoll des Deutschen Bundestages, 14. Wahlperiode, 199. Sitzung (9. November 2001)." Electronic Database.
URL: <http://dip.bundestag.de/>
- Deutscher Bundestag. 27.09.2001a. "Plenarprotokoll des Deutschen Bundestages, 14. Wahlperiode, 190. Sitzung (27. September 2001)." published online.
- DeViney, Stanley. 1983. "Characteristics of the State and the Expansion of Public Social Expenditure." *Comparative Social Research* 6:151–174.
- Dingeldey, Irene. 2007. "Between Workfare and Enablement – The Different Paths to Transformation of the Welfare State: A Comparative Analysis of Activating Labour Market Policies." *European Journal of Political Research* 46(6):823–851.
- Doyle, David and John Hogan. 2008. "Macroeconomic Policy Change: Ireland in Comparative Perspective." *Irish Political Studies* 23(1):77–97.
- Dreher, Axel, Jan-Egbert Sturm and Heinrich W. Ursprung. 2006. "The Impact of Globalization on the Composition of Government Expenditures: Evidence from Panel Data." *CESifo Working Paper* (1755):1–40.
- Ebbinghaus, Bernhard. 2005. "When Less is More: Selection Problems in Large-N and Small-N Cross-National Comparisons." *International Sociology* 20(2):133–152.
- Ebbinghaus, Bernhard. 2006. *Reforming Early Retirement in Europe, Japan and the USA*. Oxford University Press.
- Ebbinghaus, Bernhard and Jelle Visser. 1998. "When Institutions Matter: Union Growth and Decline in Western Europe, 1950-95." *MZES Working Paper* (30):1–32.

- Ebbinghaus, Bernhard and Werner Eichhorst. 2006. "Employment Regulations and Labor Market Policy in Germany, 1991-2005." *IZA Discussion Paper* (2505):1-62.
- Eichengreen, Barry. 2008 (2nd Edition). *Globalizing Capital – A History of the International Monetary System*. Princeton University Press.
- Erikson, Robert and John H. Goldthorpe. 1992. *The Constant Flux: A Study of Class Mobility in Industrial Societies*. Oxford University Press.
- Esping-Andersen, Gøsta. 1985. *Politics Against Markets: The Social Democratic Road to Power*. Princeton University Press.
- Esping-Andersen, Gøsta. 1990. *The Three Worlds of Welfare Capitalism*. Cambridge University Press.
- Esping-Andersen, Gøsta. 1999. Politics Without Class? Postindustrial Cleavages in Europe and America. In *Continuity and Change in Contemporary Capitalism*, ed. Herbert Kitschelt, Peter Lange, Gary Marks and John D. Stephens. Cambridge University Press, pp. 293-316.
- Fanning, Bryan. 1999. The Mixed Economy of Welfare. In *Irish Social Policy in Context*, ed. Gabriel Kiely, Anne O'Donnell, Patricia Kennedy and Suzanne Quin. University College Dublin Press pp. 51-69.
- Ferrera, Maurizio. 1996. "The 'Southern' Model of Welfare in Social Europe." *Journal of European Social Policy* 6(1):17-37.
- Finseraas, Henning. 2010. "What if Robin Hood is a Social Conservative? How the Political Response to Increasing Inequality Depends of Party Polarization." *Socio-Economic Review* 8(2):283-306.
- Fitzenberger, Bernd, Karsten Kohn and Qingwei Wang. 2006. "The Erosion of Union Membership in Germany: Determinants, Densities, Decompositions." *IZA Discussion Paper* (2193):1-39.
- Fleckenstein, Timo. 2006. "Europeanisation of German Labour Market Policy? The European Employment Strategy Scrutinised." *German Politics* 15(3):284-301.
- Flora, Peter and Jens Alber. 1981. Modernization, Democratization and the Development of Welfare States in Western Europe. In *The Development of Welfare States in Europe and America*, ed. Peter Flora and Arnold J. Heidenheimer. Transaction Books, pp. 37-80.

BIBLIOGRAPHY

- Fontana, Marie-Christine, Alexandre Afonso and Yannis Papadopoulos. 2008. "Putting the Special Case in Its Place: Switzerland and Small-N Comparison in Policy Research." *Swiss Political Science Review* 14(3):521–550.
- Frieden, Jeffrey A. 1991. "Invested Interests: The Politics of National Economic Policies in a World of Global Finance." *International Organization* 45(4):425–451.
- Gallagher, Michael. 1999. The Changing Constitution. In *Politics in the Republic of Ireland*, ed. John Coakley and Michael Gallagher. Routledge pp. 71–98 (Chapter 3).
- Garrett, Geoffrey. 1998a. "Global Markets and National Politics: Collision Course or Virtuous Circle?" *International Organization* 52(4):787–824.
- Garrett, Geoffrey. 1998b. *Partisan Politics in the Global Economy*. Cambridge University Press.
- Garrett, Geoffrey and Deborah Mitchell. 2001. "Globalization, Government Spending and Taxation in the OECD." *European Journal of Political Research* 39(2):145–177.
- Garrett, Geoffrey and Peter Lange. 1991. "Political Responses to Interdependence: What's 'Left' for the Left?" *International Organization* 45(4):539–564.
- Garrett, Geoffrey and Peter Lange. 1995. "Internationalization, Institutions, and Political Change." *International Organization* 49(4):627–655.
- Garry, John and Lucy Mansergh. 1999. Party Manifestos. In *How Ireland Voted, 1997*, ed. Michael Marsh and Paul Mitchell. Studies in Irish Politics Westview Press pp. 82–106.
- Geddes, Barbara. 1990. "How the Cases You Choose Affect the Answers You Get: Selection Bias in Comparative Politics." *Political Analysis* 2(1):131–150.
- Geddes, Barbara. 2003. *Paradigms and Sand Castles – Theory Building and Research Design in Comparative Politics*. University of Michigan Press.
- Genschel, Philipp. 2004. "Globalization and the Welfare State: A Retrospective." *Journal of European Public Policy* 11(4):613–636.
- George, Alexander L. and Andrew Bennett. 2005. *Case Studies and Theory Development in the Social Science*. MIT Press.
- Gerring, John. 2006. "Single-Outcome Studies: A Methodological Primer." *International Sociology* 21(5):707–734.

- Gerring, John. 2007a. *Case Study Research – Principles and Practices*. Cambridge University Press.
- Gerring, John. 2007b. “Is There a (Viable) Crucial-Case Method?” *Comparative Political Studies* 40(3):231–253.
- Gilland Lutz, Karin. 2003. “Irish Party Competition in the New Millenium: Change, or Plus Ca Change?” *Irish Political Studies* 18(2):40–59.
- Goldthorpe, John H. 1984. The End of Convergence: Corporatist and Dualist Tendencies in Modern Western Societies. In *Order and Conflict in Contemporary Capitalism*, ed. John H. Goldthorpe. Clarendon Press, Oxford pp. 315–343.
- Goldthorpe, John H. 2002. “Globalization and Social Class.” *West European Politics* 25(3):1–28.
- Green-Pedersen, Christoffer. 2001. “Welfare-State Retrenchment in Denmark and the Netherlands, 1982-1998 – The Role of Party Competition and Party Consensus.” *Comparative Political Studies* 34(9):963–985.
- Green-Pedersen, Christoffer. 2002. *The Politics of Justification – Party Competition and Welfare State Retrenchment in Denmark and the Netherlands from 1982-1998*. Amsterdam University Press.
- Green-Pedersen, Christoffer. 2004. “The Dependent Variable Problem within the Study of Welfare State Retrenchment: Defining the Problem and Looking for Solutions.” *Journal of Comparative Policy Analysis* 6(1):3–14.
- Green-Pedersen, Christoffer and Markus Haverland. 2002. “The New Politics and Scholarship of the Welfare State.” *Journal of European Social Policy* 12(1):43–51.
- Green-Pedersen, Christoffer and Peter B. Mortensen. 2010. “Who Sets the Agenda and Who Responds to it in the Danish Parliament? A New Model of Issue Competition and Agenda-Setting.” *European Journal of Political Research* 49(2):257–281.
- Hall, Peter A. 1997. The Role of Interests, Institutions and Ideas in Comparative Political Economy of the Industrialized Nations. In *Comparative Politics: Rationality, Culture and Structure*, ed. Mark Irving Lichbach and Alan S. Zuckerman. Cambridge University Press pp. 174–207.
- Hall, Peter A. and Daniel W. Gingerich. 2009. “Varieties of Capitalism and Institutional Complementaries in the Political Economy.” *British Journal of Political Science* 39(3):449–482.

BIBLIOGRAPHY

- Hall, Peter A. and David Soskice. 2001. An Introduction to Varieties of Capitalism. In *Varieties of Capitalism - The Institutional Foundations of Comparative Advantage*, ed. Peter A. Hall and David Soskice. Oxford University Press pp. 1–70.
- Hardiman, Niamh. 1988. *Pay, Politics, and Economic Performance in Ireland 1970-1987*. Clarendon Press, Oxford.
- Hardiman, Niamh. 2000. Social Partnership, Wage Bargaining, and Growth. In *Bust to Boom? The Irish Experience of Growth and Inequality*, ed. Brian Nolan, Philip J. O’Connell and Christopher T. Whelan. IPA Institute of Public Administration, pp. 286–309 (Chapter 15).
- Hardiman, Niamh. 2002. “From Conflict to Co-ordination: Economic Governance and Political Innovation in Ireland.” *West European Politics* 25(4):1–24.
- Hardiman, Niamh. 2005. “Politics and Markets in the Irish ‘Celtic Tiger’.” *The Political Quarterly* 76(1):37–47.
- Hassel, Anke. 1999. “The Erosion of the German System of Industrial Relations.” *British Journal of Industrial Relations* 37(3):483–505.
- Hassel, Anke and Christine Trampusch. 2006. Verbände und Parteien: Die Dynamik von Parteienkonflikten und die Erosion des Korporatismus. In *Transformation des Korporatismus - Festschrift für Wolfgang Streeck zum 60. Geburtstag*, ed. Jens Beckert, Bernhard Ebbinghaus, Anke Hassel and Philip Manow. Campus, pp. 111–132.
- Häusermann, Silja. 2006. “Changing Coalitions in Social Policy Reforms: The Politics of New Social Needs and Demands.” *Journal of European Social Policy* 16(1):5–21.
- Häusermann, Silja. 2007. “Modernization in Hard Times. Post-Industrial Pension Politics in France, Germany and Switzerland.” Thesis presented to the Faculty of Philosophy at the University of Zurich (Switzerland).
- Häusermann, Silja. 2010. *The Politics of Welfare State Reform in Continental Europe: Modernization in Hard Times*. Cambridge University Press.
- Häusermann, Silja, André Mach and Yannis Papadopoulos. 2004. “From Corporatism to Partisan Politics: Social Policy Making under Strain in Switzerland.” *Swiss Political Science Review* 10(2):33–59.
- Henisz, Witold Jerezy. 2004. “Political Institutions and Policy Volatility.” *Economics & Politics* 16(1):1–27.
- URL: <http://www-management.wharton.upenn.edu/henisz/>

- Henisz, Witold Jerezy. 2006. "The Political Constraint Index (POLCON) Dataset, Codebook." Electronic Database.
URL: <http://www-management.wharton.upenn.edu/henisz/>
- Hicks, Alexander and Christopher Zorn. 2005. "Economic Globalization, the Macro Economy, and Reversals of Welfare: Expansion in Affluent Democracies, 1978-94." *International Organization* 59:631–662.
- Hicks, Alexander and Joya Misra. 1993. "Political Resources and the Growth of Welfare in Affluent Capitalist Democracies, 1960-1982." *American Journal of Sociology* 99(3):668–710.
- Hicks, Alexander M. and Duane H. Swank. 1992. "Politics, Institutions, and Welfare State Spending in Industrialized Democracies, 1960-82." *American Political Science Review* 86(3):658–674.
- Hix, Simon, Abdul Noury and Gérard Roland. 2005. "Power to the Parties: Cohesion and Competition in the European Parliament, 1979-2001." *British Journal of Political Science* 35(2):209–234.
- Hix, Simon, Abdul Noury and Gérard Roland. 2006. "Dimensions of Politics in the European Parliament." *American Journal of Political Science* 50(2):494–511.
- House, J. D. and Kyla McGrath. 2004. "Innovative Governance and Development in the New Ireland: Social Partnership and the Integrated Approach." *Governance: An International Journal of Policy and Administration* 17(1):29–58.
- Huber, Evelyne, Charles C. Ragin and John D. Stephens. 1993. "Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State." *American Journal of Sociology* 99(3):711–749.
- Huber, Evelyne and John D. Stephens. 2001. *Development and Crisis of the Welfare State - Parties and Policies in Global Markets*. University of Chicago Press.
- Huber, Evelyne, John D. Stephens and Charles C. Ragin. 1997/2004. "Comparative Welfare States Data Set 1997." Downloadable dataset (updated to 2004 by Brady, Beckfield and Stephens).
URL: <http://www.lisproject.org/publications/welfaredata/welfareaccess.htm>
- Huber, John D. and Ronald Inglehart. 1995. "Expert Interpretations of Party Space and Party Locations in 42 Societies." *Party Politics* 1(1):73–111.

BIBLIOGRAPHY

- Hug, Simon and Tobias Schulz. 2007. "Left-Right Positions of Political Parties in Switzerland." *Party Politics* 13(3):305–330.
- Huo, Jingjing, Moira Nelson and John D. Stephens. 2008. "Decommodification and Activation in Social Democratic Policy: Resolving the Paradox." *Journal of European Social Policy* 18(1):5–20.
- Immergut, Ellen M. 1990. "Institutions, Veto Points, and Policy Results: A Comparative Analysis of Health Care." *Journal of Public Policy* 10(4):391–416.
- Immergut, Ellen M. 1992a. *Health Politics: Interests and Institutions in Western Europe*. Cambridge University Press.
- Immergut, Ellen M. 1992b. The Rules of the Game: The Logic of Health Policymaking in France, Switzerland and Sweden. In *Structuring Politics: Historical Institutionalism in Comparative Analysis*, ed. Sven Steinmo, Kathleen Thelen and Frank Longstreth. Cambridge University Press, pp. 57–89.
- Institut für Politikwissenschaft Bern. 1985-2007. "Année Politique Suisse/Schweizerische Politik (APS)." Electronic Database.
URL: <http://www.anneepolitique.ch/de/index.php>
- Iversen, Torben. 1998. "Wage Bargaining, Hard Money and Economic Performance: Theory and Evidence for Organized Market Economies." *British Journal of Political Science* 28(1):31–61.
- Iversen, Torben. 2001. The Dynamics of Welfare State Expansion – Trade Openness, De-industrialization, and Partisan Politics. In *The New Politics of the Welfare State*, ed. Paul Pierson. Oxford University Press pp. 45–79.
- Iversen, Torben and Anne Wren. 1998. "Equality, Employment, and Budgetary Restraint – The Trilemma of the Service Economy." *World Politics* 50(4):507–546.
- Iversen, Torben and Thomas Cusack. 2000. "The Causes of Welfare State Expansion: Deindustrialization or Globalization?" *World Politics* 52:313–349.
- Jochem, Sven. 2001. Reformpolitik im deutschen Sozialversicherungsstaat. In *Wohlfahrtsstaatliche Politik: Institutionen, politischer Prozess und Leistungsprofil*, ed. Manfred G. Schmidt. Leske & Budrich pp. 193–226 (Chapter 6).
- John, Peter. 2006. "The Policy Agendas Project: A Review." *Journal of European Public Policy* 13(7):975–986.

- Jones, Bryan D. and Frank R. Baumgartner. 2005. *The Politics of Attention: How Government Prioritizes Problems*. Chicago University Press.
- Judson, Katherine A. and Anne L. Owen. 1999. "Estimating Dynamic Panel Data Models: A Guide for Macroeconomists." *Economics Letters* 65:9–15.
- Kalleberg, Arne L. 2000. "Nonstandard Employment Relations: Part-Time, Temporary and Contract Work." *Annual Review of Sociology* 26:341–365.
- Katzenstein, Peter J. 1985. *Small States in World Markets*. Cornell University Press.
- Katzenstein, Peter J. 1987. *Politics and Policy in West Germany: The Growth of a Semisovereign State*. Temple University Press, Philadelphia.
- Keefer, Philip and David Stasavage. 2003. "The Limits of Delegation: Veto Players, Central Bank Independence and the Credibility of Monetary Policy." *American Political Science Review* 97(3):407–423.
- Keele, Luke and Nathan J. Kelly. 2006. "Dynamic Models for Dynamic Theories: The Ins and Outs of Lagged Dependent Variables." *Political Analysis* 14(2):186–205.
- Keman, Hans. 2007. "Experts and Manifestos: Different Sources – Same Results for Comparative Research?" *Electoral Studies* 26(1):76–89.
- Kenworthy, Lane. 2009. "Research Note: The Effect of Public Opinion on Social Policy Generosity." *Socio-Economic Review* 7(4):727–740.
- Kenworthy, Lane and Leslie McCall. 2008. "Inequality, Public Opinion, and Redistribution." *Socio-Economic Review* 6(1):35–68.
- Kim, HeeMin and Richard C. Fording. 2002. "Government Partisanship in Western Democracies, 1945-1998." *European Journal of Political Research* 41(2):187–206.
- Kitschelt, Herbert. 2001. Partisan Competition and Welfare State Retrenchment - When Do Politicians Choose Unpopular Policies? In *The New Politics of the Welfare State*, ed. Paul Pierson. Oxford University Press pp. 265–302.
- Kitschelt, Herbert and Philipp Rehm. 2004. "Socio-Economic Group Preferences and Partisan Alignments." Paper prepared for presentation at the 14th International Conference for Europeanists (March 11-13, Chicago).
- Kitschelt, Herbert and Wolfgang Streeck. 2003. "From Stability to Stagnation: Germany at the Beginning of the Twenty-First Century." *West European Politics* 26(4):1–34.

BIBLIOGRAPHY

- Kittel, Bernhard. 1999. "Sense and Sensitivity in Pooled Analysis of Political Data." *European Journal of Political Research* 35:225–253.
- Kittel, Bernhard. 2006. "A Crazy Methodology? On the Limits of Macro-quantitative Social Science Research." *International Sociology* 21(5):647–677.
- Kittel, Bernhard and Hannes Winner. 2005. "How Reliable is Pooled Analysis in Political Economy? The Globalization-Welfare State Nexus Revisited." *European Journal of Political Research* 44:269–293.
- Kittel, Bernhard and Herbert Obinger. 2003. "Political Parties, Institutions, and the Dynamics of Social Expenditure in Times of Austerity." *Journal of European Public Policy* 10(1):20.
- Klingemann, Hans-Dieter, Andrea Volkens, Judith Bara and Ian Budge. 2006. *Mapping Policy Preferences II: Estimates for Parties, Electors, and Governments in Central and Eastern Europe, European Union and OECD 1990-2003*. Oxford University Press.
- Klöti, Ulrich. 2001. "Consensual Government in a Heterogeneous Polity." *West European Politics* 24(2):19–34.
- Konle-Seidl, Regina, Werner Eichhorst and Maria Grienberger-Zingerle. 2007. "Activation Policies in Germany: From Status Protection to Basic Income Support." *IAB Discussion Paper* (6):1–76.
- Korpi, Walter. 1978. *The Working Class in Welfare Capitalism: Work, Unions, and Politics in Sweden*. Routledge.
- Korpi, Walter. 1983. *The Democratic Class Struggle*. Routledge.
- Korpi, Walter. 1989. "Power, Politics, and State Autonomy in the Development of Social Citizenship: Social Rights During Sickness in Eighteen OECD Countries since 1930." *American Sociological Review* 54(3):309–329.
- Korpi, Walter and Joakim Palme. 1998. "The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries." *American Sociological Review* 63(5):661–687.
- Korpi, Walter and Joakim Palme. 2003. "New Politics and Class Politics in the Context of Austerity and Globalization: Welfare State Regress in 18 Countries, 1975-95." *American Political Science Review* 97(3):425–446.

- Kriesi, Hanspeter and Alexander H. Trechsel. 2008. *The Politics of Switzerland – Continuity and Change in a Consensus Democracy*. Cambridge University Press.
- Kriesi, Hanspeter, Edgar Grande, Romain Lachat, Martin Dolezal, Simon Bornschieer and Timotheos Frey. 2006. “Globalization and the Transformation of the National Political Space: Six European Countries Compared.” *European Journal of Political Research* 45(6):921–956.
- Kristensen, Ida Pagter and Gregory Wawro. 2003. “Lagging the Dog?: The Robustness of Panel Corrected Standard Errors in the Presence of Serial Correlation and Observation Specific Effects.” The Society for Political Methodology, Working Papers. URL: <http://polmeth.wustl.edu/workingpapers.php>
- Kwon, Hyeok Yong and Jonas Pontusson. 2005. “The Rise and Fall of Government Partisanship: Dynamics of Social Spending in OECD Countries, 1962-2000.” Unpublished Manuscript.
- Ladner, Andreas. 1999 (2nd Edition). Das Schweizer Parteiensystem und seine Parteien. In *Handbuch der Schweizer Politik*, ed. Ulrich Klöti, Peter Knoepfel, Hanspeter Kriesi, Wolf Linder and Yannis Papadopoulos. Verlag Neue Zürcher Zeitung, pp. 314–260.
- Ladner, Andreas. 2001. “Swiss Political Parties: Between Persistence and Change.” *West European Politics* 24(2):123–144.
- Larsen, Christian Albrekt. 2008. “The Institutional Logic of Welfare State Attitudes: How Welfare Regimes Influence Public Support.” *Comparative Political Studies* 41(2):145–168.
- Laver, Michael. 1992. Are Irish Parties Peculiar? In *The Development of Industrial Society in Ireland*, ed. John H. Goldthorpe and Christopher T. Whelan. Proceedings of the British Academy, Oxford University Press, pp. 359–382.
- Laver, Michael and Ian Budge, eds. 1993. *Party Policy and Government Coalitions*. Macmillan Press.
- Laver, Michael and W. Ben Hunt. 1992. *Policy and Party Competition*. Routledge.
- Lehmbruch, Gerhard. 1993. “Consociational Democracy and Corporatism in Switzerland.” *Publius* 23(2):43–60.
- Lehmbruch, Gerhard. 1996. “Die korporative Verhandlungsdemokratie in Westmitteleuropa.” *Swiss Political Science Review* 2(4):1–24.

BIBLIOGRAPHY

- Leibfried, Stephan. 1992. Towards a European Welfare State? On Integrating Poverty Regimes into the European Community. In *Social Policy in a Changing Europe*, ed. Zsuzsa Ferge and Jon Eivind Kolberg. Campus Frankfurt/New York pp. 245–280.
- Leschke, Janine, Günther Schmid and Dorit Griga. 2006. “On the Marriage of Flexibility and Security: Lessons from the Hartz-reforms in Germany.” *WZB Discussion Paper* (108):1–22.
- Levy, Jack S. 2007. “Qualitative Methods and Cross-Method Dialogue in Political Science.” *Comparative Political Studies* 40(2):196–214.
- Lewis, Jane and Ilona Oster. 1994. “Gender and the Evolution of European Social Policies.” *Zes-Arbeitspapier* (4/94):1–63.
- Lieberman, Evan S. 2002. “Taxation Data as Indicators of State-Society Relations: Possibilities and Pitfalls in Cross-National Research.” *Studies in Comparative International Development* 36(4):89–115.
- Lieberman, Evan S. 2005. “Nested Analysis as a Mixed-Method Strategy for Comparative Research.” *American Political Science Review* 99(3):435–452.
- Lijphart, Arend. 1984. *Democracies: Patterns of Majoritarian and Consensus Government in Twenty-One Countries*. Yale University Press.
- Lijphart, Arend. 1999. *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries*. Yale University Press.
- Lindbeck, Assar and Dennis J. Snower. 1988. *The Insider-Outsider Theory of Employment and Unemployment*. MIT Press.
- Lindbeck, Assar and Dennis J. Snower. 2001. “Insiders versus Outsiders.” *The Journal of Economic Perspectives* 15(1):165–188.
- Linder, Wolf. 1999 (2nd). Direkte Demokratie. In *Handbuch der Schweizer Politik*, ed. Ulrich Klöti, Peter Knoepfel, Hanspeter Kriesi, Wolf Linder and Yannis Papadopoulos. Verlag Neue Zürcher Zeitung, pp. 109–130.
- Lowi, Theodore. 1964. “American Business, Public Policy, Case-Studies, and Political Theory.” *World Politics* 16(4):677–715.
- Maguire, Maria. 1986. Ireland. In *Growth to Limits: Western European Welfare States Since World War II*, ed. Peter Flora. Vol. 2, Gruyter, pp. 243–383.

- Mahler, Vincent A., David K. Jesuit and Douglas D. Roscoe. 1999. "Exploring the Impact of Trade and Investment on Income Inequality - A Cross-National Sectoral Analysis of the Developed Countries." *Comparative Political Studies* 32(3):363–395.
- Mahoney, James and Gary Goertz. 2004. "The Possibility Principle: Choosing Negative Cases in Comparative Research." *American Political Science Review* 98(4):653–669.
- Mahoney, James and Gary Goertz. 2006. "A Tale of Two Cultures: Contrasting Quantitative and Qualitative Research." *Political Analysis* 14(3):227–249.
- Mair, Peter. 1987. *The Changing Irish Party System – Organisation, Ideology and Electoral Competition*. European Party System Series, Frances Pinter, London.
- Mair, Peter. 1992. Explaining the Absence of Class Politics in Ireland. In *The Development of Industrial Society in Ireland*, ed. John H. Goldthorpe and Christopher T. Whelan. Proceedings of the British Academy, Oxford University Press, pp. 383–410.
- Mair, Peter. 1995. "Political Parties, Popular Legitimacy and Public Privilege." *West European Politics* 18(3):40–57.
- Mair, Peter. 1999. Party Competition and the Changing Party System. In *Politics in the Republic of Ireland*, ed. John Coakley and Michael Gallagher. Routledge chapter 5, pp. 127–151.
- Mair, Peter. 2008. "The Challenge to Party Government." *West European Politics* 31(1):211–234.
- Manow, Philip. 1997. "Social Insurance and the German Political Economy." *MPIfG Discussion Paper* (97/2):1–48.
- Manow, Philip and Eric Seils. 2000a. Adjusting Badly: The German Welfare State, Structural Change, and the Open Economy. In *Welfare and Work in the open Economy Volume II: Diverse Responses to Common Challenges in Twelve Countries*, ed. Vivien A. Schmidt and Fritz W. Scharpf. Vol. II, Oxford University Press pp. 264–307 (Chapter 6).
- Manow, Philip and Eric Seils. 2000b. "The Employment Crisis of the German Welfare State." *West European Politics* 23(2):137–160.
- Manow, Philip and Kees van Kersbergen. 2008. Religion and the Western Welfare State - The Theoretical Context. In *Religion, Class Coalitions and Welfare State Regimes*, ed. Kees van Kersbergen and Philip Manow. New York: Cambridge University Press pp. 4–37.

BIBLIOGRAPHY

- Mares, Isabela. 1997. "Is Unemployment Insurable? Employers and the Development of Unemployment Insurance." *Journal of Public Policy* 17(3):299–327.
- Mares, Isabela. 2000. "Strategic Alliances and Social Policy Reform: Unemployment Insurance in Comparative Perspective." *Politics & Society* 28(2):223–244.
- Marshall, Thomas H. 1992, first published: 1950. *Citizenship and Social Class*. Pluto, London.
- Martin, Cathie Jo and Kathleen Thelen. 2007. "The State and Coordinated Capitalism: Contributions of the Public Sector to Social Solidarity in Postindustrial Societies." *World Politics* 60(1):1–36.
- Matthews, J. Scott and Lynda Erickson. 2008. "Welfare State Structures and the Structure of Welfare State Support: Attitudes Towards Social Spending in Canada, 1993-2000." *European Journal of Political Research* 47(3):411–435.
- Mikhaylov, Slava. 2009. "Position and Importance in the CMP Data." Working Paper.
URL: http://www.tcd.ie/Political_Science/staff/slava_mikhaylov.php
- Mikhaylov, Slava, Michael Laver and Kenneth Benoit. 2008. "Coder Reliability and Misclassification in Comparative Manifesto Project Codings." Paper prepared for presentation at the 66th MPSA Annual Conference, Palmer House Hilton Hotel (April 3-6, Chicago).
- Mishra, Ramesh. 1998. "Beyond the Nation State: Social Policy in an Age of Globalization." *Social Policy & Administration* 32(5):481–500.
- Mjøset, Lars. 1992. *The Irish Economy in a Comparative Institutional Perspective*. Dublin: National Economic and Social Council.
URL: <http://www.nesc.ie/publications.asp>
- Moran, Michael. 1988. "Crises of the Welfare State." *British Journal of Political Science* 18(3):397–414.
- Munck, Gerardo L. and Richard Snyder. 2007. "Debating the Direction of Comparative Politics: An Analysis of Leading Journals." *Comparative Political Studies* 40(1):5–31.
- Murphy, Gary. 1999. The Role of Interest Groups in the Policy Making Process. In *Politics in the Republic of Ireland*, ed. John Coakley and Michael Gallagher. Routledge pp. 271–293 (Chapter 11).

- Murphy, Mary C. 2006. "Reform of Dáil Éireann: The Dynamics of Parliamentary Change." *Parliamentary Affairs* 59(3):437–453.
- Natali, David and Martin Rhodes. 2004. "The 'New Politics' of the Bismarckian Welfare State: Pension Reforms in Continental Europe." *EUI Working Paper Series* (10):1–32.
URL: <http://cadmus.eui.eu/dspace/>
- Neidhart, Leonhard. 1970. *Plebiszit und pluralitäre Demokratie: Eine Analyse der Funktion des schweizerischen Gesetzesreferendums*. Francke.
- Obinger, Herbert. 1998. "Federalism, Direct Democracy, and Welfare State Development in Switzerland." *Journal of Public Policy* 18(3):241–263.
- Obinger, Herbert. 2000. Wohlfahrtsstaat Schweiz: Vom Nachzügler zum Vorbild? In *Der gezügelte Wohlfahrtsstaat – Sozialpolitik in reichen Industrienationen*, ed. Herbert Obinger and Uwe Wagschal. Campus pp. 245–282.
- Obinger, Herbert. 2009. Religion and the Consolidation of the Swiss Welfare State, 1848-1945. In *Religion, Class Coalitions and Welfare State Regimes*, ed. Kees van Kersbergen and Philip Manow. Cambridge University Press pp. 176–205 (Chapter 7).
- Obinger, Herbert, Klaus Armingeon, Giuliano Bonoli and Fabio Bertozzi. 2005. Switzerland: The Marriage of Direct Democracy and Federalism. In *Federalism and the Welfare State: New World and European Experiences*, ed. Herbert Obinger, Stephan Leibfried and Francis G. Castles. Cambridge University Press pp. 263–304.
- OECD. 2008. "OECD Factbook 2008." Electronic Database.
URL: <http://www.sourceoecd.org>
- Oesch, Daniel. 2006a. "Coming to Grips with a Changing Class Structure: An Analysis of Employment Stratification in Britain, Germany, Sweden and Switzerland." *International Sociology* 21(2):263–288.
- Oesch, Daniel. 2006b. *Redrawing the Class Map – Stratification and Institutions in Britain, Germany, Sweden and Switzerland*. Palgrave Macmillan.
- O’Hearn, Denis. 2000. "Globalization, 'New Tigers', and the End of the Developmental State? The Case of the Celtic Tiger." *Politics & Society* 28(1):67–92.
- O’Hearn, Denis. 2001. *The Atlantic Economy: Britain, the US and Ireland*. University of Manchester Press.

BIBLIOGRAPHY

- Ó Riain, Seán. 2004. "State, Competition and Industrial Change in Ireland 1991-1999." *The Economic and Social Review* 35(1):27–53.
- Ó Riain, Seán and Philip J. O’Connell. 2000. The Role of the State in Growth and Welfare. In *Bust to Boom? The Irish Experience of Growth and Inequality*, ed. Brian Nolan, Philip J. O’Connell and Christopher T. Whelan. IPA Institute of Public Administration chapter 16, pp. 310–339.
- Palier, Bruno. 2005. Ambiguous Agreement, Cumulative Change: French Social Policy in the 1990s. In *Beyond Continuity: Institutional Change in Advanced Political Economies*, ed. Wolfgang Streeck and Kathleen Thelen. Oxford University Press.
- Pampel, Fred and John Williamson. 1989. *Age, Class, Politics and the Welfare State*. Cambridge University Press.
- Papadopoulos, Yannis. 2001. "How Does Direct Democracy Matter? The Impact of Referendum Votes on Politics and Policy-Making." *West European Politics* 24(2):35–58.
- Pierson, Paul. 1994. *Dismantling the Welfare State? Reagan, Thatcher, and the Politics of Retrenchment*. Cambridge Studies in Comparative Politics Cambridge University Press.
- Pierson, Paul. 1996. "The New Politics of the Welfare State." *World Politics* 48(2):143–179.
- Pierson, Paul. 1998. "Irresistible Forces, Immovable Objects: Post-industrial Welfare States Confront Permanent Austerity." *Journal of European Public Policy* 5(4):539–560.
- Pierson, Paul. 2001. Coping with Permanent Austerity – Welfare State Restructuring in Affluent Democracies. In *The New Politics of the Welfare State*, ed. Paul Pierson. Oxford University Press pp. 410–456.
- Plümper, Thomas and Vera E. Troeger. 2007. "Efficient Estimation of Time-Invariant and Rarely Changing Variables in Finite Sample and Panel Analyses with Unit Fixed Effects." *Political Analysis* 15(2):124–139.
- Plümper, Thomas, Vera E. Troeger and Philip Manow. 2005. "Panel Data Analysis in Comparative Politics: Linking Method to Theory." *European Journal of Political Research* 44(2):327–354.

- Podestà, Federico. 2003. "Econometric Solutions vs. Substantive Results: A Crucial Trade-Off in the Time-Series-Cross-Section Analysis." ISER Working Papers (Institut for Social and Economic Research).
- Podestà, Federico. 2006. "Comparing Time Series Cross-Section Model Specifications: The Case of Welfare State Development." *Quality and Quantity* 40(4):539–559.
- Polanyi, Karl. 1954. *The Great Transformation*. Beacon Press.
- Pontusson, Jonas and David Rueda. 2010. "The Politics of Inequality: Voter Mobilization and Left Parties in Advanced Industrial States." *Comparative Political Studies* 43(6).
- Primo, David M. 2006. "Stop Us Before We Spend Again: Institutional Constraints on Government Spending." *Economics & Politics* 18(3):269–312.
- Quinn, Dennis P. 1997. "The Correlates of Change in International Financial Regulation." *American Political Science Review* 91(3):531–551.
- Quinn, Dennis P. and Carla Inclan. 1997. "The Origins of Financial Openness: A Study of Current Capital Account Liberalization." *American Journal of Political Science* 41(3):771–813.
- Rehm, Philipp. 2005. "Citizen Support for the Welfare State: Determinants of Preferences for Income Redistribution." *WZB Discussion Paper* SP II 2005(02):1–39.
- Rehm, Philipp. 2009. "Risks and Redistribution – An Individual-Level Analysis." *Comparative Political Studies* 42(7):855–881.
- Reidegeld, Eckhard. 2000. Der Krieg als Entwicklungsbedingung staatlicher Sozialpolitik. In *Abschied vom Staat - Rückkehr zum Staat?*, ed. Rüdiger Voigt. Institut für Staatswissenschaften - Universität der Bundeswehr München pp. 327–351.
- Ringe, Nils. 2005. "Policy Preference Formation in Legislative Politics: Structures, Actors, and Focal Points." *American Journal of Political Science* 49(4):731–745.
- Rodrik, Dani. 1997. "Sense and Nonsense in the Globalization Debate." *Foreign Policy* (107):19–37.
- Rodrik, Dani. 1998. "Why Do More Open Economies Have Bigger Governments?" *Journal of Political Economy* 106(5):997–1032.
- Rohlfing, Ingo. 2008. "What You See and What You Get." *Comparative Political Studies* 41(11):1492–1514.

BIBLIOGRAPHY

- Ross, Fiona. 2000a. "Beyond Left and Right': The New Partisan Politics of Welfare." *Governance* 13(2):155–183.
- Ross, Fiona. 2000b. "Framing Welfare Reform in Affluent Societies: Rendering Restructuring More Palatable?" *Journal of Public Policy* 20(2):169–193.
- Rueda, David. 2005. "Insider-Outsider Politics in Industrialized Democracies: The Challenge to Social Democratic Parties." *American Political Science Review* 99(1):61–74.
- Rueda, David. 2006. "Social Democracy and Active Labour-Market Policies: Insiders, Outsiders and the Politics of Employment Promotion." *British Journal of Political Science* 36(3):385–406.
- Rueda, David. 2007. *Social Democracy Inside Out: Partisanship and Labor Market Policy in Industrialized Democracies*. Oxford University Press.
- Ruggie, John Gerard. 1982. "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order." *International Organization* 36(2):379–415.
- Sartori, Giovanni. 1976. *Parties and Party Systems: A Framework for Analysis*. Vol. 1 Cambridge University Press.
- Scharpf, Fritz W. 2000a. Economic Changes, Vulnerabilities, and Institutional Capabilities. In *Welfare and Work in the Open Economy - From Vulnerability to Competitiveness*, ed. Fritz W. Scharpf and Vivien A. Schmidt. Vol. 1, Oxford University Press, pp. 21–124.
- Scharpf, Fritz W. 2000b. "The Viability of Advanced Welfare States in the International Economy: Vulnerabilities and Options." *Journal of European Public Policy* 7(2):190–228.
- Scheve, Kenneth and David Stasavage. 2009. "Institutions, Partisanship, and Inequality in the Long Run." *World Politics* 61(2):215–253.
- Scheve, Kenneth and Matthew J. Slaughter. 2006. Public Opinion, International Economic Integration, and the Welfare State. In *Globalization and Egalitarian Redistribution*, ed. Pranab Bardhan, Samuel Bowles and Michael Wallerstein. Princeton University Press pp. 217–260.
- Schmidt, Manfred G. 1985. *Der Schweizerische Weg zur Vollbeschäftigung: Eine Bilanz der Beschäftigung, der Arbeitslosigkeit und der Arbeitsmarktpolitik*. Campus Frankfurt/New York.

- Schmidt, Manfred G. 1987. "West Germany: The Policy of the Middle Way." *Journal of Public Policy* 7(2):135–177.
- Schmidt, Manfred G. 1996. "When Parties Matter: A Review of the Possibilities and Limits of Partisan Influence on Public Policy." *European Journal of Political Research* 30:155–183.
- Schnabel, Claus and Joachim Wagner. 2005. "Determinants of Trade Union Membership in West Germany: Evidence from Micro Data, 1980-2000." *Socio-Economic Review* 3(1):1–24.
- Schniewind, Aline, Markus Freitag and Adrian Vatter. 2009. "Big Cabinets, Big Governments? Grand Coalitions and Public Policy in the German Laender." *Journal of Public Policy* 29(3):327–345.
- Schulze, Isabelle and Sven Jochem. 2007. Germany: Beyond Policy Gridlock. In *The Handbook of West European Pension Politics*, ed. Ellen M. Immergut, Karen M. Anderson and Isabelle Schulze. Oxford University Press pp. 660–710 (Chapter 14).
- Schumacher, Gijs, Barbara Vis and Kees van Kersbergen. 2009. "Playing the Blame Avoidance Game? Party Competition, Electoral Punishment and Welfare State Reform." Paper prepared for Presentation at the NIG Work Conference (Leiden, 2009).
- Schwartz, Herman. 2001. Round up the Usual Suspects!: Globalization, Domestic Politics, and Welfare State Change. In *The New Politics of the Welfare State*, ed. Paul Pierson. Oxford University Press pp. 17–44.
- Schweizerischer Bundesrat. 2001. "Botschaft zu einem revidierten Arbeitslosenversicherungsgesetz." www.admin.ch.
- Scruggs, Lyle. 2005. "Comparative Welfare Entitlement Dataset." Downloadable dataset.
URL: <http://sp.uconn.edu/~scruggs/wp.htm>
- Scruggs, Lyle. 2007. What's Multiple Regression Got to Do with It? In *Capitalisms Compared*, ed. Lars Mjøset and Tommy H. Clausen. Vol. 24 of *Comparative Socical Research* Elsevier pp. 309–324.
- Scruggs, Lyle and James Allan. 2004. "Welfare State Decommodification and Poverty in Advanced Industrial Democracies." Presented at the 14th International Conference of Europeanists, Palmer House Hilton, Chicago.

BIBLIOGRAPHY

- Scruggs, Lyle and James Allan. 2006. "Welfare State Decommodification in Eighteen OECD Countries: A Replication and Revision." *Journal of European Social Policy* 16(1):55–72.
- Seeleib-Kaiser, Martin. 2003. "Continuity or Change? Red-Green Social Policy after 16 Years of Christian-Democratic Rule." *Zes-Arbeitspapier* (3):1–34.
- Seeleib-Kaiser, Martin, Silke van Dyk and Martin Roggenkamp. 2008. *Party Politics and Social Welfare – Comparing Christian and Social Democracy in Austria, Germany and the Netherlands*. Globalization and Welfare; Edward Elgar.
- Sekhon, Jasjeet S. 2004. "Quality Meets Quantity: Case Studies, Conditional Probability, and Counterfactuals." *Perspectives on Politics* 2(2):281–293.
- Shalev, Michael. 2007. Limits and Alternatives to Multiple Regression in Comparative Research. In *Capitalisms Compared*, ed. Lars Mjøset and Tommy H. Clausen. Vol. 24 of *Comparative Social Research*, Elsevier, pp. 261–308.
- Shikano, Susumu and Eric Linhart. 2010. "Coalition Formation as a Result of Policy and Office Motivations in the German Federal State." *Party Politics* 16(1):111–130.
- Sieberer, Ulrich. 2006. "Agenda Setting in the German Bundestag: A Weak Government in a Consensus Democracy." *German Politics* 15(1):49–72.
- Siegel, Nico A. 2007. When (Only) Money Matters: The Pros and Cons of Expenditure Analysis. In *Investigating Welfare State Change: The 'Dependent Variable Problem' in Comparative Analysis*, ed. Jochen Clasen and Nico A. Siegel. Edward Elgar pp. 43–71.
- Sinnott, Richard. 1999. The Electoral System. In *Politics in the Republic of Ireland*, ed. John Coakley and Michael Gallagher. Routledge chapter 4, pp. 99–126.
- Skocpol, Theda and Edwin Amenta. 1986. "States and Social Policies." *Annual Review of Sociology* 12:131–157.
- Skocpol, Theda and John Ikenberry. 1983. "The Political Formation of the American Welfare State in Historical and Comparative Perspective." *Comparative Social Research* 6(1):87–148.
- Slapin, Jonathan and Sven-Oliver Proksch. 2008. "A Scaling Model for Estimating Time-Series Party Positions from Texts." *American Journal of Political Science* 52(3):705–722.

- Smith, Nicola Jo-Anne. 2005. *Showcasing Globalisation? The Political Economy of the Irish Republic*. Manchester University Press.
- Starke, Peter. 2006. "The Politics of Welfare State Retrenchment: A Literature Review." *Social Policy & Administration* 40(1):104–120.
- Starke, Peter. 2008. *Radical Welfare State Retrenchment – A Comparative Analysis*. Palgrave Macmillan.
- Starke, Peter, Herbert Obinger and Francis G. Castles. 2008. "Convergence towards Where: In What Ways, If Any, Are Welfare States Becoming More Similar?" *Journal of European Public Policy* 15(7):975–1000.
- Steinmo, Sven. 1989. "Political Institutions and Tax Policy in the United States, Sweden and Britain." *World Politics* 41:500–535.
- Steinmo, Sven and Caroline J. Tolbert. 1998. "Do Institutions Really Matter? Taxation in Industrialized Democracies." *Comparative Political Studies* 31(2):165–187.
- Stephens, John D. 1980. *The Transition from Capitalism to Socialism*. Humanities Press.
- Stimson, James A. 1985. "Regression in Space and Time: A Statistical Essay." *American Journal of Political Science* 29(4):914–947.
- Stone Sweet, Alec. 2000. *Governing with Judges – Constitutional Politics in Europe*. Oxford University Press.
- Streeck, Wolfgang. 2003. "From State Weakness as Strength to State Weakness as Weakness: Welfare Corporatism and the Private Use of the Public Interest." *MPIfG Working Paper* (03/02):1–22.
- Streeck, Wolfgang and Anke Hassel. 2003. "The Crumbling Pillars of Social Partnership." *West European Politics* 26(4):101–124.
- Svallfors, Stefan. 1997. "Worlds of Welfare and Attitudes to Redistribution: A Comparison of Eight Western Nations." *European Sociological Review* 13(3):283–304.
- Swank, Duane. 2002. *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*. Cambridge University Press.
- Swank, Duane and Sven Steinmo. 2002. "The New Political Economy of Taxation in Advanced Capitalist Democracies." *American Journal of Political Science* 46(3):642–655.

BIBLIOGRAPHY

- Tanzi, Vito. 1995. *Taxation in an Integrated World*. The Brookings Institution.
- Tanzi, Vito. 1997. "The Changing Role of the State in the Economy: A Historical Perspective." *IMF Working Paper* 97/114.
- Taylor-Gooby, Peter. 2004a. New Risks and Social Change. In *New Risks, New Welfare - The Transformation of the European Welfare State*, ed. Peter Taylor-Gooby. Oxford University Press pp. 1–27.
- Taylor-Gooby, Peter, ed. 2004b. *New Risks, New Welfare – The Transformation of the European Welfare State*. Oxford University Press.
- Thelen, Kathleen. 2001. Varieties of Labor Politics in the Developed Democracies. In *Varieties of Capitalism - The Institutional Foundations of Comparative Advantage*, ed. Peter A. Hall and David Soskice. Oxford University Press pp. 71–103.
- Thelen, Kathleen. 2004. *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan*. Cambridge University Press.
- Trampusch, Christine. 2003. "Ein Bündnis für die nachhaltige Finanzierung der Sozialversicherungssysteme: Interessenvermittlung in der bundesdeutschen Arbeitsmarkt- und Rentenpolitik." *MPIfG Discussion Paper* (03/1):1–92.
- Trampusch, Christine. 2004. "Von Verbänden zu Parteien. Elitenwechsel in der Sozialpolitik." *Zeitschrift für Parlamentsfragen* 35(4):646–666.
- Trampusch, Christine. 2005. Institutional Resettlement: The Case of Early Retirement in Germany. In *Beyond Continuity*, ed. Wolfgang Streeck and Kathleen Thelen. Oxford University Press chapter 8, pp. 203–228.
- Trampusch, Christine. 2008. "Von einem liberalen zu einem post-liberalen Wohlfahrtsstaat: Der Wandel der gewerkschaftlichen Sozialpolitik in der Schweiz." *Swiss Political Science Review* 14(1):49–84.
- Trechsel, Alexander H. and Pascal Sciarini. 1998. "Direct Democracy in Switzerland: Do Elites Matter?" *European Journal of Political Research* 33(1):99–124.
- Tsebelis, George. 1995. "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism." *British Journal of Political Science* 25(3):289–325.
- Tsebelis, George. 1999. "Veto Players and Law Production in Parliamentary Democracies: An Empirical Analysis." *American Political Science Review* 93(3):591–608.

- van Kersbergen, Kees. 1995. *Social Capitalism: Christian Democracy and the Welfare State*. Routledge.
- van Kersbergen, Kees and Philip Manow, eds. 2009. *Religion, Class Coalitions and Welfare State Regimes*. Cambridge Studies in Social Theory, Religion and Politics. Cambridge University Press.
- Vatter, Adrian. 2008. "Vom Extremtyp zum Normalfall? Die schweizerische Konsensusdemokratie im Wandel: Eine Re-Analyse von Lijpharts Studie für die Schweiz von 1997 bis 2007." *Swiss Political Science Review* 14(1):1–47.
- Vis, Barbara and Kees van Kersbergen. 2007. "Why and How do Political Actors Pursue Risky Reforms." *Journal of Theoretical Politics* 19(2):153–172.
- Volgens, Andrea. 2007. "Strengths and Weaknesses of Approaches to Measuring Policy Positions of Parties." *Electoral Studies* 26(1):108–120.
- Walgrave, Stefaan, Frédéric Varone and Patrick Dumont. 2006. "Policy With or Without Parties? A Comparative Analysis of Policy Priorities and Policy Change in Belgium, 1991 to 2000." *Journal of European Public Policy* 13(7):1021–1038.
- Wallerstein, Michael. 1999. "Wage-Setting Institutions and Pay Inequality in Advanced Industrial Societies." *American Journal of Political Science* 43(3):649–680.
- Wallerstein, Michael and Bruce Western. 2000. "Unions in Decline? What Has Changed and Why." *Annual Review of Political Science* 3:355–377.
- Walsh, Brendan. 2003. "When Unemployment Disappears: Ireland in the 1990s." *CESifo Working Paper* (856).
URL: <http://www.cesifo-group.de/portal/page/portal/ifoHome/b-publ>
- Weaver, R. Kent. 1986. "The Politics of Blame Avoidance." *Journal of Public Policy* 6(4):371–398.
- Wilensky, Harold L. 1975. *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures*. University of California Press.
- Wilson, Sven E. and Daniel M. Butler. 2007. "A Lot More to Do: The Sensitivity of Time-Series Cross-Section Analyses to Simple Alternative Specifications." *Political Analysis* 15(2):101–123.
- Wolff, Joachim and Anton Nivorozhkin. 2008. "Start me Up: The Effectiveness of a Self-Employment Programme for Needy Unemployed People in Germany." *IAB Discussion Paper* (20):1–49.

BIBLIOGRAPHY

Wright, Erik Olin. 2000. "Working-Class Power, Capitalist-Class Interests, and Class Compromise." *American Journal of Sociology* 105(4):957–1002.

Appendix

A-1 Macro-Model

Data Sources

The following table gives an overview where the data used in Chapter 4 can be found:

Variable Name	Abbreviation	Source
Redistributive Generosity	Decom	Decommodification Index by Scruggs and Allan (http://www.sp.uconn.edu/~scruggs/wp.htm).
Social Spending	SocExp	Comparative Political Data set by Armingeon et. al. (http://www.ipw.unibe.ch/content/team/klaus_armingeon/comparative_political_data_sets/index_ger.html), variable: socexp.t.
Total Public Spending	PubExp	Comparative Institutions Data set by Armingeon et. al., variable:
Government Ideology	Gov. Ideology	Data by Kim and Fording (1970-1992) (http://mailer.fsu.edu/~hkim/dataset.htm). Own update using information from the Comparative Manifesto data CD-rom (Klingemann et al., 2006) and the EJPR political yearbooks (various years).
Political Constraints	Pol. Constraints	Henisz' measure of political constraints (http://www-management.wharton.upenn.edu/henisz/POLCON).
Trade Flows		KOF Globalization Index, by Dreher et. al. (http://globalization.kof.ethz.ch/).
Financial Flows		Data on the regulation of financial markets from Chinn and Ito (http://web.pdx.edu/~ito/Chinn-Ito_website.htm).
Economic Growth	Econ. Growth	Comparative Institutions Data set I, by Armingeon et. al., variable name: gdpg.

Variable Name	Abbreviation	Source
Unemployment		OECD Main economic indicators, standardized unemployment rate (www.oecd.org/std/mei).
Deindustrialization		OECD Labor Force statistic (www.sourceoecd.org/database/employment), manufacturing and agricultural employment as percent of total labor force.
Elderly		Comparative Political Data set by Armingeon et. al., variable name: elderly.

Panel Unit Root Test

The following two tables summarize the results of the panel unit root tests. I performed both, the Levin-Lin and the Im-Pesaran-Shin test. Whereas the Levin-Lin-Chu test is based on the assumption that all series are stationary under the alternative hypothesis, the Im-Pesaran-Shin assumes, that at least one series is stationary (the null-hypothesis for both tests therefore is, that the series are non-stationary). The results of both tests imply, that decommodification, expressed in levels, is non-stationary. The first difference, however, is stationary as the highly significant p-value implies.

Table A-2: Levin-Lin-Chu Test for Panel Unit Roots

Variable	Coefficient	t-value	p-value
Decom	-0.151	-7.124	0.120
Δ Decom	-1.151	-19.198	0.000

Table A-3: Im-Pesaran-Shin Test for Panel Unit Roots

Variable	t-bar	p-value
Decom	-1.838	0.066
Δ Decom	-4.593	0.000

Due to missing values in the expenditure series, the Levin-Lin-Chu as well as the Im-Pesaran-Shin cannot be performed (they only work with balanced panels). I test the expenditure series using the Fisher type unit root test for panel data (in addition I examined the single time series of each country by plotting the correlograms of the series). Like the tests performed for the decommodification variable, the Fisher-test also assumes that the series are non-stationary under the null hypothesis.

Table A-4: Fisher-test for Panel Unit Roots

Variable	χ^2	p-value
Public Expenditure as % of GDP	61.222	0.0054
Δ Public Expenditure as % of GDP	252.688	0.000

Comparative Manifesto Categories

The table below shows the categories which are used to code the party manifestos.

Table A-5: Comparative Manifesto Party Ideology Categories

Right-Wing Categories	Left-Wing Categories
Free Enterprise	Regulation of Capitalism
Incentives	Economic Planning
Protectionism: Negative	Protectionism: Positive
Economic Orthodoxy and Efficiency	Controlled Economy
Social Services Expansion: Negative	Nationalization
Constitutionalism: Positive	Decolonialization
Government Effectiveness and Authority	Military: Negative
National Way of Life: Positive	Peace
Traditional Morality: Positive	Internationalism: Positive
Law and Order	Democracy
National Effort, Social Harmony	Social Services Expansion: Positive
Freedom and Domestic Human Rights	Education: Positive
Military: Positive	Labor Groups: Positive

For a comprehensive discussion of the categories and the Comparative Manifesto Data set see [Laver and Budge \(1993\)](#); [Klingemann et al. \(2006\)](#).

Cross-Correlation Tables

Variables	Red. Generosity	Expenditure	Ideology	Trade Flows	Financial Flows	Unemployment	De-industrialization	Elderly	Constraints
Redistributive Generosity	1.000								
Expenditure	0.697	1.000							
Gov. Ideology	0.211	0.019	1.000						
Trade Flows	0.269	0.289	-0.163	1.000					
Financial Flows	0.006	-0.064	-0.209	0.353	1.000				
Unemployment	-0.049	0.413	-0.243	0.382	0.181	1.000			
De-industrialization	-0.168	-0.043	0.231	-0.583	-0.580	-0.377	1.000		
Elderly	0.588	0.484	-0.041	0.268	0.220	0.093	-0.285	1.000	
Constraints	-0.165	-0.349	-0.137	0.114	0.296	0.035	-0.248	-0.065	1.000

Table A-6: Cross-Correlation Table: Variables in First Differences

Variables	Red. Generosity	Expenditure	Ideology	Trade Flows	Financial Flows	Unemployment	De-industrialization	Elderly	Constraints
Red. Generosity	1.000								
Expenditure	0.040	1.000							
Ideology	0.043	0.135	1.000						
Trade Flows	-0.087	-0.109	-0.026	1.000					
Financial Flows	-0.098	0.038	-0.030	0.117	1.000				
Unemployment	0.001	0.507	0.070	-0.045	0.055	1.000			
De-industrialization	-0.089	-0.317	-0.137	0.125	0.018	-0.351	1.000		
Elderly	0.026	0.032	0.078	-0.047	-0.009	-0.010	-0.084	1.000	
Constraints	-0.008	0.070	-0.140	-0.022	-0.099	0.009	0.064	0.027	1.000

Robustness Test Using ‘Total Public Expenditure’ as Dependent Variable

Table A-7: Regression Estimates for Determinants of Δ in Government Expenditure

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.651 (0.435)	0.534 (0.397)				
Left Gov. _{t-1}			0.264* (0.158)	0.174 (0.144)		
Right Gov. _{t-1}					-0.264* (0.158)	-0.174 (0.144)
Pol. Constraints _{t-1}	-0.145 (1.330)	0.371* (0.200)	-0.093 (1.329)	0.360* (0.202)	-0.093 (1.329)	0.360* (0.202)
Δ Trade Flows _t	-0.030 (0.020)	-0.024 (0.021)	-0.028 (0.020)	-0.023 (0.021)	-0.028 (0.020)	-0.023 (0.021)
Δ Financial Flows _t	-0.007 (0.232)	-0.042 (0.230)	-0.002 (0.231)	-0.036 (0.230)	-0.002 (0.231)	-0.036 (0.230)
Δ Econ. Growth _t	-0.279*** (0.034)	-0.279*** (0.035)	-0.278*** (0.034)	-0.278*** (0.035)	-0.278*** (0.034)	-0.278*** (0.035)
Δ Unemployment _t	0.677*** (0.085)	0.709*** (0.090)	0.673*** (0.085)	0.709*** (0.089)	0.673*** (0.085)	0.709*** (0.089)
Δ Deindustrialization _t	-0.339*** (0.128)	-0.326** (0.131)	-0.355*** (0.128)	-0.337** (0.131)	-0.355*** (0.128)	-0.337** (0.131)
Δ Elderly _t	-0.704 (0.580)	-0.119 (0.534)	-0.664 (0.578)	-0.089 (0.535)	-0.664 (0.578)	-0.089 (0.535)
Constant	-0.111 (1.072)	-0.608** (0.305)	0.044 (1.063)	-0.423* (0.230)	0.308 (1.082)	-0.248 (0.222)
R ²	0.43	0.39	0.43	0.39	0.43	0.39
χ^2	323.72	180.96	306.58	180.74	306.58	180.74
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.05	.08	.05	.09	.05	.09
N	431	431	431	431	431	431

Table A-8: The Modifying Effect of Political Constraints; Dependent Variable: Δ in Expenditure

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.023 (0.805)	0.137 (0.746)				
Gov. Ideology _{t-1} × Pol. Constraints _{t-1}	1.406 (1.471)	0.901 (1.401)				
Left Gov. _{t-1}			-0.242 (0.320)	-0.232 (0.296)		
Left Gov. _{t-1} × Pol. Constraints _{t-1}			1.017* (0.533)	0.811 (0.497)		
Right Gov. _{t-1}					0.242 (0.320)	0.232 (0.296)
Right Gov. _{t-1} × Pol. Constraints _{t-1}					-1.017* (0.533)	-0.811 (0.497)
Pol. Constraints _{t-1}	-0.785 (1.404)	-0.073 (0.696)	-0.471 (1.310)	-0.009 (0.294)	0.547 (1.416)	0.802** (0.353)
Δ Trade Flows _t	-0.030 (0.020)	-0.024 (0.021)	-0.028 (0.020)	-0.023 (0.020)	-0.028 (0.020)	-0.023 (0.020)
Δ Financial Flows _t	-0.005 (0.231)	-0.042 (0.230)	-0.002 (0.230)	-0.040 (0.230)	-0.002 (0.230)	-0.040 (0.230)
Δ Econ. Growth _t	-0.278*** (0.034)	-0.279*** (0.035)	-0.276*** (0.034)	-0.276*** (0.035)	-0.276*** (0.034)	-0.276*** (0.035)
Δ Unemployment _t	0.677*** (0.085)	0.708*** (0.090)	0.668*** (0.085)	0.701*** (0.090)	0.668*** (0.085)	0.701*** (0.090)
Δ Deindustrialization _t	-0.347*** (0.128)	-0.329** (0.131)	-0.374*** (0.127)	-0.344*** (0.130)	-0.374*** (0.127)	-0.344*** (0.130)
Δ Elderly _t	-0.698 (0.577)	-0.112 (0.532)	-0.670 (0.573)	-0.074 (0.535)	-0.670 (0.573)	-0.074 (0.535)
Constant	0.187 (1.078)	-0.411 (0.443)	0.263 (1.051)	-0.231 (0.268)	0.020 (1.112)	-0.463* (0.261)
R ²	0.43	0.39	0.43	0.39	0.43	0.39
χ^2	325.25	181.30	314.89	184.44	314.89	184.44
p-VALUE	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.05	.08	.06	.09	.06	.09
N	431	431	431	431	431	431

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Table A-9: The Modifying Effect of Globalization (Trade Flows); Dependent Variable: Δ in Expenditure

	1	2	3	4	5	6
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.808*	0.683*				
	(0.451)	(0.408)				
Gov. Ideology _{t-1} × Δ Trade Flows _t	-0.134	-0.134				
	(0.094)	(0.094)				
Left Gov. _{t-1}			0.316*	0.208		
			(0.165)	(0.149)		
Left. Gov. _{t-1} × Δ Trade Flows _t			-0.035	-0.026		
			(0.035)	(0.035)		
Right Gov. _{t-1}					-0.316*	-0.208
					(0.165)	(0.149)
Right. Gov. _{t-1} × Δ Trade Flows _t					0.035	0.026
					(0.035)	(0.035)
Δ Trade Flows _t	0.049	0.055	-0.006	-0.007	-0.042	-0.033
	(0.055)	(0.056)	(0.027)	(0.028)	(0.025)	(0.026)
Pol. Constraints _{t-1}	-0.110	0.381*	-0.089	0.366*	-0.089	0.366*
	(1.335)	(0.202)	(1.334)	(0.203)	(1.334)	(0.203)
Δ Financial Flows _t	-0.009	-0.041	-0.016	-0.046	-0.016	-0.046
	(0.230)	(0.228)	(0.229)	(0.228)	(0.229)	(0.228)
Δ Econ. Growth _t	-0.281***	-0.281***	-0.280***	-0.280***	-0.280***	-0.280***
	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)	(0.035)
Δ Unemployment _t	0.677***	0.709***	0.668***	0.704***	0.668***	0.704***
	(0.086)	(0.090)	(0.086)	(0.091)	(0.086)	(0.091)
Δ Deindustrialization _t	-0.337***	-0.325**	-0.359***	-0.340***	-0.359***	-0.340***
	(0.127)	(0.131)	(0.127)	(0.131)	(0.127)	(0.131)
Δ Elderly _t	-0.690	-0.121	-0.660	-0.097	-0.660	-0.097
	(0.580)	(0.534)	(0.579)	(0.536)	(0.579)	(0.536)
Constant	-0.226	-0.710**	0.020	-0.453*	0.337	-0.244
	(1.082)	(0.316)	(1.067)	(0.233)	(1.085)	(0.223)
R ²	0.43	0.39	0.43	0.39	0.43	0.39
χ^2	354.30	179.67	314.85	178.97	314.85	178.97
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.06	.09	.06	.09	.06	.09
N	431	431	431	431	431	431

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Table A-10: Impact of Government Partisanship over Time, Dependent Variable: Δ in Expenditure

	1971-1982		1983-1992		1993-2002	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology $_{t-1}$	-1.099 (0.804)	-0.980 (0.726)	0.542 (0.772)	0.702 (0.709)	0.821 (0.979)	0.861 (0.732)
Pol. Constraints $_{t-1}$	-0.915 (3.263)	-0.137 (0.476)	0.216 (2.423)	0.448 (0.422)	2.036 (2.690)	0.363 (0.289)
Δ Trade Flows $_t$	-0.018 (0.033)	-0.014 (0.034)	-0.033 (0.028)	-0.026 (0.031)	-0.017 (0.031)	-0.020 (0.031)
Δ Financial Flows $_t$	-0.395 (0.344)	-0.281 (0.354)	0.530 (0.383)	0.312 (0.394)	0.276 (0.508)	0.117 (0.507)
Δ Econ. Growth $_t$	-0.255*** (0.045)	-0.252*** (0.044)	-0.246*** (0.063)	-0.234*** (0.068)	-0.305*** (0.078)	-0.308*** (0.078)
Δ Unemployment $_t$	0.671*** (0.163)	0.675*** (0.157)	0.693*** (0.121)	0.663*** (0.125)	0.364** (0.173)	0.392** (0.172)
Δ Deindustrialization $_t$	-0.237 (0.255)	-0.286 (0.240)	-0.092 (0.157)	-0.136 (0.163)	-0.455** (0.232)	-0.523** (0.253)
Δ Elderly $_t$	0.596 (1.173)	0.075 (1.000)	-1.149** (0.532)	-0.857 (0.584)	-0.701 (1.425)	0.586 (0.842)
Constant	1.125 (2.698)	0.891 (0.598)	0.253 (1.993)	-0.420 (0.465)	-2.333 (2.059)	-1.316*** (0.483)
R ²	0.58	0.54	0.53	0.35	0.30	0.23
χ^2	151.35	102.59	3388.37	44.00	119.93	35.24
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.14	.22	.14	.28	-.04	.07
N	118	118	139	139	174	174

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Estimation of the Social Expenditure Model for Different Time Periods (Modifying Effects of Constraints and Globalization)

Table A-11: The Modifying Effect of Political Constraints; Dependent Variable: Δ in Social Spending as % of GDP (1980-1991)

	1	2	3	4	5	6
	(FE)	(No FE)	(FE)	(No FE)	(FE)	(No FE)
Gov. Ideology _{t-1}	1.231 (0.819)	1.159** (0.580)				
Gov. Ideology _{t-1} × Pol. Constraints _{t-1}	-2.183 (1.345)	-1.383 (1.257)				
Left Gov. _{t-1}			0.125 (0.243)	0.074 (0.225)		
Left Gov. _{t-1} × Pol. Constraints _{t-1}			-0.255 (0.349)	-0.062 (0.346)		
Right Gov. _{t-1}					-0.125 (0.243)	-0.074 (0.225)
Right Gov. _{t-1} × Pol. Constraints _{t-1}					0.255 (0.349)	0.062 (0.346)
Pol. Constraints _{t-1}	0.872 (1.911)	0.791 (0.560)	-0.131 (1.799)	0.106 (0.203)	-0.386 (1.722)	0.043 (0.310)
Δ Trade Flows _t	-0.041*** (0.015)	-0.034** (0.015)	-0.042*** (0.016)	-0.032** (0.016)	-0.042*** (0.016)	-0.032** (0.016)
Δ Financial Flows _t	0.163 (0.147)	0.109 (0.149)	0.140 (0.149)	0.077 (0.155)	0.140 (0.149)	0.077 (0.155)
Δ Econ. Growth _t	-0.115*** (0.029)	-0.121*** (0.029)	-0.115*** (0.029)	-0.123*** (0.030)	-0.115*** (0.029)	-0.123*** (0.030)
Δ Unemployment _t	0.419*** (0.056)	0.388*** (0.059)	0.426*** (0.055)	0.396*** (0.060)	0.426*** (0.055)	0.396*** (0.060)
Δ Deindustrialization _t	0.025 (0.071)	-0.020 (0.069)	0.022 (0.074)	-0.036 (0.072)	0.022 (0.074)	-0.036 (0.072)
Δ Elderly _t	0.114 (0.412)	0.182 (0.363)	0.103 (0.412)	0.180 (0.367)	0.103 (0.412)	0.180 (0.367)
Constant	-0.366 (1.507)	-0.453* (0.274)	0.262 (1.447)	0.110 (0.158)	0.387 (1.381)	0.184 (0.237)
R ²	0.54	0.45	0.53	0.43	0.53	0.43
χ^2	423.96	86.40	591.67	77.45	591.67	77.45
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	-.06	.03	-.06	.03	-.06	.03
N	166	166	166	166	166	166

Table A-12: The Modifying Effect of Political Constraints; Dependent Variable: Δ in Social Spending as % of GDP (1992-2002)

	1	2	3	4	5	6
	(FE)	(No FE)	(FE)	(No FE)	(FE)	(No FE)
Gov. Ideology $_{t-1}$	1.156 (0.841)	0.733 (0.730)				
Gov. Ideology $_{t-1} \times$ Pol. Constraints $_{t-1}$	-1.448 (1.523)	-1.422 (1.394)				
Left Gov. $_{t-1}$			0.131 (0.272)	0.055 (0.245)		
Left Gov. $_{t-1} \times$ Pol. Constraints $_{t-1}$			-0.174 (0.444)	-0.153 (0.382)		
Right Gov. $_{t-1}$					-0.131 (0.272)	-0.055 (0.245)
Right Gov. $_{t-1} \times$ Pol. Constraints $_{t-1}$					0.174 (0.444)	0.153 (0.382)
Pol. Constraints $_{t-1}$	-0.851 (1.349)	0.747 (0.724)	-1.305 (1.150)	0.124 (0.234)	-1.479 (1.206)	-0.029 (0.220)
Δ Trade Flows $_t$	-0.043** (0.019)	-0.045** (0.019)	-0.043** (0.019)	-0.046** (0.019)	-0.043** (0.019)	-0.046** (0.019)
Δ Financial Flows $_t$	0.074 (0.223)	0.108 (0.237)	0.101 (0.233)	0.127 (0.244)	0.101 (0.233)	0.127 (0.244)
Δ Econ. Growth $_t$	-0.106*** (0.038)	-0.109*** (0.038)	-0.105*** (0.039)	-0.109*** (0.039)	-0.105*** (0.039)	-0.109*** (0.039)
Δ Unemployment $_t$	0.280*** (0.108)	0.247** (0.108)	0.283*** (0.108)	0.248** (0.108)	0.283*** (0.108)	0.248** (0.108)
Δ Deindustrialization $_t$	-0.261** (0.128)	-0.248** (0.122)	-0.265** (0.130)	-0.244* (0.127)	-0.265** (0.130)	-0.244* (0.127)
Δ Elderly $_t$	-0.012 (0.670)	0.248 (0.391)	-0.081 (0.676)	0.254 (0.381)	-0.081 (0.676)	0.254 (0.381)
Constant	0.831 (0.949)	-0.429 (0.428)	1.194 (0.914)	-0.094 (0.220)	1.325 (0.966)	-0.039 (0.208)
R ²	0.36	0.26	0.36	0.26	0.36	0.26
χ^2	166.13	38.47	336.36	37.19	336.36	37.19
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.03	.12	.02	.12	.02	.12
N	191	191	191	191	191	191

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Table A-13: The Modifying Effect of Globalization; Dependent Variable: Δ in Social Spending as % of GDP (1980-1991)

	1	2	3	4	5	6
	(FE)	(No FE)	(FE)	(No FE)	(FE)	(No FE)
Gov. Ideology $_{t-1}$	0.582 (0.421)	0.843*** (0.270)				
Gov. Ideology $_{t-1} \times$ Δ Trade Flows $_t$	-0.166*** (0.048)	-0.173*** (0.058)				
Left Gov. $_{t-1}$			0.080 (0.130)	0.116 (0.131)		
Left. Gov. $_{t-1} \times$ Δ Trade Flows $_t$			-0.038 (0.027)	-0.037 (0.030)		
Right Gov. $_{t-1}$					-0.080 (0.130)	-0.116 (0.131)
Right. Gov. $_{t-1} \times$ Δ Trade Flows $_t$					0.038 (0.027)	0.037 (0.030)
Δ Trade Flows $_t$	0.058* (0.032)	0.069* (0.036)	-0.018 (0.017)	-0.009 (0.018)	-0.057** (0.023)	-0.046** (0.024)
Pol. Constraints $_{t-1}$	-0.060 (1.728)	0.186 (0.196)	-0.010 (1.755)	0.106 (0.194)	-0.010 (1.755)	0.106 (0.194)
Δ Financial Flows $_t$	0.030 (0.148)	-0.009 (0.154)	0.060 (0.156)	0.012 (0.163)	0.060 (0.156)	0.012 (0.163)
Δ Econ. Growth $_t$	-0.117*** (0.029)	-0.122*** (0.030)	-0.115*** (0.029)	-0.123*** (0.030)	-0.115*** (0.029)	-0.123*** (0.030)
Δ Unemployment $_t$	0.416*** (0.057)	0.389*** (0.059)	0.422*** (0.055)	0.395*** (0.060)	0.422*** (0.055)	0.395*** (0.060)
Δ Deindustrialization $_t$	0.010 (0.070)	-0.022 (0.067)	0.016 (0.071)	-0.033 (0.070)	0.016 (0.071)	-0.033 (0.070)
Δ Elderly $_t$	0.183 (0.413)	0.248 (0.357)	0.129 (0.418)	0.191 (0.366)	0.129 (0.418)	0.191 (0.366)
Constant	-0.073 (1.433)	-0.345* (0.184)	0.120 (1.418)	0.070 (0.157)	0.200 (1.389)	0.186 (0.196)
R ²	0.54	0.46	0.53	0.44	0.53	0.44
χ^2	617.93	87.44	851.10	78.16	851.10	78.16
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	-.03	.06	-.05	.05	-.05	.05
N	166	166	166	166	166	166

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Table A-14: The Modifying Effect of Globalization, Dependent Variable: Δ in Social Spending as % of GDP (1992-2002)

	1	2	3	4	5	6
	(FE)	(No FE)	(FE)	(No FE)	(FE)	(No FE)
Gov. Ideology _{t-1}	0.493 (0.486)	0.081 (0.425)				
Gov. Ideology _{t-1} × Δ Trade Flows _t	0.043 (0.080)	0.046 (0.077)				
Left Gov. _{t-1}			-0.019 (0.161)	-0.084 (0.129)		
Left. Gov. _{t-1} × Δ Trade Flows _t			0.066*** (0.025)	0.068*** (0.025)		
Right Gov. _{t-1}					0.019 (0.161)	0.084 (0.129)
Right. Gov. _{t-1} × Δ Trade Flows _t					-0.066*** (0.025)	-0.068*** (0.025)
Δ Trade Flows _t	-0.066 (0.045)	-0.070 (0.043)	-0.074*** (0.024)	-0.077*** (0.024)	-0.008 (0.020)	-0.009 (0.019)
Pol. Constraints _{t-1}	-1.453 (1.197)	0.061 (0.135)	-1.033 (1.127)	0.054 (0.145)	-1.033 (1.127)	0.054 (0.145)
Δ Financial Flows _t	0.054 (0.221)	0.087 (0.237)	0.069 (0.228)	0.106 (0.244)	0.069 (0.228)	0.106 (0.244)
Δ Econ. Growth _t	-0.106*** (0.039)	-0.110*** (0.038)	-0.101*** (0.038)	-0.107*** (0.037)	-0.101*** (0.038)	-0.107*** (0.037)
Δ Unemployment _t	0.283*** (0.106)	0.249** (0.107)	0.314*** (0.100)	0.280*** (0.100)	0.314*** (0.100)	0.280*** (0.100)
Δ Deindustrialization _t	-0.262** (0.126)	-0.242** (0.123)	-0.214* (0.125)	-0.197 (0.125)	-0.214* (0.125)	-0.197 (0.125)
Δ Elderly _t	-0.054 (0.653)	0.249 (0.391)	-0.160 (0.673)	0.282 (0.377)	-0.160 (0.673)	0.282 (0.377)
Constant	1.112 (0.905)	-0.101 (0.277)	0.991 (0.895)	0.018 (0.191)	0.973 (0.924)	-0.067 (0.184)
R ²	0.36	0.26	0.38	0.29	0.38	0.29
χ^2	712.62	38.29	1184.17	48.58	1184.17	48.58
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.02	.12	.02	.11	.02	.11
N	191	191	191	191	191	191

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Sensitivity Analysis for Redistributive Generosity

The models include country fixed-effects where indicated, however, the coefficients of the country dummies are not shown in the output below.

Table A-15: Sensitivity Analysis: Regression Estimates for Determinants of Δ in Decommodification as a Measure of Redistributive Generosity

	Without Australia		Without Austria		Without Belgium	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.938*** (0.309)	0.725*** (0.281)	0.962*** (0.305)	0.725*** (0.281)	0.886*** (0.301)	0.725*** (0.281)
Pol. Constraints _{t-1}	-0.302 (0.788)	0.008 (0.150)	-0.471 (0.776)	0.008 (0.150)	-0.090 (0.856)	0.008 (0.150)
Δ Trade Flows _t	-0.017 (0.014)	-0.018 (0.013)	-0.017 (0.014)	-0.018 (0.013)	-0.016 (0.014)	-0.018 (0.013)
Δ Financial Flows _t	-0.315** (0.138)	-0.320** (0.128)	-0.295** (0.130)	-0.320** (0.128)	-0.350** (0.145)	-0.320** (0.128)
Δ Econ. Growth _t	0.030 (0.019)	0.028 (0.018)	0.031 (0.019)	0.028 (0.018)	0.032 (0.020)	0.028 (0.018)
Δ Unemployment _t	-0.018 (0.050)	-0.011 (0.048)	-0.017 (0.048)	-0.011 (0.048)	-0.011 (0.050)	-0.011 (0.048)
Δ Deindustrialization _t	-0.140* (0.076)	-0.125* (0.074)	-0.145* (0.078)	-0.125* (0.074)	-0.133* (0.076)	-0.125* (0.074)
Δ Elderly _t	-0.140 (0.300)	-0.092 (0.252)	-0.158 (0.317)	-0.092 (0.252)	-0.159 (0.307)	-0.092 (0.252)
Constant	-0.084 (0.645)	-0.276 (0.175)	0.038 (0.634)	-0.276 (0.175)	-0.228 (0.689)	-0.276 (0.175)
R ²	0.06	0.05	0.07	0.05	0.06	0.05
χ^2	65.43	22.48	75.03	22.48	65.81	22.48
p-Value	0.000	0.004	0.000	0.004	0.000	0.004
ρ	-.01	.01	-.01	.01	-.01	.01
N	497	526	497	526	495	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Table A-15 continued

	excluding Canada		excluding Denmark		excluding Finland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.766*** (0.278)	0.725*** (0.281)	0.735** (0.339)	0.725*** (0.281)	0.949*** (0.303)	0.725*** (0.281)
Pol. Constraints _{t-1}	-0.392 (0.713)	0.008 (0.150)	-0.407 (0.786)	0.008 (0.150)	-0.447 (0.787)	0.008 (0.150)
Δ Trade Flows _t	-0.014 (0.013)	-0.018 (0.013)	-0.015 (0.015)	-0.018 (0.013)	-0.013 (0.014)	-0.018 (0.013)
Δ Financial Flows _t	-0.310** (0.127)	-0.320** (0.128)	-0.301** (0.132)	-0.320** (0.128)	-0.262** (0.127)	-0.320** (0.128)
Δ Econ. Growth _t	0.023 (0.016)	0.028 (0.018)	0.019 (0.020)	0.028 (0.018)	0.021 (0.019)	0.028 (0.018)
Δ Unemployment _t	0.006 (0.045)	-0.011 (0.048)	-0.014 (0.055)	-0.011 (0.048)	-0.024 (0.053)	-0.011 (0.048)
Δ Deindustrialization _t	-0.130* (0.072)	-0.125* (0.074)	-0.157* (0.082)	-0.125* (0.074)	-0.123* (0.075)	-0.125* (0.074)
Δ Elderly _t	-0.067 (0.292)	-0.092 (0.252)	-0.165 (0.313)	-0.092 (0.252)	-0.100 (0.304)	-0.092 (0.252)
Constant	0.054 (0.587)	-0.276 (0.175)	0.079 (0.647)	-0.276 (0.175)	0.028 (0.648)	-0.276 (0.175)
R ²	0.07	0.05	0.05	0.05	0.06	0.05
χ ²	72.81	22.48	74.67	22.48	79.61	22.48
p-Value	0.000	0.004	0.000	0.004	0.000	0.004
ρ	-.03	.01	.02	.01	.02	.01
N	495	526	495	526	495	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-15 continued

	excluding France		excluding Germany		excluding Belgium	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.871*** (0.313)	0.725*** (0.281)	0.914*** (0.299)	0.725*** (0.281)	0.957*** (0.292)	0.725*** (0.281)
Pol. Constraints _{t-1}	-0.968 (0.993)	0.008 (0.150)	-0.488 (0.785)	0.008 (0.150)	-0.486 (0.786)	0.008 (0.150)
Δ Trade Flows _t	-0.015 (0.014)	-0.018 (0.013)	-0.015 (0.014)	-0.018 (0.013)	-0.017 (0.014)	-0.018 (0.013)
Δ Financial Flows _t	-0.288** (0.138)	-0.320** (0.128)	-0.308** (0.127)	-0.320** (0.128)	-0.322** (0.129)	-0.320** (0.128)
Δ Econ. Growth _t	0.031* (0.018)	0.028 (0.018)	0.028 (0.019)	0.028 (0.018)	0.022 (0.019)	0.028 (0.018)
Δ Unemployment _t	-0.015 (0.047)	-0.011 (0.048)	-0.016 (0.049)	-0.011 (0.048)	-0.052 (0.050)	-0.011 (0.048)
Δ Deindustrialization _t	-0.131* (0.074)	-0.125* (0.074)	-0.160** (0.079)	-0.125* (0.074)	-0.096 (0.073)	-0.125* (0.074)
Δ Elderly _t	-0.032 (0.313)	-0.092 (0.252)	-0.116 (0.361)	-0.092 (0.252)	-0.008 (0.297)	-0.092 (0.252)
Constant	0.467 (0.822)	-0.276 (0.175)	0.061 (0.643)	-0.276 (0.175)	0.062 (0.640)	-0.276 (0.175)
R ²	0.06	0.05	0.07	0.05	0.07	0.05
χ ²	79.51	22.48	84.19	22.48	82.83	22.48
p-Value	0.000	0.004	0.000	0.004	0.000	0.004
ρ	-.02	.01	-.01	.01	-.01	.01
N	495	526	496	526	495	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-15 continued

	excluding Italy		excluding Japan		excluding Netherlands	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.931*** (0.299)	0.725*** (0.281)	0.953*** (0.297)	0.725*** (0.281)	0.939*** (0.302)	0.725*** (0.281)
Pol. Constraints _{t-1}	-0.283 (0.799)	0.008 (0.150)	-0.263 (0.773)	0.008 (0.150)	-0.187 (0.905)	0.008 (0.150)
Δ Trade Flows _t	-0.017 (0.014)	-0.018 (0.013)	-0.015 (0.014)	-0.018 (0.013)	-0.016 (0.013)	-0.018 (0.013)
Δ Financial Flows _t	-0.372*** (0.140)	-0.320** (0.128)	-0.329** (0.134)	-0.320** (0.128)	-0.326** (0.130)	-0.320** (0.128)
Δ Econ. Growth _t	0.034* (0.019)	0.028 (0.018)	0.028 (0.019)	0.028 (0.018)	0.029 (0.019)	0.028 (0.018)
Δ Unemployment _t	-0.016 (0.048)	-0.011 (0.048)	-0.012 (0.047)	-0.011 (0.048)	-0.015 (0.050)	-0.011 (0.048)
Δ Deindustrialization _t	-0.156** (0.076)	-0.125* (0.074)	-0.128* (0.074)	-0.125* (0.074)	-0.156** (0.076)	-0.125* (0.074)
Δ Elderly _t	-0.167 (0.342)	-0.092 (0.252)	-0.029 (0.315)	-0.092 (0.252)	-0.154 (0.307)	-0.092 (0.252)
Constant	-0.102 (0.652)	-0.276 (0.175)	-0.128 (0.635)	-0.276 (0.175)	-0.181 (0.737)	-0.276 (0.175)
R ²	0.07	0.05	0.07	0.05	0.07	0.05
χ ²	75.34	22.48	81.33	22.48	78.27	22.48
p-Value	0.000	0.004	0.000	0.004	0.000	0.004
ρ	-.01	.01	-.02	.01	.02	.01
N	495	526	495	526	495	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-15 continued

	excluding New Zealand		excluding Norway		excluding Sweden	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.998*** (0.298)	0.725*** (0.281)	1.001*** (0.300)	0.725*** (0.281)	0.873*** (0.256)	0.725*** (0.281)
Pol. Constraints _{t-1}	-0.542 (0.794)	0.008 (0.150)	-0.392 (0.787)	0.008 (0.150)	-0.230 (0.765)	0.008 (0.150)
Δ Trade Flows _t	-0.010 (0.014)	-0.018 (0.013)	-0.022* (0.013)	-0.018 (0.013)	-0.016 (0.012)	-0.018 (0.013)
Δ Financial Flows _t	-0.271** (0.128)	-0.320** (0.128)	-0.342*** (0.127)	-0.320** (0.128)	-0.312** (0.126)	-0.320** (0.128)
Δ Econ. Growth _t	0.031* (0.018)	0.028 (0.018)	0.030 (0.018)	0.028 (0.018)	0.027 (0.018)	0.028 (0.018)
Δ Unemployment _t	-0.008 (0.050)	-0.011 (0.048)	-0.022 (0.048)	-0.011 (0.048)	-0.009 (0.046)	-0.011 (0.048)
Δ Deindustrialization _t	-0.102 (0.081)	-0.125* (0.074)	-0.161** (0.073)	-0.125* (0.074)	-0.119 (0.073)	-0.125* (0.074)
Δ Elderly _t	-0.122 (0.307)	-0.092 (0.252)	-0.149 (0.294)	-0.092 (0.252)	-0.364 (0.255)	-0.092 (0.252)
Constant	0.091 (0.654)	-0.276 (0.175)	-0.041 (0.647)	-0.276 (0.175)	-0.088 (0.627)	-0.276 (0.175)
R ²	0.06	0.05	0.08	0.05	0.07	0.05
χ ²	74.02	22.48	81.18	22.48	87.09	22.48
p-Value	0.000	0.004	0.000	0.004	0.000	0.004
ρ	.02	.01	.01	.01	.01	.01
N	497	526	495	526	495	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-15 continued

	excluding Switzerland		excluding the UK		excluding the US	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.909*** (0.291)	0.725*** (0.281)	0.925*** (0.319)	0.725*** (0.281)	0.903*** (0.299)	0.725*** (0.281)
Pol. Constraints _{t-1}	-0.388 (0.771)	0.008 (0.150)	-0.371 (0.791)	0.008 (0.150)	-0.381 (0.754)	0.008 (0.150)
Δ Trade Flows _t	-0.015 (0.013)	-0.018 (0.013)	-0.016 (0.014)	-0.018 (0.013)	-0.017 (0.013)	-0.018 (0.013)
Δ Financial Flows _t	-0.312** (0.127)	-0.320** (0.128)	-0.334** (0.135)	-0.320** (0.128)	-0.301** (0.126)	-0.320** (0.128)
Δ Econ. Growth _t	0.029 (0.018)	0.028 (0.018)	0.033* (0.019)	0.028 (0.018)	0.027 (0.019)	0.028 (0.018)
Δ Unemployment _t	-0.016 (0.047)	-0.011 (0.048)	-0.018 (0.052)	-0.011 (0.048)	-0.005 (0.047)	-0.011 (0.048)
Δ Deindustrialization _t	-0.144* (0.074)	-0.125* (0.074)	-0.133* (0.076)	-0.125* (0.074)	-0.143* (0.074)	-0.125* (0.074)
Δ Elderly _t	-0.125 (0.299)	-0.092 (0.252)	-0.154 (0.321)	-0.092 (0.252)	-0.144 (0.300)	-0.092 (0.252)
Constant	-0.009 (0.632)	-0.276 (0.175)	-0.018 (0.646)	-0.276 (0.175)	-0.448* (0.245)	-0.276 (0.175)
R ²	0.06	0.05	0.07	0.05	0.07	0.05
χ ²	80.48	22.48	77.84	22.48	66.33	22.48
p-Value	0.000	0.004	0.000	0.004	0.000	0.004
ρ	-.01	.01	.02	.01	-.04	.01
N	520	526	495	526	495	526

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Sensitivity Analysis for Social Spending as % of GDP

Table A-16: Sensitivity Analysis: Regression Estimates for Determinants of Δ Social Spending as % of GDP

	excluding Australia		excluding Austria		excluding Belgium	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.786** (0.339)	0.410 (0.270)	0.731** (0.318)	0.410 (0.270)	0.792** (0.334)	0.410 (0.270)
Pol. Constraints _{t-1}	-1.464 (0.953)	0.074 (0.106)	-1.442 (0.928)	0.074 (0.106)	-1.387 (0.946)	0.074 (0.106)
Δ Trade Flows _t	-0.042*** (0.013)	-0.038*** (0.012)	-0.039*** (0.013)	-0.038*** (0.012)	-0.041*** (0.013)	-0.038*** (0.012)
Δ Financial Flows _t	0.103 (0.166)	0.057 (0.153)	0.080 (0.152)	0.057 (0.153)	0.079 (0.179)	0.057 (0.153)
Δ Econ. Growth _t	-0.117*** (0.026)	-0.120*** (0.024)	-0.124*** (0.024)	-0.120*** (0.024)	-0.114*** (0.024)	-0.120*** (0.024)
Δ Unemployment _t	0.334*** (0.059)	0.331*** (0.057)	0.328*** (0.056)	0.331*** (0.057)	0.329*** (0.057)	0.331*** (0.057)
Δ Deindustrialization _t	-0.108* (0.063)	-0.113* (0.062)	-0.130** (0.064)	-0.113* (0.062)	-0.116* (0.064)	-0.113* (0.062)
Δ Elderly _t	0.144 (0.290)	0.160 (0.242)	0.163 (0.286)	0.160 (0.242)	0.092 (0.289)	0.160 (0.242)
Constant	1.013 (0.757)	-0.145 (0.162)	1.003 (0.738)	-0.145 (0.162)	0.948 (0.755)	-0.145 (0.162)
R ²	0.37	0.34	0.38	0.34	0.36	0.34
χ^2	171.48	97.63	172.01	97.63	177.53	97.63
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.07	.08	.05	.08	.08	.08
N	337	357	345	357	335	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-16 continued

	excluding Canada		excluding Denmark		excluding Finland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology $t-1$	0.787** (0.314)	0.410 (0.270)	0.790** (0.342)	0.410 (0.270)	0.596** (0.279)	0.410 (0.270)
Pol. Constraints $t-1$	-1.325 (0.911)	0.074 (0.106)	-1.328 (0.911)	0.074 (0.106)	-1.275 (0.908)	0.074 (0.106)
Δ Trade Flows t	-0.040*** (0.013)	-0.038*** (0.012)	-0.039*** (0.013)	-0.038*** (0.012)	-0.021* (0.012)	-0.038*** (0.012)
Δ Financial Flows t	0.089 (0.150)	0.057 (0.153)	0.023 (0.159)	0.057 (0.153)	0.061 (0.151)	0.057 (0.153)
Δ Econ. Growth t	-0.127*** (0.026)	-0.120*** (0.024)	-0.131*** (0.024)	-0.120*** (0.024)	-0.108*** (0.023)	-0.120*** (0.024)
Δ Unemployment t	0.324*** (0.056)	0.331*** (0.057)	0.337*** (0.060)	0.331*** (0.057)	0.325*** (0.052)	0.331*** (0.057)
Δ Deindustrialization t	-0.115* (0.063)	-0.113* (0.062)	-0.136** (0.067)	-0.113* (0.062)	-0.087 (0.058)	-0.113* (0.062)
Δ Elderly t	0.085 (0.279)	0.160 (0.242)	0.097 (0.281)	0.160 (0.242)	0.191 (0.284)	0.160 (0.242)
Constant	0.899 (0.728)	-0.145 (0.162)	0.890 (0.721)	-0.145 (0.162)	0.919 (0.730)	-0.145 (0.162)
R ²	0.36	0.34	0.39	0.34	0.35	0.34
χ^2	194.41	97.63	196.47	97.63	208.22	97.63
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.03	.08	.03	.08	.07	.08
N	335	357	335	357	335	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Table A-16 continued

	excluding France		excluding Germany		excluding Ireland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.780** (0.344)	0.410 (0.270)	0.800** (0.316)	0.410 (0.270)	0.813*** (0.312)	0.410 (0.270)
Pol. Constraints _{t-1}	-1.010 (1.222)	0.074 (0.106)	-1.414 (0.905)	0.074 (0.106)	-1.493* (0.874)	0.074 (0.106)
Δ Trade Flows _t	-0.041*** (0.013)	-0.038*** (0.012)	-0.040*** (0.013)	-0.038*** (0.012)	-0.040*** (0.012)	-0.038*** (0.012)
Δ Financial Flows _t	0.072 (0.153)	0.057 (0.153)	0.084 (0.151)	0.057 (0.153)	0.110 (0.133)	0.057 (0.153)
Δ Econ. Growth _t	-0.119*** (0.024)	-0.120*** (0.024)	-0.121*** (0.024)	-0.120*** (0.024)	-0.126*** (0.023)	-0.120*** (0.024)
Δ Unemployment _t	0.320*** (0.056)	0.331*** (0.057)	0.329*** (0.055)	0.331*** (0.057)	0.344*** (0.055)	0.331*** (0.057)
Δ Deindustrialization _t	-0.112* (0.063)	-0.113* (0.062)	-0.165** (0.068)	-0.113* (0.062)	-0.124** (0.060)	-0.113* (0.062)
Δ Elderly _t	0.098 (0.287)	0.160 (0.242)	0.128 (0.334)	0.160 (0.242)	0.240 (0.282)	0.160 (0.242)
Constant	0.651 (0.971)	-0.145 (0.162)	0.939 (0.724)	-0.145 (0.162)	1.014 (0.699)	-0.145 (0.162)
R ²	0.36	0.34	0.38	0.34	0.40	0.34
χ ²	141.69	97.63	184.12	97.63	169.56	97.63
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.07	.08	.04	.08	.05	.08
N	335	357	336	357	335	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-16 continued

	excluding Italy		excluding Japan		excluding Netherlands	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.773** (0.332)	0.410 (0.270)	0.789** (0.327)	0.410 (0.270)	0.743** (0.314)	0.410 (0.270)
Pol. Constraints _{t-1}	-0.817 (0.954)	0.074 (0.106)	-1.510 (0.926)	0.074 (0.106)	-2.049* (1.047)	0.074 (0.106)
Δ Trade Flows _t	-0.039*** (0.013)	-0.038*** (0.012)	-0.041*** (0.013)	-0.038*** (0.012)	-0.039*** (0.013)	-0.038*** (0.012)
Δ Financial Flows _t	0.084 (0.178)	0.057 (0.153)	0.091 (0.153)	0.057 (0.153)	0.105 (0.150)	0.057 (0.153)
Δ Econ. Growth _t	-0.116*** (0.025)	-0.120*** (0.024)	-0.127*** (0.025)	-0.120*** (0.024)	-0.121*** (0.025)	-0.120*** (0.024)
Δ Unemployment _t	0.330*** (0.057)	0.331*** (0.057)	0.329*** (0.055)	0.331*** (0.057)	0.335*** (0.058)	0.331*** (0.057)
Δ Deindustrialization _t	-0.139** (0.067)	-0.113* (0.062)	-0.120* (0.063)	-0.113* (0.062)	-0.116* (0.063)	-0.113* (0.062)
Δ Elderly _t	-0.006 (0.328)	0.160 (0.242)	0.088 (0.295)	0.160 (0.242)	0.125 (0.279)	0.160 (0.242)
Constant	0.492 (0.758)	-0.145 (0.162)	1.045 (0.737)	-0.145 (0.162)	1.491* (0.836)	-0.145 (0.162)
R ²	0.37	0.34	0.38	0.34	0.38	0.34
χ ²	185.49	97.63	138.82	97.63	180.90	97.63
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.06	.08	.04	.08	.03	.08
N	335	357	335	357	335	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-16 continued

	excluding New Zealand		excluding Norway		excluding Sweden	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.717** (0.315)	0.410 (0.270)	0.786** (0.317)	0.410 (0.270)	0.622* (0.332)	0.410 (0.270)
Pol. Constraints _{t-1}	-1.452 (1.019)	0.074 (0.106)	-1.341 (0.926)	0.074 (0.106)	-1.350 (0.900)	0.074 (0.106)
Δ Trade Flows _t	-0.049*** (0.014)	-0.038*** (0.012)	-0.042*** (0.012)	-0.038*** (0.012)	-0.039*** (0.013)	-0.038*** (0.012)
Δ Financial Flows _t	0.094 (0.162)	0.057 (0.153)	0.094 (0.152)	0.057 (0.153)	0.131 (0.152)	0.057 (0.153)
Δ Econ. Growth _t	-0.115*** (0.025)	-0.120*** (0.024)	-0.114*** (0.024)	-0.120*** (0.024)	-0.117*** (0.023)	-0.120*** (0.024)
Δ Unemployment _t	0.321*** (0.058)	0.331*** (0.057)	0.330*** (0.056)	0.331*** (0.057)	0.322*** (0.056)	0.331*** (0.057)
Δ Deindustrialization _t	-0.142* (0.078)	-0.113* (0.062)	-0.127** (0.062)	-0.113* (0.062)	-0.093 (0.062)	-0.113* (0.062)
Δ Elderly _t	0.077 (0.290)	0.160 (0.242)	0.099 (0.277)	0.160 (0.242)	0.097 (0.303)	0.160 (0.242)
Constant	1.025 (0.815)	-0.145 (0.162)	0.907 (0.737)	-0.145 (0.162)	0.990 (0.715)	-0.145 (0.162)
R ²	0.37	0.34	0.38	0.34	0.36	0.34
χ ²	180.32	97.63	160.39	97.63	215.15	97.63
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.06	.08	.05	.08	.04	.08
N	337	357	343	357	335	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-16 continued

	excluding		excluding		excluding	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.763** (0.313)	0.410 (0.270)	0.778** (0.319)	0.410 (0.270)	0.829** (0.326)	0.410 (0.270)
Pol. Constraints _{t-1}	-1.379 (0.916)	0.074 (0.106)	-1.357 (0.908)	0.074 (0.106)	-1.416 (0.921)	0.074 (0.106)
Δ Trade Flows _t	-0.040*** (0.013)	-0.038*** (0.012)	-0.040*** (0.013)	-0.038*** (0.012)	-0.039*** (0.013)	-0.038*** (0.012)
Δ Financial Flows _t	0.088 (0.151)	0.057 (0.153)	0.083 (0.151)	0.057 (0.153)	0.081 (0.151)	0.057 (0.153)
Δ Econ. Growth _t	-0.121*** (0.024)	-0.120*** (0.024)	-0.125*** (0.025)	-0.120*** (0.024)	-0.133*** (0.026)	-0.120*** (0.024)
Δ Unemployment _t	0.329*** (0.056)	0.331*** (0.057)	0.319*** (0.058)	0.331*** (0.057)	0.329*** (0.057)	0.331*** (0.057)
Δ Deindustrialization _t	-0.116* (0.063)	-0.113* (0.062)	-0.111* (0.066)	-0.113* (0.062)	-0.128** (0.063)	-0.113* (0.062)
Δ Elderly _t	0.115 (0.284)	0.160 (0.242)	0.116 (0.284)	0.160 (0.242)	0.103 (0.286)	0.160 (0.242)
Constant	0.949 (0.730)	-0.145 (0.162)	0.928 (0.726)	-0.145 (0.162)	1.161 (0.887)	-0.145 (0.162)
R ²	0.37	0.34	0.37	0.34	0.38	0.34
χ ²	158.25	97.63	189.43	97.63	185.70	97.63
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.05	.08	.04	.08	.05	.08
N	351	357	335	357	335	357

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

The following tables show the sensitivity analysis using ‘ Δ in Social Spending as % of GDP’ as dependent variable for the two periods of analysis – starting with the earlier period (1980 - 1991).

Table A-17: Sensitivity Analysis: Regression Estimates for Determinants of Δ Social Spending as % of GDP (1980-1991)

	excluding Australia		excluding Austria		excluding Belgium	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.185 (0.482)	0.603** (0.285)	0.229 (0.431)	0.603** (0.285)	0.249 (0.448)	0.603** (0.285)
Pol. Constraints _{t-1}	-0.383 (1.774)	0.172 (0.187)	-0.372 (1.734)	0.172 (0.187)	-0.371 (1.729)	0.172 (0.187)
Δ Trade Flows _t	-0.038** (0.017)	-0.034** (0.015)	-0.042*** (0.016)	-0.034** (0.015)	-0.047*** (0.016)	-0.034** (0.015)
Δ Financial Flows _t	0.106 (0.160)	0.078 (0.148)	0.122 (0.144)	0.078 (0.148)	0.140 (0.171)	0.078 (0.148)
Δ Econ. Growth _t	-0.117*** (0.035)	-0.120*** (0.029)	-0.115*** (0.029)	-0.120*** (0.029)	-0.110*** (0.029)	-0.120*** (0.029)
Δ Unemployment _t	0.423*** (0.066)	0.385*** (0.059)	0.416*** (0.057)	0.385*** (0.059)	0.419*** (0.058)	0.385*** (0.059)
Δ Deindustrialization _t	0.019 (0.072)	-0.028 (0.069)	0.014 (0.071)	-0.028 (0.069)	0.024 (0.072)	-0.028 (0.069)
Δ Elderly _t	0.163 (0.419)	0.203 (0.367)	0.136 (0.417)	0.203 (0.367)	0.027 (0.422)	0.203 (0.367)
Constant	0.380 (1.469)	-0.197 (0.196)	0.359 (1.436)	-0.197 (0.196)	0.375 (1.432)	-0.197 (0.196)
R ²	0.52	0.44	0.53	0.44	0.53	0.44
χ^2	455.73	82.69	467.24	82.69	573.44	82.69
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	-.04	.04	-.05	.04	-.03	.04
N	156	166	165	166	155	166

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-17 continued

	excluding Canada		excluding Denmark		excluding Finland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.253 (0.435)	0.603** (0.285)	0.378 (0.486)	0.603** (0.285)	0.348 (0.448)	0.603** (0.285)
Pol. Constraints _{t-1}	-0.530 (1.761)	0.172 (0.187)	-0.369 (1.716)	0.172 (0.187)	-0.330 (1.736)	0.172 (0.187)
Δ Trade Flows _t	-0.044*** (0.016)	-0.034** (0.015)	-0.035* (0.021)	-0.034** (0.015)	-0.030* (0.017)	-0.034** (0.015)
Δ Financial Flows _t	0.127 (0.143)	0.078 (0.148)	0.035 (0.160)	0.078 (0.148)	0.078 (0.144)	0.078 (0.148)
Δ Econ. Growth _t	-0.120*** (0.032)	-0.120*** (0.029)	-0.115*** (0.031)	-0.120*** (0.029)	-0.108*** (0.031)	-0.120*** (0.029)
Δ Unemployment _t	0.413*** (0.060)	0.385*** (0.059)	0.439*** (0.065)	0.385*** (0.059)	0.386*** (0.059)	0.385*** (0.059)
Δ Deindustrialization _t	0.019 (0.074)	-0.028 (0.069)	0.032 (0.077)	-0.028 (0.069)	0.009 (0.072)	-0.028 (0.069)
Δ Elderly _t	0.136 (0.409)	0.203 (0.367)	0.235 (0.408)	0.203 (0.367)	0.146 (0.420)	0.203 (0.367)
Constant	0.482 (1.457)	-0.197 (0.196)	0.296 (1.418)	-0.197 (0.196)	0.267 (1.439)	-0.197 (0.196)
R ²	0.51	0.44	0.52	0.44	0.45	0.44
χ ²	516.63	82.69	917.00	82.69	588.61	82.69
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	-.07	.04	-.05	.04	-.04	.04
N	155	166	155	166	155	166

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-17 continued

	excluding France		excluding Germany		excluding Ireland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.126 (0.468)	0.603** (0.285)	0.339 (0.427)	0.603** (0.285)	0.264 (0.413)	0.603** (0.285)
Pol. Constraints _{t-1}	3.024 (2.050)	0.172 (0.187)	-0.424 (1.684)	0.172 (0.187)	-0.338 (1.611)	0.172 (0.187)
Δ Trade Flows _t	-0.046*** (0.014)	-0.034** (0.015)	-0.042*** (0.016)	-0.034** (0.015)	-0.044*** (0.012)	-0.034** (0.015)
Δ Financial Flows _t	0.194 (0.156)	0.078 (0.148)	0.117 (0.142)	0.078 (0.148)	0.124 (0.147)	0.078 (0.148)
Δ Econ. Growth _t	-0.113*** (0.028)	-0.120*** (0.029)	-0.114*** (0.029)	-0.120*** (0.029)	-0.108*** (0.022)	-0.120*** (0.029)
Δ Unemployment _t	0.412*** (0.057)	0.385*** (0.059)	0.417*** (0.057)	0.385*** (0.059)	0.404*** (0.046)	0.385*** (0.059)
Δ Deindustrialization _t	0.015 (0.072)	-0.028 (0.069)	-0.036 (0.077)	-0.028 (0.069)	0.009 (0.066)	-0.028 (0.069)
Δ Elderly _t	0.088 (0.356)	0.203 (0.367)	0.130 (0.459)	0.203 (0.367)	0.227 (0.415)	0.203 (0.367)
Constant	-2.316 (1.704)	-0.197 (0.196)	0.335 (1.403)	-0.197 (0.196)	0.308 (1.302)	-0.197 (0.196)
R ²	0.57	0.44	0.55	0.44	0.58	0.44
χ ²	489.76	82.69	325.24	82.69	271.97	82.69
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	-.06	.04	-.07	.04	-.03	.04
N	155	166	155	166	155	166

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-17 continued

	excluding Italy		excluding Japan		excluding Netherlands	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.130 (0.433)	0.603** (0.285)	0.243 (0.455)	0.603** (0.285)	0.204 (0.428)	0.603** (0.285)
Pol. Constraints _{t-1}	-0.241 (1.734)	0.172 (0.187)	-0.417 (1.765)	0.172 (0.187)	-1.993 (2.035)	0.172 (0.187)
Δ Trade Flows _t	-0.043*** (0.016)	-0.034** (0.015)	-0.044*** (0.016)	-0.034** (0.015)	-0.041*** (0.016)	-0.034** (0.015)
Δ Financial Flows _t	0.165 (0.157)	0.078 (0.148)	0.119 (0.145)	0.078 (0.148)	0.179 (0.144)	0.078 (0.148)
Δ Econ. Growth _t	-0.112*** (0.030)	-0.120*** (0.029)	-0.117*** (0.030)	-0.120*** (0.029)	-0.119*** (0.030)	-0.120*** (0.029)
Δ Unemployment _t	0.412*** (0.055)	0.385*** (0.059)	0.418*** (0.057)	0.385*** (0.059)	0.427*** (0.062)	0.385*** (0.059)
Δ Deindustrialization _t	0.014 (0.077)	-0.028 (0.069)	0.020 (0.072)	-0.028 (0.069)	0.020 (0.071)	-0.028 (0.069)
Δ Elderly _t	0.002 (0.605)	0.203 (0.367)	0.160 (0.428)	0.203 (0.367)	0.216 (0.398)	0.203 (0.367)
Constant	0.305 (1.441)	-0.197 (0.196)	0.393 (1.462)	-0.197 (0.196)	1.659 (1.674)	-0.197 (0.196)
R ²	0.53	0.44	0.53	0.44	0.55	0.44
χ ²	325.89	82.69	666.46	82.69	273.04	82.69
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	-.04	.04	-.06	.04	-.07	.04
N	155	166	155	166	155	166

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-17 continued

	excluding New Zealand		excluding Norway		excluding Sweden	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.057 (0.433)	0.603** (0.285)	0.211 (0.437)	0.603** (0.285)	0.275 (0.439)	0.603** (0.285)
Pol. Constraints _{t-1}	-0.272 (1.755)	0.172 (0.187)	-0.421 (1.755)	0.172 (0.187)	-0.533 (1.758)	0.172 (0.187)
Δ Trade Flows _t	-0.042** (0.017)	-0.034** (0.015)	-0.042*** (0.016)	-0.034** (0.015)	-0.043*** (0.016)	-0.034** (0.015)
Δ Financial Flows _t	0.144 (0.153)	0.078 (0.148)	0.123 (0.145)	0.078 (0.148)	0.130 (0.145)	0.078 (0.148)
Δ Econ. Growth _t	-0.112*** (0.030)	-0.120*** (0.029)	-0.115*** (0.029)	-0.120*** (0.029)	-0.104*** (0.029)	-0.120*** (0.029)
Δ Unemployment _t	0.430*** (0.058)	0.385*** (0.059)	0.417*** (0.058)	0.385*** (0.059)	0.411*** (0.058)	0.385*** (0.059)
Δ Deindustrialization _t	0.002 (0.089)	-0.028 (0.069)	0.017 (0.072)	-0.028 (0.069)	0.021 (0.072)	-0.028 (0.069)
Δ Elderly _t	0.084 (0.420)	0.203 (0.367)	0.142 (0.418)	0.203 (0.367)	0.166 (0.445)	0.203 (0.367)
Constant	0.340 (1.453)	-0.197 (0.196)	0.405 (1.456)	-0.197 (0.196)	0.473 (1.451)	-0.197 (0.196)
R ²	0.54	0.44	0.53	0.44	0.52	0.44
χ ²	385.95	82.69	446.59	82.69	375.59	82.69
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	-.04	.04	-.04	.04	-.01	.04
N	157	166	163	166	155	166

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-17 continued

	excluding Switzerland		excluding the UK		excluding the US	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.229 (0.431)	0.603** (0.285)	0.245 (0.434)	0.603** (0.285)	0.231 (0.421)	0.603** (0.285)
Pol. Constraints _{t-1}	-0.372 (1.734)	0.172 (0.187)	-0.363 (1.725)	0.172 (0.187)	-0.424 (1.739)	0.172 (0.187)
Δ Trade Flows _t	-0.042*** (0.016)	-0.034** (0.015)	-0.044*** (0.016)	-0.034** (0.015)	-0.042*** (0.015)	-0.034** (0.015)
Δ Financial Flows _t	0.122 (0.144)	0.078 (0.148)	0.106 (0.144)	0.078 (0.148)	0.113 (0.145)	0.078 (0.148)
Δ Econ. Growth _t	-0.115*** (0.029)	-0.120*** (0.029)	-0.119*** (0.030)	-0.120*** (0.029)	-0.133*** (0.032)	-0.120*** (0.029)
Δ Unemployment _t	0.416*** (0.057)	0.385*** (0.059)	0.405*** (0.061)	0.385*** (0.059)	0.424*** (0.059)	0.385*** (0.059)
Δ Deindustrialization _t	0.014 (0.071)	-0.028 (0.069)	0.032 (0.077)	-0.028 (0.069)	-0.003 (0.073)	-0.028 (0.069)
Δ Elderly _t	0.136 (0.417)	0.203 (0.367)	0.123 (0.417)	0.203 (0.367)	0.153 (0.408)	0.203 (0.367)
Constant	0.359 (1.436)	-0.197 (0.196)	0.358 (1.430)	-0.197 (0.196)	0.613 (0.739)	-0.197 (0.196)
R ²	0.53	0.44	0.52	0.44	0.54	0.44
χ ²	490.71	82.69	3888.83	82.69	426.09	82.69
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	-.05	.04	-.06	.04	-.05	.04
N	166	166	155	166	155	166

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-18: Sensitivity Analysis: Regression Estimates for Determinants of Δ Social Spending as % of GDP (1992-2002)

	excluding Australia		excluding Austria		excluding Belgium	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology $_{t-1}$	0.582 (0.536)	0.368 (0.432)	0.410 (0.474)	0.368 (0.432)	0.556 (0.479)	0.368 (0.432)
Pol. Constraints $_{t-1}$	-1.407 (1.251)	0.128 (0.140)	-1.508 (1.245)	0.128 (0.140)	-1.263 (1.229)	0.128 (0.140)
Δ Trade Flows $_t$	-0.027 (0.017)	-0.022 (0.016)	-0.018 (0.016)	-0.022 (0.016)	-0.019 (0.016)	-0.022 (0.016)
Δ Financial Flows $_t$	0.130 (0.247)	0.087 (0.259)	0.103 (0.246)	0.087 (0.259)	0.097 (0.266)	0.087 (0.259)
Δ Econ. Growth $_t$	-0.127*** (0.039)	-0.136*** (0.039)	-0.140*** (0.039)	-0.136*** (0.039)	-0.129*** (0.040)	-0.136*** (0.039)
Δ Unemployment $_t$	0.067 (0.096)	0.046 (0.095)	0.038 (0.087)	0.046 (0.095)	0.034 (0.090)	0.046 (0.095)
Δ Deindustrialization $_t$	-0.232* (0.128)	-0.212* (0.126)	-0.291** (0.141)	-0.212* (0.126)	-0.270* (0.138)	-0.212* (0.126)
Δ Elderly $_t$	-0.348 (0.744)	0.232 (0.460)	-0.154 (0.764)	0.232 (0.460)	-0.383 (0.723)	0.232 (0.460)
Constant	0.915 (0.983)	-0.383 (0.291)	1.030 (0.993)	-0.383 (0.291)	0.778 (0.998)	-0.383 (0.291)
R ²	0.34	0.18	0.36	0.18	0.33	0.18
χ^2	101.52	21.07	635.91	21.07	69.07	21.07
p-Value	0.000	0.007	0.000	0.007	0.000	0.007
ρ	.11	.23	.09	.23	.11	.23
N	165	175	165	175	165	175

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Table A-18 continued

	excluding Canada		excluding Denmark		excluding Finland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.495 (0.468)	0.368 (0.432)	0.481 (0.473)	0.368 (0.432)	0.650 (0.444)	0.368 (0.432)
Pol. Constraints _{t-1}	-1.278 (1.175)	0.128 (0.140)	-1.328 (1.157)	0.128 (0.140)	-1.665 (1.123)	0.128 (0.140)
Δ Trade Flows _t	-0.020 (0.016)	-0.022 (0.016)	-0.022 (0.016)	-0.022 (0.016)	-0.001 (0.016)	-0.022 (0.016)
Δ Financial Flows _t	0.109 (0.241)	0.087 (0.259)	0.106 (0.240)	0.087 (0.259)	0.028 (0.233)	0.087 (0.259)
Δ Econ. Growth _t	-0.140*** (0.041)	-0.136*** (0.039)	-0.153*** (0.037)	-0.136*** (0.039)	-0.121*** (0.039)	-0.136*** (0.039)
Δ Unemployment _t	0.051 (0.090)	0.046 (0.095)	0.063 (0.087)	0.046 (0.095)	0.198** (0.099)	0.046 (0.095)
Δ Deindustrialization _t	-0.224* (0.127)	-0.212* (0.126)	-0.239* (0.128)	-0.212* (0.126)	-0.150 (0.119)	-0.212* (0.126)
Δ Elderly _t	-0.429 (0.732)	0.232 (0.460)	-0.525 (0.766)	0.232 (0.460)	-0.353 (0.696)	0.232 (0.460)
Constant	0.831 (0.942)	-0.383 (0.291)	0.869 (0.927)	-0.383 (0.291)	1.100 (0.877)	-0.383 (0.291)
R ²	0.34	0.18	0.39	0.18	0.31	0.18
χ ²	122.14	21.07	170.64	21.07	49.51	21.07
p-Value	0.000	0.007	0.000	0.007	0.000	0.007
ρ	.08	.23	.05	.23	.09	.23
N	165	175	165	175	165	175

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-18 continued

	excluding France		excluding Germany		excluding Ireland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.679 (0.514)	0.368 (0.432)	0.541 (0.479)	0.368 (0.432)	0.584 (0.465)	0.368 (0.432)
Pol. Constraints _{t-1}	-1.622 (1.339)	0.128 (0.140)	-1.318 (1.188)	0.128 (0.140)	-0.965 (1.176)	0.128 (0.140)
Δ Trade Flows _t	-0.016 (0.017)	-0.022 (0.016)	-0.021 (0.016)	-0.022 (0.016)	-0.019 (0.016)	-0.022 (0.016)
Δ Financial Flows _t	-0.112 (0.269)	0.087 (0.259)	0.098 (0.240)	0.087 (0.259)	0.215 (0.296)	0.087 (0.259)
Δ Econ. Growth _t	-0.137*** (0.041)	-0.136*** (0.039)	-0.138*** (0.042)	-0.136*** (0.039)	-0.153*** (0.041)	-0.136*** (0.039)
Δ Unemployment _t	0.041 (0.090)	0.046 (0.095)	0.068 (0.092)	0.046 (0.095)	0.044 (0.091)	0.046 (0.095)
Δ Deindustrialization _t	-0.213* (0.122)	-0.212* (0.126)	-0.206 (0.129)	-0.212* (0.126)	-0.246* (0.126)	-0.212* (0.126)
Δ Elderly _t	-0.517 (0.738)	0.232 (0.460)	-0.369 (0.789)	0.232 (0.460)	-0.350 (0.729)	0.232 (0.460)
Constant	1.021 (1.085)	-0.383 (0.291)	0.858 (0.955)	-0.383 (0.291)	0.534 (0.943)	-0.383 (0.291)
R ²	0.34	0.18	0.34	0.18	0.37	0.18
χ ²	242.12	21.07	485.37	21.07	127.60	21.07
p-Value	0.000	0.007	0.000	0.007	0.000	0.007
ρ	.08	.23	.09	.23	.09	.23
N	165	175	166	175	165	175

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-18 continued

	excluding Italy		excluding Japan		excluding Netherlands	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.551 (0.536)	0.368 (0.432)	0.560 (0.487)	0.368 (0.432)	0.487 (0.461)	0.368 (0.432)
Pol. Constraints _{t-1}	-0.284 (1.189)	0.128 (0.140)	-1.397 (1.201)	0.128 (0.140)	-1.165 (1.402)	0.128 (0.140)
Δ Trade Flows _t	-0.017 (0.016)	-0.022 (0.016)	-0.020 (0.016)	-0.022 (0.016)	-0.019 (0.016)	-0.022 (0.016)
Δ Financial Flows _t	0.022 (0.359)	0.087 (0.259)	0.096 (0.248)	0.087 (0.259)	0.100 (0.249)	0.087 (0.259)
Δ Econ. Growth _t	-0.132*** (0.041)	-0.136*** (0.039)	-0.145*** (0.043)	-0.136*** (0.039)	-0.131*** (0.040)	-0.136*** (0.039)
Δ Unemployment _t	0.056 (0.091)	0.046 (0.095)	0.057 (0.089)	0.046 (0.095)	0.060 (0.091)	0.046 (0.095)
Δ Deindustrialization _t	-0.218* (0.131)	-0.212* (0.126)	-0.233* (0.127)	-0.212* (0.126)	-0.229* (0.129)	-0.212* (0.126)
Δ Elderly _t	-0.359 (0.719)	0.232 (0.460)	-0.433 (0.734)	0.232 (0.460)	-0.390 (0.725)	0.232 (0.460)
Constant	0.022 (0.968)	-0.383 (0.291)	0.893 (0.953)	-0.383 (0.291)	0.748 (1.137)	-0.383 (0.291)
R ²	0.33	0.18	0.33	0.18	0.33	0.18
χ ²	105.30	21.07	67.29	21.07	67.05	21.07
p-Value	0.000	0.007	0.000	0.007	0.000	0.007
ρ	.11	.23	.07	.23	.09	.23
N	165	175	165	175	165	175

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-18 continued

	excluding New Zealand		excluding Norway		excluding Sweden	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.515 (0.484)	0.368 (0.432)	0.705 (0.502)	0.368 (0.432)	0.156 (0.425)	0.368 (0.432)
Pol. Constraints _{t-1}	-2.407* (1.380)	0.128 (0.140)	-1.454 (1.188)	0.128 (0.140)	-1.320 (1.153)	0.128 (0.140)
Δ Trade Flows _t	-0.034 (0.021)	-0.022 (0.016)	-0.020 (0.015)	-0.022 (0.016)	-0.027* (0.015)	-0.022 (0.016)
Δ Financial Flows _t	0.197 (0.227)	0.087 (0.259)	0.140 (0.178)	0.087 (0.259)	0.233 (0.254)	0.087 (0.259)
Δ Econ. Growth _t	-0.128*** (0.045)	-0.136*** (0.039)	-0.120*** (0.038)	-0.136*** (0.039)	-0.132*** (0.036)	-0.136*** (0.039)
Δ Unemployment _t	0.058 (0.092)	0.046 (0.095)	0.055 (0.087)	0.046 (0.095)	0.002 (0.090)	0.046 (0.095)
Δ Deindustrialization _t	-0.164 (0.143)	-0.212* (0.126)	-0.284** (0.119)	-0.212* (0.126)	-0.180 (0.127)	-0.212* (0.126)
Δ Elderly _t	-0.339 (0.761)	0.232 (0.460)	-0.379 (0.721)	0.232 (0.460)	-1.019 (0.843)	0.232 (0.460)
Constant	1.767 (1.139)	-0.383 (0.291)	0.866 (0.957)	-0.383 (0.291)	1.018 (0.906)	-0.383 (0.291)
R ²	0.34	0.18	0.38	0.18	0.36	0.18
χ ²	507.13	21.07	165.67	21.07	195.65	21.07
p-Value	0.000	0.007	0.000	0.007	0.000	0.007
ρ	.06	.23	.09	.23	.10	.23
N	165	175	165	175	165	175

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-18 continued

	excluding Switzerland		excluding the UK		excluding the US	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.519 (0.469)	0.368 (0.432)	0.489 (0.479)	0.368 (0.432)	0.628 (0.496)	0.368 (0.432)
Pol. Constraints _{t-1}	-1.318 (1.178)	0.128 (0.140)	-1.197 (1.195)	0.128 (0.140)	-1.356 (1.183)	0.128 (0.140)
Δ Trade Flows _t	-0.020 (0.016)	-0.022 (0.016)	-0.020 (0.016)	-0.022 (0.016)	-0.019 (0.016)	-0.022 (0.016)
Δ Financial Flows _t	0.108 (0.241)	0.087 (0.259)	0.116 (0.244)	0.087 (0.259)	0.103 (0.240)	0.087 (0.259)
Δ Econ. Growth _t	-0.136*** (0.041)	-0.136*** (0.039)	-0.137*** (0.041)	-0.136*** (0.039)	-0.140*** (0.040)	-0.136*** (0.039)
Δ Unemployment _t	0.056 (0.090)	0.046 (0.095)	0.041 (0.091)	0.046 (0.095)	0.051 (0.091)	0.046 (0.095)
Δ Deindustrialization _t	-0.201 (0.131)	-0.212* (0.126)	-0.241* (0.126)	-0.212* (0.126)	-0.224* (0.128)	-0.212* (0.126)
Δ Elderly _t	-0.412 (0.739)	0.232 (0.460)	-0.470 (0.743)	0.232 (0.460)	-0.441 (0.738)	0.232 (0.460)
Constant	0.863 (0.949)	-0.383 (0.291)	0.763 (0.970)	-0.383 (0.291)	1.026 (1.174)	-0.383 (0.291)
R ²	0.34	0.18	0.35	0.18	0.35	0.18
χ ²	66.33	21.07	82.04	21.07	62.81	21.07
p-Value	0.000	0.007	0.000	0.007	0.000	0.007
ρ	.08	.23	.09	.23	.07	.23
N	169	175	165	175	165	175

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Sensitivity Analysis for Public Spending as % of GDP

Table A-19: Sensitivity Analysis: Regression Estimates for Determinants of Δ in Public Expenditure as % of GDP

	excluding Australia		excluding Austria		excluding Belgium	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.612 (0.469)	0.534 (0.397)	0.491 (0.450)	0.534 (0.397)	0.472 (0.458)	0.534 (0.397)
Pol. Constraints _{t-1}	0.160 (1.382)	0.371* (0.200)	-0.127 (1.344)	0.371* (0.200)	0.928 (1.452)	0.371* (0.200)
Δ Trade Flows _t	-0.036* (0.021)	-0.024 (0.021)	-0.028 (0.020)	-0.024 (0.021)	-0.032 (0.020)	-0.024 (0.021)
Δ Financial Flows _t	-0.036 (0.248)	-0.042 (0.230)	-0.022 (0.232)	-0.042 (0.230)	-0.067 (0.256)	-0.042 (0.230)
Δ Econ. Growth _t	-0.270*** (0.037)	-0.279*** (0.035)	-0.279*** (0.036)	-0.279*** (0.035)	-0.263*** (0.036)	-0.279*** (0.035)
Δ Unemployment _t	0.700*** (0.090)	0.709*** (0.090)	0.672*** (0.087)	0.709*** (0.090)	0.649*** (0.089)	0.709*** (0.090)
Δ Deindustrialization _t	-0.342*** (0.131)	-0.326** (0.131)	-0.359*** (0.134)	-0.326** (0.131)	-0.321** (0.129)	-0.326** (0.131)
Δ Elderly _t	-0.667 (0.586)	-0.119 (0.534)	-0.615 (0.618)	-0.119 (0.534)	-0.665 (0.597)	-0.119 (0.534)
Constant	-0.338 (1.113)	-0.608** (0.305)	-0.077 (1.083)	-0.608** (0.305)	-0.884 (1.165)	-0.608** (0.305)
R ²	0.43	0.39	0.43	0.39	0.40	0.39
χ^2	283.16	180.96	245.45	180.96	240.27	180.96
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.05	.08	.05	.08	.09	.08
N	401	431	407	431	399	431

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = $p < 0.10$, ** = $p < 0.05$, *** = $p < 0.01$; FE = Fixed Effects Model (including country dummies).

Table A-19 continued

	excluding Canada		excluding Denmark		excluding Finland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.679 (0.443)	0.534 (0.397)	0.796* (0.479)	0.534 (0.397)	0.566 (0.446)	0.534 (0.397)
Pol. Constraints _{t-1}	-0.072 (1.320)	0.371* (0.200)	-0.322 (1.315)	0.371* (0.200)	-0.170 (1.335)	0.371* (0.200)
Δ Trade Flows _t	-0.028 (0.021)	-0.024 (0.021)	-0.023 (0.022)	-0.024 (0.021)	-0.018 (0.021)	-0.024 (0.021)
Δ Financial Flows _t	-0.002 (0.231)	-0.042 (0.230)	-0.066 (0.240)	-0.042 (0.230)	-0.006 (0.237)	-0.042 (0.230)
Δ Econ. Growth _t	-0.283*** (0.036)	-0.279*** (0.035)	-0.301*** (0.036)	-0.279*** (0.035)	-0.271*** (0.036)	-0.279*** (0.035)
Δ Unemployment _t	0.661*** (0.086)	0.709*** (0.090)	0.664*** (0.095)	0.709*** (0.090)	0.607*** (0.096)	0.709*** (0.090)
Δ Deindustrialization _t	-0.316** (0.130)	-0.326** (0.131)	-0.439*** (0.147)	-0.326** (0.131)	-0.325** (0.129)	-0.326** (0.131)
Δ Elderly _t	-0.730 (0.575)	-0.119 (0.534)	-0.802 (0.590)	-0.119 (0.534)	-0.675 (0.584)	-0.119 (0.534)
Constant	-0.171 (1.068)	-0.608** (0.305)	-0.076 (1.065)	-0.608** (0.305)	-0.061 (1.075)	-0.608** (0.305)
R ²	0.41	0.39	0.44	0.39	0.39	0.39
χ ²	311.72	180.96	370.56	180.96	254.34	180.96
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.032	.08	.03	.08	.06	.08
N	399	431	400	431	404	431

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-19 continued

	excluding France		excluding Germany		excluding Ireland	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.752 (0.485)	0.534 (0.397)	0.665 (0.428)	0.534 (0.397)	0.616 (0.438)	0.534 (0.397)
Pol. Constraints _{t-1}	0.451 (1.937)	0.371* (0.200)	-0.293 (1.324)	0.371* (0.200)	-0.185 (1.326)	0.371* (0.200)
Δ Trade Flows _t	-0.033 (0.021)	-0.024 (0.021)	-0.026 (0.020)	-0.024 (0.021)	-0.037* (0.020)	-0.024 (0.021)
Δ Financial Flows _t	0.007 (0.259)	-0.042 (0.230)	-0.016 (0.233)	-0.042 (0.230)	0.007 (0.226)	-0.042 (0.230)
Δ Econ. Growth _t	-0.279*** (0.035)	-0.279*** (0.035)	-0.275*** (0.032)	-0.279*** (0.035)	-0.296*** (0.034)	-0.279*** (0.035)
Δ Unemployment _t	0.675*** (0.086)	0.709*** (0.090)	0.697*** (0.082)	0.709*** (0.090)	0.705*** (0.082)	0.709*** (0.090)
Δ Deindustrialization _t	-0.341*** (0.129)	-0.326** (0.131)	-0.341*** (0.131)	-0.326** (0.131)	-0.309** (0.130)	-0.326** (0.131)
Δ Elderly _t	-0.663 (0.616)	-0.119 (0.534)	-0.792 (0.618)	-0.119 (0.534)	-0.618 (0.580)	-0.119 (0.534)
Constant	-0.631 (1.597)	-0.608** (0.305)	0.002 (1.059)	-0.608** (0.305)	-0.050 (1.073)	-0.608** (0.305)
R ²	0.43	0.39	0.46	0.39	0.43	0.39
χ ²	261.42	180.96	347.57	180.96	339.72	180.96
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.04	.08	.06	.08	.06	.08
N	407	431	400	431	414	431

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-19 continued

	excluding Italy		excluding Japen		excluding Netherlands	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.722 (0.440)	0.534 (0.397)	0.582 (0.436)	0.534 (0.397)	0.658 (0.439)	0.534 (0.397)
Pol. Constraints _{t-1}	-0.587 (1.333)	0.371* (0.200)	-0.126 (1.352)	0.371* (0.200)	-0.751 (1.429)	0.371* (0.200)
Δ Trade Flows _t	-0.034* (0.020)	-0.024 (0.021)	-0.029 (0.020)	-0.024 (0.021)	-0.028 (0.020)	-0.024 (0.021)
Δ Financial Flows _t	-0.127 (0.251)	-0.042 (0.230)	-0.015 (0.232)	-0.042 (0.230)	0.006 (0.243)	-0.042 (0.230)
Δ Econ. Growth _t	-0.267*** (0.034)	-0.279*** (0.035)	-0.272*** (0.035)	-0.279*** (0.035)	-0.278*** (0.033)	-0.279*** (0.035)
Δ Unemployment _t	0.707*** (0.086)	0.709*** (0.090)	0.676*** (0.086)	0.709*** (0.090)	0.666*** (0.087)	0.709*** (0.090)
Δ Deindustrialization _t	-0.332** (0.132)	-0.326** (0.131)	-0.307** (0.128)	-0.326** (0.131)	-0.323** (0.132)	-0.326** (0.131)
Δ Elderly _t	-0.446 (0.626)	-0.119 (0.534)	-0.701 (0.585)	-0.119 (0.534)	-0.730 (0.588)	-0.119 (0.534)
Constant	0.195 (1.076)	-0.608** (0.305)	-0.084 (1.090)	-0.608** (0.305)	0.377 (1.129)	-0.608** (0.305)
R ²	0.44	0.39	0.43	0.39	0.43	0.39
χ ²	351.77	180.96	238.62	180.96	327.66	180.96
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.03	.08	.07	.08	.08	.08
N	409	431	419	431	399	431

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-19 continued

	excluding		excluding		excluding	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.638 (0.429)	0.534 (0.397)	0.724* (0.422)	0.534 (0.397)	0.608 (0.433)	0.534 (0.397)
Pol. Constraints _{t-1}	-0.761 (1.381)	0.371* (0.200)	0.033 (1.321)	0.371* (0.200)	-0.214 (1.322)	0.371* (0.200)
Δ Trade Flows _t	-0.034 (0.022)	-0.024 (0.021)	-0.028 (0.020)	-0.024 (0.021)	-0.031 (0.020)	-0.024 (0.021)
Δ Financial Flows _t	0.038 (0.231)	-0.042 (0.230)	0.074 (0.222)	-0.042 (0.230)	0.023 (0.230)	-0.042 (0.230)
Δ Econ. Growth _t	-0.287*** (0.035)	-0.279*** (0.035)	-0.270*** (0.034)	-0.279*** (0.035)	-0.285*** (0.033)	-0.279*** (0.035)
Δ Unemployment _t	0.685*** (0.086)	0.709*** (0.090)	0.677*** (0.085)	0.709*** (0.090)	0.688*** (0.085)	0.709*** (0.090)
Δ Deindustrialization _t	-0.351*** (0.131)	-0.326** (0.131)	-0.384*** (0.128)	-0.326** (0.131)	-0.316** (0.130)	-0.326** (0.131)
Δ Elderly _t	-0.671 (0.577)	-0.119 (0.534)	-0.942 (0.587)	-0.119 (0.534)	-0.799 (0.618)	-0.119 (0.534)
Constant	0.381 (1.105)	-0.608** (0.305)	-0.289 (1.063)	-0.608** (0.305)	-0.019 (1.067)	-0.608** (0.305)
R ²	0.43	0.39	0.46	0.39	0.43	0.39
χ ²	317.81	180.96	289.65	180.96	316.92	180.96
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.03	.08	.04	.08	.05	.08
N	417	431	407	431	422	431

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-19 continued

	excluding Switzerland		excluding the UK		excluding the US	
	FE	No FE	FE	No FE	FE	No FE
Gov. Ideology _{t-1}	0.649 (0.436)	0.534 (0.397)	0.887* (0.459)	0.534 (0.397)	0.686 (0.459)	0.534 (0.397)
Pol. Constraints _{t-1}	-0.135 (1.335)	0.371* (0.200)	-0.154 (1.306)	0.371* (0.200)	-0.195 (1.324)	0.371* (0.200)
Δ Trade Flows _t	-0.030 (0.020)	-0.024 (0.021)	-0.035* (0.020)	-0.024 (0.021)	-0.031 (0.021)	-0.024 (0.021)
Δ Financial Flows _t	-0.008 (0.232)	-0.042 (0.230)	0.108 (0.259)	-0.042 (0.230)	-0.014 (0.230)	-0.042 (0.230)
Δ Econ. Growth _t	-0.280*** (0.035)	-0.279*** (0.035)	-0.271*** (0.036)	-0.279*** (0.035)	-0.300*** (0.038)	-0.279*** (0.035)
Δ Unemployment _t	0.675*** (0.086)	0.709*** (0.090)	0.680*** (0.088)	0.709*** (0.090)	0.685*** (0.088)	0.709*** (0.090)
Δ Deindustrialization _t	-0.336*** (0.129)	-0.326** (0.131)	-0.337** (0.135)	-0.326** (0.131)	-0.350*** (0.132)	-0.326** (0.131)
Δ Elderly _t	-0.707 (0.584)	-0.119 (0.534)	-0.656 (0.581)	-0.119 (0.534)	-0.769 (0.587)	-0.119 (0.534)
Constant	-0.117 (1.077)	-0.608** (0.305)	-0.203 (1.057)	-0.608** (0.305)	-0.044 (1.322)	-0.608** (0.305)
R ²	0.43	0.39	0.44	0.39	0.43	0.39
χ ²	225.24	180.96	323.11	180.96	312.48	180.96
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.06	.08	.02	.08	.04	.08
N	425	431	399	431	399	431

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Sensitivity Analysis Using the Level Values (Basic Model)

Table A-20: Regression Estimates for Determinants of Decommodification as a Measure of Redistributive Generosity

	1	2	3	4	5	6
	(FE)	(No FE)	(FE)	(No FE)	(FE)	(No FE)
Gov. Ideology _{t-1}	0.796** (0.401)	1.111*** (0.424)				
Left Gov. _{t-1}			0.132 (0.128)	0.214 (0.134)		
Right Gov. _{t-1}					-0.132 (0.128)	-0.214 (0.134)
Pol. Constraints _{t-1}	-2.000* (1.115)	-3.204*** (0.881)	-1.996* (1.116)	-3.014*** (0.912)	-1.996* (1.116)	-3.014*** (0.912)
[0.2em] Trade Flows _{t-1}	-0.016 (0.013)	0.011 (0.013)	-0.016 (0.013)	0.009 (0.013)	-0.016 (0.013)	0.009 (0.013)
Financial Flows _{t-1}	0.016 (0.115)	0.055 (0.137)	0.007 (0.115)	0.056 (0.134)	0.007 (0.115)	0.056 (0.134)
Economic Growth _{t-1}	-0.002 (0.023)	0.007 (0.021)	-0.003 (0.023)	0.005 (0.021)	-0.003 (0.023)	0.005 (0.021)
Unemployment _{t-1}	-0.026 (0.047)	0.001 (0.051)	-0.030 (0.047)	0.003 (0.052)	-0.030 (0.047)	0.003 (0.052)
Deindustrialization _{t-1}	-0.178*** (0.035)	-0.012 (0.041)	-0.179*** (0.035)	-0.015 (0.043)	-0.179*** (0.035)	-0.015 (0.043)
Elderly _{t-1}	0.179* (0.099)	0.923*** (0.163)	0.172* (0.100)	0.842*** (0.176)	0.172* (0.100)	0.842*** (0.176)
Constant	23.468*** (2.289)	14.449*** (3.312)	23.927*** (2.290)	16.064*** (3.534)	24.058*** (2.293)	16.279*** (3.531)
R ²	0.86	0.60	0.86	0.57	0.86	0.57
χ ²	17216.70	62.65	20415.83	46.27	20415.83	46.27
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.68	.92	.68	.94	.68	.94
N	547	547	547	547	547	547

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

Table A-21: Regression Estimates for Determinants of Social Spending as % of GDP (level values)

	1	2	3	4	5	6
	(FE)	(No FE)	(FE)	(No FE)	(FE)	(No FE)
Gov. Ideology _{t-1}	0.352 (0.507)	-0.056 (0.563)				
Left Gov. _{t-1}			-0.003 (0.152)	-0.058 (0.158)		
Right Gov. _{t-1}					0.003 (0.152)	0.058 (0.158)
Pol. Constraints _{t-1}	0.059 (1.503)	-2.617*** (0.626)	0.146 (1.505)	-2.622*** (0.652)	0.146 (1.505)	-2.622*** (0.652)
Trade Flows _{t-1}	-0.014 (0.013)	0.005 (0.013)	-0.014 (0.013)	0.003 (0.013)	-0.014 (0.013)	0.003 (0.013)
Financial Flows _{t-1}	0.029 (0.142)	-0.120 (0.171)	0.030 (0.142)	-0.100 (0.170)	0.030 (0.142)	-0.100 (0.170)
Economic Growth _{t-1}	-0.183*** (0.039)	-0.119*** (0.038)	-0.183*** (0.039)	-0.117*** (0.038)	-0.183*** (0.039)	-0.117*** (0.038)
Unemployment _{t-1}	0.209*** (0.057)	0.167** (0.067)	0.204*** (0.057)	0.159** (0.068)	0.204*** (0.057)	0.159** (0.068)
Deindustrialization _{t-1}	-0.173*** (0.046)	-0.042 (0.047)	-0.172*** (0.047)	-0.046 (0.048)	-0.172*** (0.047)	-0.046 (0.048)
Elderly _{t-1}	0.333*** (0.082)	1.207*** (0.136)	0.334*** (0.081)	1.179*** (0.139)	0.334*** (0.081)	1.179*** (0.139)
Constant	14.862*** (2.596)	6.143** (2.874)	14.909*** (2.594)	6.814** (2.908)	14.907*** (2.600)	6.756** (2.897)
R ²	0.90	0.72	0.89	0.72	0.89	0.72
χ ²	5169.02	125.03	5291.71	115.09	5291.71	115.09
p-Value	0.000	0.000	0.000	0.000	0.000	0.000
ρ	.56	.86	.56	.87	.56	.87
N	380	397	380	397	380	397

Table presents Prais-Winsten regression estimates accounting for serially correlated errors; Panel-corrected standard errors are in parentheses below coefficients; Results for country dummies are not presented. * = p < 0.10, ** = p < 0.05, *** = p < 0.01; FE = Fixed Effects Model (including country dummies).

A-2 Case Selection

A-3 Switzerland

Overview Over the Main Reform Processes - Including the Reference to the Official Document

Table A-23: Unemployment Insurance Reforms (Source: Année Politique Suisse)

Year	Law	Document
1989	Botschaft des Bundesrats, Teilrevision des ALVG	BBl, 1989 III
1990	Partial Revision (1st Partial Revision) has been agreed on in both chambers of the parliament	BBl, 1990 III
1993	Minirevision des AVIG, dringlicher Bundesbeschluss	BBl, 1993, I
1993	Referendum against the decree	BBl, 1993, II
1993	Botschaft des Bundesrats (2nd Partial Revision of the Unemployment Insurance Law)	BBl, 1994, I
1994	Start of the Second Partial Revision of the unemployment insurance law.	BBl, 1994, I
1995	Decree for the recapitalization of the insurance	BBl, 1995, IV
1996	Urgent decree (dringlicher Bundesbeschluss) on the level of benefits and short-work benefits.	BBl, 1996, IV
1997	Popular vote (Referendum gegen den dringlichen Bundesbeschluss zur ALV vom Dez. 2006)	BBl, 1997, III
2000	Technical Revision (Optimierung im Leistungs- und Kostenbereich)	BBl, 2000, S. 1673ff
2001	Botschaft des Bundesrates (3rd Revision of the Unemployment Insurance Law)	BBl, 2001, S. 2245
2002	Popular vote (3rd AVIG Revision)	BBl, 2002, S. 5811

A-4 Ireland

Table A-24: Names and Abbreviations of Irish Interests Organizations

Abbreviation	Name of Organization
CIO	Committee on Industrial Organization
ELC	Employer-Labour Conference
CIR	Commission on Industrial Relations (est. 1978 by Fianna Fáil)
INPFC	Irish National Productivity Committee
NIEC	National Industrial and Economic Council (est. 1963)
ICTU	Irish Congress of Trade Unions
IEC	Irish Employers' Confederation
FUE	Federated Union of Employers
CIF	Construction Industry Federation
SIMI	Society of the Irish Motor Industry
NESC	National Economic and Social Council (est. by the Coalition government in 1973 to replace the NIEC).
ITUC	Irish Trade Union Congress
FWUI	Federal Workers' Union of Ireland (second largest union)
ITGWU	Irish Transport & General Worker's Union (largest)
ATGWU	Amalgated Transport and General Workers' Union
IUDWC	Irish Union of Distributive Workers and Clerks
IBOA	Irish Bank Officials' Association
NEETU	National Engineering and Electrical Trade Union
ASTMS	Ass. of Scientific, Technical and Managerial Staffs
UCATT	Union of Construction, Allied Trades and Technicians
ETU	Electrical Trades Union
MPGWU	Marine Port and General Workers
INTO	Irish National Teachers' Organization

Table A-24: *continued*

Abbreviation	Name of Organization
CPSSA	Civil and Public Services' Staff Association
LGPSU	Local Government and Public Services Union
PTWU	Postal and Telecommunications Workers' Union
IPOEU	Irish Post Office Engineering Union

A-5 Germany

Table A-25. Reform Processes in Germany (overview including the data of implementation and the official document number assigned by the archive of the 'Bundestag')

Law	Draft	No. of Printing Matter	First Consultation	Implementation
Gesetz zur Änderung des Arbeitsförderungsgesetzes (AFG-Änderungsgesetz)	1.11.1991	578/91	BT 07.05.1992	Ablehnung
Gesetz zur Änderung arbeitsförderungsrechtlicher und anderer sozialrechtlicher Vorschriften (AFG u.a. ÄndG)	8.3.1991	149/91	BT 26.04.1991	01.07.1991
Gesetz zur Änderung arbeitsförderungsrechtlicher und anderer sozialrechtlicher Vorschriften (AFG u.a. ÄndG)	11.3.1991	12/222	BT 14.03.1991	Beschluss Annahme
Föderales Konsolidierungsprogramm	4.3.1993	121/93	BT 22.04.1993	
Zweites Gesetz zur Umsetzung des Spar-, Konsolidierungs- und Wachstumsprogramms (2. SKWPG)	13.8.1993	503/93	BT 07.09.1993	31.12.1993 / 01.01.1994 / 01.07.1994
Beschäftigungsförderungsgesetz (BeschfG1994)	1.2.1994	12/6719	BT 03.02.1994	postponed
Gesetz zur Änderung des Arbeitsförderungsgesetzes (AFG) im Bereich des Baugewerbes	17.5.1994	12/7564	BT 19.05.1994	29.09.1994

Table A-25: *continued*

Law	Draft	No. of Printing Matter	First Consultation	Implementation
Beschäftigungsförderungsgesetz (BeschfG1994)	17.5.1994	12/7565	BT 19.05.1994	26.07.1994
Gesetz zur Reform des Rechts der Arbeitlosenhilfe (AlhiRG)	3.11.1995	732/95	BT 30.11.1995	1.04.1996
Gesetz zur Reform des Rechts der Arbeitlosenhilfe (AlhiRG)	7.11.1995	13/2898	BT 10.11.1995	1.01.1998
Wachstums- und Beschäftigungsförderungsgesetz (WFG)	10.5.1996	13/4610	BT 23.05.1996	1.01.1997
Zweites Gesetz zur Änderung des Arbeitsförderungsgesetzes im Bereich des Baugewerbes	24.10.1996	13/2742	BT 26.10.1995	1.01.1996
Gesetz zur Reform der Arbeitsförderung (AFRG)	16.8.1996	550/96	BT 10.10.1996	1.01.1998
Gesetz zur Reform der Arbeitsförderung (AFRG)	18.6.1996	13/4941	BT 20.06.1996	Versagung
Erstes Gesetz zur Änderung des Dritten Buches Sozialgesetzbuch und anderer Gesetze (Erstes SBG III-Änderungsgesetz - 1. SGB III-ÄndG)	15.8.1997	604/97	BT 09.10.1997	01.01.1998
Erstes Gesetz zur Änderung des Dritten Buches Sozialgesetzbuch und anderer Gesetze (Erstes SBG III-Änderungsgesetz - 1. SGB III-ÄndG)	24.6.1997	13/8012	BT 26.06.1997	1.01.1998

Table A-25: *continued*

Law	Draft	No. of Printing Matter	First Consultation	Implementation
Zweites Gesetz zur Änderung des Dritten Buches Sozialgesetzbuch und anderer Gesetze (Zweites SGB III-Änderungsgesetz - 2. SGB III-ÄndG)	19.3.1999	161/99	BT 06.05.1999	1.08.1999
Gesetz zur Fortentwicklung der Altersteilzeit	3.9.1999	495/99	BT 28.19.1999	01.01.2000
Gesetz zur Reform der arbeitsmarktpolitischen Instrumente (Job-AQTIV Gesetz)	24.9.2001	14/6944	BT 27.09.2001	15.12.2001 u später
Erstes Gesetz für moderne Dienstleistung am Arbeitsmarkt	5.11.2002	15/25	BT 07.11.2002	01.05.2003

Table A-26: Documents examined for the 'Beschäftigungsförderungsgesetz 1994'

Procedure	Date	Title of Document	Page Number	File Name
Gesetzesentwurf	1.2.1994	Gesetzesentwurf der Fraktionen CDU/CSU und F.D.P.		GesEntw12_6719.pdf
1. Beratung	3.2.1994	Plenarprotokoll 12/208 Bundestag	17945D-17995C	BT12WP208Sitzung.pdf
Beschlussempfehlung	13.4.1994	Beschlussempfehlung und Bericht AfArbSoz		BEmpf12_7244.pdf
2. Beratung	14.4.1994	Plenarprotokoll 12/219 Bundestag	18925A-18958B	BT12WP219Sitzung.pdf
3. Beratung	14.4.1994	Plenarprotokoll 12/219 Bundestag	S. 18958B	BT12WP219Sitzung.pdf
Gesetzesbeschluss	20.4.1994	Gesetzesbeschluss Deutscher Bundestag, Zuweisung AfArbSoz (fdf)		GesB292_94.pdf
Empfehlungen	9.5.1994	Empfehlungen der Ausschüsse (AfArbSoz (fdf), AfFrJug; FinanzA; InnenA; RechtsA; AfUmwelt; Wirtschaft)		EmpfA292_94.pdf
Durchgang	20.5.1994	Plenarprotokoll Bundestat Sitzung	S. 194A-199C, 240D-242B/Anl	BR669Sitzung.pdf
Beschluss BR	20.5.1994	Gesetzesbeschluss des Deutschen Bundestags		GesB292_94.pdf
Unterrichtung BR	24.5.1994	Zustimmungsvergabung des BR		Unter12_7673.pdf
Unterrichtung BR	24.5.1994	Unterrichtung der Bundesregierung, Anrufung Vermittlungsausschuss		Unter12_7674.pdf
Gesetzesentwurf	17.5.1994	Gesetzesentwurf der Fraktionen CDU/CSU und F.D.P.		GesEntw12_7565.pdf
1. Beratung	19.5.1994	Plenarprotokoll 12/228 Bundestag	S. 19822D-19828B	BT12WP228Sitzung.pdf

Table A-26: *continued*

Procedure	Date	Title of Document	Page Number	File Name
Beschlussempfehlung	25.5.1994	Beschlussempfehlung und Bericht (AfArbSoz)		BEmpf12_7688.pdf
2. Beratung	27.5.1994	Plenarprotokoll 12/231 Bundestag	S. 20154C-20155B, 20172B-20177B/Anl	BT12WP231Sitzung.pdf
3. Beratung	27.5.1994	Plenarprotokoll 12/231 Bundestag	S. 20155B	BT12WP231Sitzung.pdf
Gesetzesbeschluss	27.5.1994	Gesetzesbeschluss des Deutschen Bundestages (Zuweisung: AfArbSoz (fdf))		GesB524_94.pdf
Empfehlungen	6.6.1994	Empfehlungen der Ausschüsse. AfArbSoz (federführend), Anruf des Vermittlungsausschusses		EmpfA524_94.pdf
Durchgang	10.6.1994	Plenarprotokoll Bundesrat 670. Sitzung (KEINE WORTMELDUNGEN)	S. 319B-C	BR670Sitzung.pdf
Unterrichtung BR	14.6.1994	Unterrichtung durch den Bundesrat, Anrufung des Vermittlungsausschusses		
Beschlussempfehlung	23.6.1994	Beschlussempfehlung des Ausschusses		BEmpf12_7838.pdf
Vermittlungsverfahren BT	24.6.1994	Vermittlungsverfahren, Plenarprotokoll 12/236 (KEINE WORTMELDUNGEN)	S. 20702A	BT12WP236Sitzung.pdf
Vermittlungsverfahren BR	8.7.1994	Plenarprotokoll Bundesrat 672. Sitzung	S. 374C-375C, 424B-425C/Anl	BR672Sitzung.pdf
Beschlussempfehlung	8.7.1997	Beschlussempfehlung Bundesrat		BEmpf658_94.pdf
Gesetz	26.7.1996	Beschäftigungsförderungsgesetz		BeschfG1994.pdf

Table A-27: Documents examined for the JobAQTIV legislation 2001

No.	Procedure	Date	Title of Document	Page Number	File Name
1	Gesetzesentwurf	24.9.2001	Entwurf eines Gesetzes zur Reform der arbeitsmarktpolitischen Instrumente (Job-AQTIV Gesetz)		GesEntw14_6944
2	1. Beratung	27.9.2001	Plenarprotokoll 14/190	S. 18506A-18551C, 18621B-18625C/Anl	BT14WP190Sitzung
3	Beschlussempfehlung	7.11.2001	Beschlussempfehlung und Bericht Ausschuss fr Arbeit und Sozialordnung		BEmpf14_7347
4	2. Beratung	9.11.2001	Plenarprotokoll 14/199	S. 19512B-19529A	BT14WP199Sitzung
5	3. Beratung	9.11.2001	Plenarprotokoll 14/199	S. 19529A	BT14WP199Sitzung
6	Gesetzesbeschluss	9.11.2001	Gesetzesbeschluss Deutscher Bundestag		GesB889_01
7	Empfehlungen	19.11.2001	Empfehlungen Ausschuss fr Arbeit und Sozialordnung (federfuhrend)		EmpfA889_01
8	Durchgang	30.11.2001	Plenarprotokoll Bundesrat Sitzung	770. S. 636B-643B, 695B/Anl	BR770Sitzung
9	Beschluss	30.11.2001	Beschluss Bundesrat		GesB889_01
10	Gesetz	10.12.2001	Job-AQTIV Gesetz		JobAQTIV2001

Table A-28: Most Important Participants in the Consultation Process
(Beschäftigungsförderungsgesetz 1994): Unions

Abbreviation	Name and Short Explanation
DGB	Deutscher Gewerkschaftsbund: the DGB is the biggest and most influential union in Germany. It represents about 80% of the organized workforce. It is the umbrella organization for eight sector-specific unions.
DAG	Deutsche Angestellten-Gewerkschaft: union independent from the DGB, members from various sectors (public and private), in 2001 merger with four other unions to form ver.di.
ÖTV	Gewerkschaft Öffentliche Dienste, Transport und Verkehr: union for public service and transport, includes approx. 45% female members.

Table A-29: Most Important Participants in the Consultation Process
(Beschäftigungsförderungsgesetz 1994): Employer

Abbreviation	Name and Short Explanation
BDA	Bundesvereinigung der Deutschen Arbeitgeberverbände: employers' peak-organization, representing employers at the national level.
ASU	Arbeitsgemeinschaft der selbstständigen Unternehmer: representing the interests of small and middle sized firms.
DIHT	Deutscher Industrie- und Handelstag:
ZDH	Zentralverband des Deutschen Handwerks: peak-organization of the German craftsmen.