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What Determines the State's Responses to the Emergence of New  
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## **Abstract**

This study examines the conditions under which welfare states are likely to adapt their social policies to the transformation of social risk structures under post-industrialization. It argues that in the era of welfare retrenchment, while heterogeneous policy preferences among veto players impede the expansion of new social risk policies, the same institutional characteristics encourage the growth of old social risk policies. This study analyzes the time-series and cross-section data of advanced industrialized democracies from 1980 to 2001 with a fixed-effect model, and reveals that the composition of veto players structures the state's ability to adjust its social policies to post-industrialization.

## **Keywords**

comparative social policy, welfare state, new social risks, veto players

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## **Introduction**

This study examines the causes of cross-national variation of policy adaptation to post-industrialization among advanced industrialized countries. Post-industrial society emphasizes the service sectors, increases female labour force participation, and coincides with population aging. These socio-economic changes transform the social risk structure and create societal demands for the public policies protecting citizens against ‘new social risks’ such as deficiencies in child and elderly care (see Bonoli, 2005, 2006, 2007). On the other hand, post-industrialization also accompanies ‘permanent fiscal austerity’ and restrains the growth of total social expenditures (Pierson, 2001, p. 47). As a result of these diverse pressures, every advanced democracy has, in recent decades, been required to ‘recalibrate’ its social welfare programs (Ferrera & Hemerijck, 2003; Hemerijck, 2008). However, not all advanced industrialized countries have curtailed transfer expenditures covering conventional social risks and have increased public expenditures addressing the new social risks: there has been considerable cross-national variation among these countries. What promotes and prevents the policy shift from old social risk (OSR) policies to new social risk (NSR) policies in mature welfare states? What constrains the state capacity to adjust itself to post-industrialization? The aim of this study is to answer these questions.

Bonoli (2007) has recently published an article tackling the above puzzle, in which he argues that the difference of timing on entering the phase of post-industrial economy causes the divergent trajectories of new social risk policies. This article criticizes his argument and offers an alternative explanation to the puzzle. Specifically, this study draws attention to the effects of veto players on the restructuring of social policies in advanced welfare states (Tsebelis, 1999, 2002). I will argue that while the countries with a veto-prone polity (i.e., multi-party coalition government, bicameral political system, and/or president with veto power) have difficulties in promoting the growth of new social risk policies, the same political institutional characteristics encourage the expansion of old social risk policies. This article will test this hypothesis by analyzing the time-series and cross-section data of Organization for Economic Cooperation and Development (OECD) countries from 1980 until 2001, and show that heterogeneous policy preferences among coalition partners impede the policy shift from traditional cash benefit programs towards new social risk policies. In brief, this study claims that the ability of a state to address new social risks is contingent on the configuration of veto players.

The article consists of the following sections: first, I discuss the changes of social risk structures in post-industrial society and set an empirical puzzle to address; second, I review the literature on new social risk politics and propose a hypothesis explaining to what extent an advanced welfare state restructures its social welfare programs; third, I present the data and the method I use; fourth, I show the results of regression analysis; finally, I summarize the entire argument and offer the implications of this study.

## **Post-industrialization and New Social Risks**

New social risks are becoming an important research topic in comparative social policy literature these days (Armingeon & Bonoli, 2006; Bonoli, 2005, 2007; Esping-Andersen, 1999, 2002; Taylor-Gooby, 2004b). To understand the novelty of new social risks, it is useful to compare new social risks with old social risks. Old social risks refer to the risks of wage earners being unable to obtain an income from the labour market due to occupational injury, sickness, incapacity, unemployment, old age, and so on. During the industrial period,

since the male-breadwinner/female-caregiver family model was prevalent in the society, the public programs protecting citizens against old social risks concentrated on male breadwinners. Post-war welfare states were able to protect citizens by treating a household as a singular and primary social unit and providing it with a stable income. Cash benefit programs, such as sick benefits, unemployment insurance, and pensions, guaranteed the income security of a household during its male breadwinner's loss of earnings. The commitment to full employment also enabled male breadwinners to obtain a well-paid job under the Keynesian fiscal policy even if they were unskilled workers. By taking advantage of the social structure of a male breadwinner and a female caregiver, the post-war industrial welfare states addressed old social risks with standardized cash benefits under favourable economic conditions.

In post-industrial societies, however, it is no longer possible to leave the protection from social risks to economic growth, cash benefits, and family. In this kind of economy service sectors expand and create labour demands for service workers. In large part, it is the female labour force that has met these new demands. Although there is a huge variation across countries, female labour force participation rates have consistently increased since the 1970s among advanced capitalist democracies (see, for example, Jaumotte, 2003). What becomes clear, however, is that the feminization of labour force makes the household an invalid unit of social protection. As more and more women enter the labour market, the standard family model imposing the burden of child and elderly care onto females within a household is no longer sustainable. As the numbers of divorces and single-parent families are also increasing, marriages are less dependable than in the past. Working women, especially single mothers, cannot reconcile their career with family burdens unless they can outsource care-giving to market and/or public programs. As a result, the demands for social care services are growing. In addition, together with the massive entry of women into the labour market, the tertiarization of employment accompanies the expansion of low-paid service jobs—the so-called 'MacJob'. While low-skilled workers were able to find manual jobs as a result of the post-war economic growth, they now, in the post-industrial era, face a different dilemma: between becoming a member of the so-called 'working poor' and being in long-term unemployment.

In sum, new social risks are defined as 'the risks that people now face in the course of their lives as a result of the economic and social changes associated with the transition to a post-industrial society' (Taylor-Gooby, 2004a, p. 3). These new social risks include the inability to reconcile paid work in the labour market and care work in households, poverty among single parents, and precarious employment and/or long-term unemployment among low-skilled workers.

As post-industrialization reveals these social risks, modern welfare states are now required to 'recalibrate' their welfare programs to address the transformation of social risk structure. According to Hemerijck (2008, p. 47), welfare recalibration refers to:

a shift ... away from an emphasis on *protection from the market*, providing people with a replacement income of traditional male breadwinner families in the case of old age, unemployment, illness, and so on, towards an emphasis on *labour market (re)integration* for both men and women in an open, knowledge-intensive economy with an emphasis on enabling choice and encouraging behavioural patterns rather than providing benefit. (*italic in original*)

That is, the policy emphasis of mature welfare states has been shifting from *decommodification* towards *recommodification* under post-industrialization. In the post-war industrial era, the welfare states contributed to capital accumulation by promoting peaceful industrial relations and labour's cooperation towards productivity improvement with the



protection against the volatile market economy. By contrast, in the post-industrial era, the current welfare states need to encourage economic growth by directly and indirectly molding the labour force adaptive to knowledge-based service economy.

While the above description of post-industrialization accounts for the demand side of new social risk policies, it does not fully explain the cross-national variation in public expenditures on them in advanced democracies. Even if socioeconomic conditions and social risk structures have changed, the welfare states developed under the post-war economic growth do not necessarily respond to this change instantly. To understand and explain the remarkably large cross-national variation of new social risk policies, we need to explore the mediating factors between public policies and the transformation of socioeconomic conditions under post-industrialization.

## **Theory**

Although ‘new social risks’ are now attracting the attention of comparative social policy scholars, there are few empirical studies discussing the determinants of new social risk policies with quantitative data. This section critically assesses Bonoli’s (2007) argument, and develops the theoretical approach on which this study is based. Specifically, it claims that we need to devote more attention to the effects of veto players on the reforms of social policy, and that those effects are contrasting between new social risk and old social risk policies in the era of welfare retrenchment.

## ***Time Matters?***

Giuliano Bonoli (2007), a leading scholar of new social risk politics, has recently published an interesting study to explain the cross-national variation of new social risk policies. Bonoli’s main argument is that timing creates the divergent configuration of social policies against new social risks among advanced welfare states. Although the transformation of risk structures advanced among most industrialized countries in the 1990s, social policies in Nordic countries are better adapted to new social risks than those in continental and southern European countries. Based on Pierson’s (2004) path dependency theory, Bonoli maintains that the timing when a country entered post-industrialization causes these divergent trajectories of policy adaptation among advanced welfare states. That is, whereas Nordic countries expanded social services because they entered post-industrial societies relatively early and had little competition between old and new demands for social protection, Continental European countries have less generous new social risk policies because they developed into post-industrial societies after the maturation of industrial welfare states. Bonoli does not deny the effects of conventional explanatory variables such as power resources, government partisanship, and constitutional structures, but argues that the timing plays a critical role in policy adaptation to the changes of socioeconomic conditions.

Bonoli’s empirical evidence certainly shows the correlation between the timing on entering post-industrial societies and the size of new social risk policy spending (see Bonoli, 2007, pp. 511-517), but his argument is not enough to prove his point. His evidence certainly suggests that the earlier a country enters the economic phase of post-industrialization, the more it spends on new social risk policies. Nevertheless, this does not necessarily mean that the timing creates the different trajectories of new social risk policies among advanced welfare states. It is still arguable that the correlation between the timing of post-

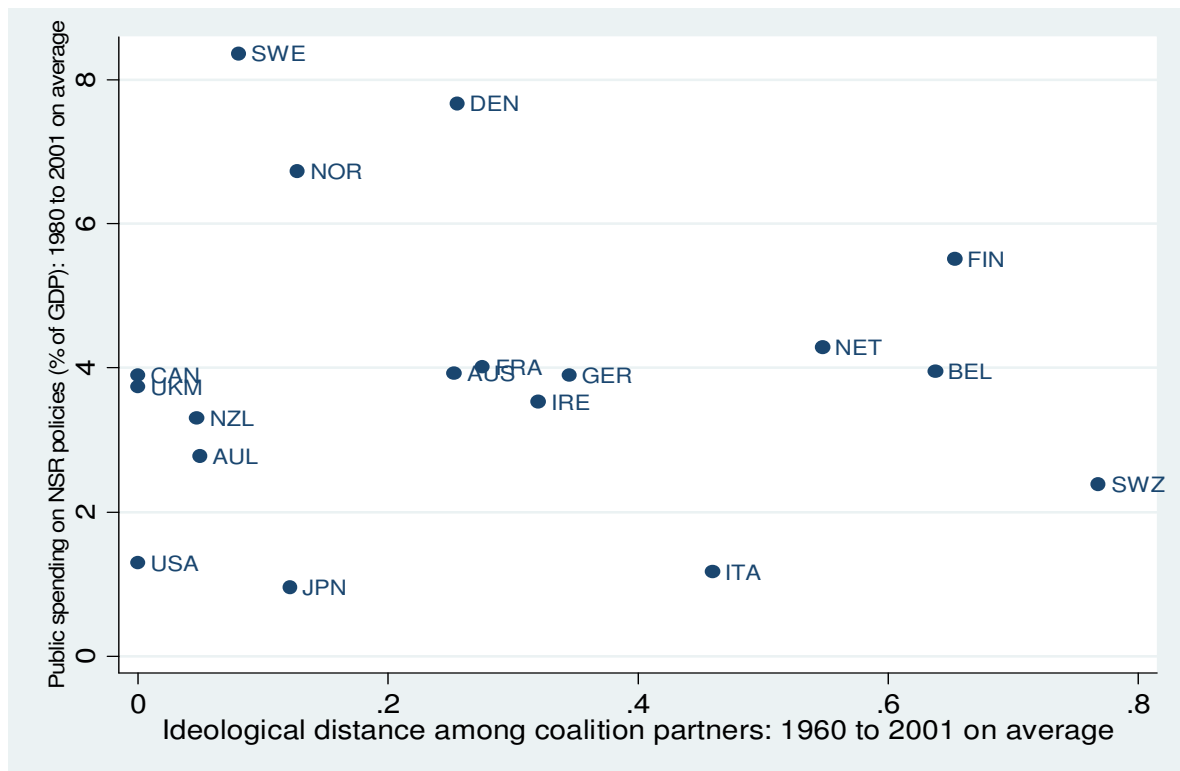
industrialization and the variation of new social risk policies is caused by other explanatory factors.

First, Bonoli's empirical evidence also fits the observable implications of modernization theory. The covariation of timing on entering the service economy and the scale of new social risk policies can be a spurious relation created by modernization. That is, countries that are more advanced in socioeconomic terms are more likely to face post-industrialization earlier, are more exposed to the need of a service economy, and thus have more demands for social protection against new social risks (cf. Wilensky, 1975). Bonoli (2007, p. 516) shows, as a counterargument to the modernization theory, that there is no tendency for advanced democracies to converge on a certain spending level on new social risk policies. However, this evidence does not support his argument. It is just as likely that other factors, such as power resources and political institutions, would in fact prevent the convergence of new social risk policies among advanced industrialized countries. If those other factors have prevented the policy convergence among advanced democracies in recent decades, it is pointless to emphasize the correlation between the timing on entering post-industrialization and the size of spending for new social risk policies.

Second, Bonoli ignores the endogeneity between his independent variable—the timing on entering the phase of post-industrialization—and his dependent variable—the spending on new social risk policies. The expansion of public child and elderly care services, which account for a large portion of the dependent variable, is the cause of post-industrialization as well as its consequence. Bonoli's argument supposes that Nordic countries responded to the increase of service sector employment and female labour force participation through expanding public social care services in the 1970s, but the enlargement of the state's role in providing social care services partly constituted the growth of service sector jobs and women's entrance into the labour market. It is unclear whether the expansion of public social care services reflects the preference of employer organizations under the labour shortage (Swenson, 2002: 306-7) or the strength of the feminist social movement (Mahon, 1997; Naumann, 2005). But, in any case, the growth of public child and elderly care services is the result of political decisions which Nordic countries decided to implement and which Continental European countries did not. Thus, it can be inferred that the covariation between the timing of employment tertiarization and the expansion of public social care services is an epiphenomenon caused by those political decisions.

Figure 1 corroborates the above point. It shows the correlation between the compositions of veto players from 1960 until 2001 and public expenditures for new social risk policies in recent decades, and its shape is quite similar to Bonoli's (2007, p. 515) figure on the relationship between the timing of postindustrialization and public spending on new social risk policies. While Nordic countries (except Finland) concentrate in the upper-left side, Continental European countries gather in the lower-right side. Although this study does not necessarily deny the path dependent effects of the timing when new social risk policies started developing, it argues that the configuration of veto players created the circumstances where the correlation, which Bonoli points out, between the timing of postindustrialization and the development of new social risk policies was developed.

**Figure 1. Scatter plot between ideological distance among veto players and public spending on new social risk policies in 18 OECD countries**



Note: 1. The sources and definitions of “ideological distance” and “NSR policies” can be found in the section of Data and Method.

### *Hypothesis*

This study emphasizes the effects of veto players on the development of new social risk policies. As Morel (2006, 2007) clearly shows, the policy process of new social risk policies is a bureaucracy-led process to reallocate the budgets of existing welfare programs to new programs. While the development of industrial welfare states was driven by organized interests such as trade unions, the expansion of new social risk policies is unable to count on the interest groups having a stake on those policies because the stake holders such as single parents, frail elders, and the young long-term unemployed are less organized than traditional organized interests. In the politics of new social risks, the state bureaucracy functions as the agency connecting post-industrial changes to welfare restructuring. The bureaucrats as the managers of a capitalist state prefer the policy shift from old social risk policies to new social risk policies. Whereas old social risk policies become mere fiscal burdens on the welfare state rather than ensure peaceful industrial relations in the post-industrial society, new social risk policies can contribute to recommodifying the labour force as well as defamilializing female citizens. That is, new social risk policies can be a part of economic policy: the provision of child care can prevent the interruption of careers and the wasting of the human capital of young female workers; the supply of elderly care can also save (mainly female) workers from their career hiatus. Of course, these care services also create jobs in service sectors. Furthermore, active labour market policies obviously contribute to smoothing labour supply for the volatile labour market. Although old social risk policies have never been against capital accumulation (Ebbinghaus & Manow, 2001; Estévez-Abe, Iversen, & Soskice,

2001), new social risk policies serve to facilitate the recommodification of citizens and their integration into the labour force under the tertialization and feminization of labour force in the post-industrial society (Jessop, 2002, p. 147).

However, even while the state bureaucrats favour new social risk policies, they are unable to expand the spending for those policies unconditionally because the policies face formidable difficulties in securing resources under the fiscal austerity of the post-industrial society. While policy makers have to restrain the growth of existing cash benefit programs in order to make room for the development of new social risk policies, whether their attempts succeed in retrenchment is contingent on the structure of political institutions. As Pierson (1994) points out, old social risk policies nurtured their own recipient groups as interest groups in the phase of welfare state development, and then old social risk policies are hardly curtailed under the polity where those interest groups easily block the agenda against their vested interests. Therefore, new social risk policies are unable to find fiscal resources to develop themselves under the veto-prone political systems. In other words, the feed-back effects of existing welfare programs are endogenous to the configuration of veto players. While the path-dependent effects are weak and evadable under the political systems with cohesive policy preferences among veto players, those effects are undefeatable under the political systems with heterogeneous policy preferences among them.

As is obvious in the above argument, this study's theoretical framework relies on Tsebelis's (1999, 2002) veto players approach. Although the indices measuring constitutional structures, such as veto points, have been widely used in the welfare state literature (cf. E. Huber, Ragin, & Stephens, 1993; E. Huber & Stephens, 2001; Immergut, 1992), Tsebelis (1999, 2002) extends these institutionalists' approaches on veto power over coalition governments. The theory of veto players suggests that political actors exercising veto power are not limited to formal political institutions, such as presidents and the Senate, and political parties in a coalition government also hold veto power in policy-making process. Tsebelis calls the former "institutional veto players" and the latter "partisan veto players." And the core of Tsebelis's spatial model is that not the number of veto players but the distance of policy preferences among them determines the possibility of policy changes. According to Tsebelis, while homogenous policy preferences across veto players enlarge the set of possible policies diverging from the status quo in policy space<sup>1</sup> even when the number of veto players is sizable, distant policy preferences across veto players shrink the "winset" even when the number of veto players is minimal.

Although this study highly depends on Tsebelis's theoretical framework, it aims to sophisticate and advance his empirical analysis on welfare states. Tsebelis (2002, pp. 199-200) himself tests the effects of veto players on the entire social spending and finds their negative effects on it. However, if we take his theory at face value, the effects of veto players are supposed to be different across the types of social policies, contingent on the phase of welfare state development.

This study hypothesizes that veto players have contrasting effects between old social risk and new social risk policies in the era of welfare retrenchment. On the one hand, heterogeneous policy preferences among veto players encourage the growth of public expenditures for old social risk policies in the period of welfare retrenchment because old social risk policies were already developed before the 'crisis of welfare states' and the spending on those policies tend to increase automatically if there is no reform to curtail the entitlements. The veto-prone political institutions increase the opportunities for policy recipient groups to block the policy proposal trimming the existing entitlements. On the other

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<sup>1</sup> Tsebelis (2002) calls this set of possible policy changes the "winset."

hand, the same characteristics of veto players make it difficult for policy makers to develop new public programs addressing new social risks. The decentralized polity and fragmented party system make heterogeneous policy preferences among coalition partners and prevent them from agreeing to establish new social risk policies. Overall, while distant policy preferences across veto players restrain the growth of public spending on new social risk policies, the same characteristics of the political system encourage the expenditures for old social risk policies in the period of welfare retrenchment.

Finally, the novelty of the above argument is to be noted. Probably, most political scientists agree with the statement that ‘formal political institutions matter’. However, the direction of veto players’ effects is not clear in the politics of new social risks. On the more abstract level, many political scientists consent that the wider ideological distance among coalition partners tends to maintain the status quo (Ha, 2008; Tsebelis, 2002; Tsebelis & Chang, 2004). But several political scientists insist that a veto-dense polity actually facilitates a compromise among veto players and then encourages the growth of new social risk policies as the side payments of welfare retrenchment (Bonoli, 2005; Häusermann, 2006). This study claims that veto players inhibit welfare expansion even in new social risk policies.

## **Data and Method**

This section explains the data and the variables used in regression models, and introduces the analytical approach. This study analyzes the data of 21 advanced industrialized countries from 1980 to 2001.<sup>2</sup> It explores four dependent variables: spending on new social risk policies as a percent of GDP (*NSR as % of GDP*), spending on new social risk policies as a percent of total social expenditures (*NSR as % of SOCX*), spending on old social risk policies as a percent of GDP (*OSR as % of GDP*), and spending on old social risk policies as a percent of total social expenditures (*OSR as % of SOCX*). The former two indicate the total expenditures for new social risk policies as a percent of GDP and total social expenditures, and they include spending on the following items:<sup>3</sup>

- family in-kind and cash benefits
- active labour market policies
- old age in-kind benefits
- public assistance (in-kind and cash benefits).

The latter two indicate the total expenditures for old social risk policies as a percent of GDP and total social expenditures, and they include the spending on following items:

- old age cash benefits
- survivor cash benefits
- incapacity benefits (in-kind and cash benefits)
- unemployment cash benefits.

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<sup>2</sup> These 21 countries are composed of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the United States.

<sup>3</sup> This study follows Bonoli’s (2007, p. 508) operationalization of ‘new’ and ‘old’ social risk policies. Obviously, the aggregate expenditure level as a percent of GDP or total social expenditures is a poor measure when we assess the outcomes of public policy. As the previous research suggests (Allan & Scruggs, 2004; Esping-Andersen, 1990), benefit recipients do not seek public spending per se. However, this study tries to measure to what extent ‘welfare recalibration’ has happened (or not happened) rather than the well-being of benefit recipients. Since policy makers usually care about those aggregate expenditure data, and the expansion and the retrenchment of those aggregate expenditures are politicized, those data can be used as an approximate measure of ‘welfare recalibration’.

The data for these dependent variables cover the period from 1980 until 2001 (OECD, 2004).

To test the hypotheses over the theory of veto players, I use *Ideological Distance* as an independent variable. Ideological distance measures the policy distance between the two most extreme parties among coalition partners on the left-right scale. A unitary government is calculated as zero. The ideological position of each party is the composite ideology index based on several expert surveys conducted by political scientists (Castles & Mair, 1984; J. Huber & Inglehart, 1995; Laver & Hunt, 1992), the ideological position's range runs from minus one (far left) to plus one (far right). Where needed, missing values are filled with a fitted value from the regression equation using the ideological position based on the information collected from each party's manifest (Budge, Klingemann, Volkens, Bara, & Tanenbaum, 2001). Ideally, the policy distance on new social risk policies between coalition partners should be directly measured and used for quantitative analyses. It is plausible that the policy distance on new social risk policies is different from the one measured on the classical left-right dimension since new social risk policies, such as child care, elderly care, and active labor market policies, might not concern the traditional redistributive dimension. However, the availability of such an ideal data is highly limited. First, there is neither expert survey nor manifest study examining policy positions on new social risk policies. Second, while the traditional left-right scale has been put through many scholarly appraisals, picking up several items from a survey to construct the index measuring policy positions on new social risks might violate the reliability of the data. Although this study is highly aware of the possibility that the traditional left-right scale does not reflect the policy space in which new social risks are disputed among political actors, it substitutes the composite left-right index for the ideal one.

In addition, since the ideological distance among veto players is underestimated when the coalition government is a minority government or the president faces a divided government, I put *Minority Government Dummy* into regression models. If the cabinet coalition has a minority position in either the lower house or the upper house, this variable takes one; otherwise, zero.<sup>4</sup>

Other political variables are also added to regression models. First, to control the effects of government partisanship I use *Leftist Party Cabinet* and *Christian Democratic Cabinet* (E. Huber, Ragin, Stephens, Brady, & Beckfield, 2004). These variables measure the ratio of the parliament seats held by leftist parties and the Christian Democratic Party to all government parties' seats, respectively. As Huber and Stephens (2000, 2006) show that Social Democratic Party dominance positively influences the expenditures and delivery for public social services, a leftist party cabinet is expected to have positive effects on the expenditures for new social risk policies because they are mainly composed of universal care services and income supports. On the other hand, Christian Democratic Party dominance is expected to have positive effects on the expenditures for old social risk policies because it is historically generous in providing cash benefits for the breadwinners exposed to social risks (E. Huber & Stephens, 2001; Kersbergen, 1995). Since the two variables generated by Huber et al. (2004) cover only 18 OECD countries,<sup>5</sup> I also use *Centre of Political Gravity of the Cabinet* to extend the dataset over Greece, Portugal, and Spain. This index is a summation of each party's ideological position weighted by its relative strength across all governing parties, and is expressed in left-right scale (from minus one to plus one).<sup>6</sup> As numerous studies

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<sup>4</sup> All of the data concerning ideological distance and minority government dummy come from Cusack (2003).

<sup>5</sup> They cover 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.

<sup>6</sup> This computing procedure can be expressed in the following way:

suggest, it is generally expected that a left-oriented government is in favour of public social expenditures while a right-oriented government is not. However, it is still unclear whether the effects of the political gravity are differentiated between new social risk and old social risk policies. Second, to assess the impacts of women's political mobilization on the development of new social risk policies, I put *Percentage of Women in Parliaments* into regression models. It is expected to have positive effects on the expenditures for new social risk policies (Armingeon, Leimgruber, Beyeler, & Menegale, 2006).

To control the effects of socio-economic changes in the post-industrial societies, I put *Female Labour Force Participation Rate* (OECD, 2007b) and *Percentage of the Aged 65 and Over to the Population* (Armingeon et al., 2006) into the models. Finally, *Natural Logarithm of Purchasing Power Parity GDP per capita* (OECD, 2007a), *Growth of real GDP* (Armingeon et al., 2006), *Unemployment Rate* (IMF, n.d.), and *Consumer Price Index* (IMF, n.d.) are added to the regression models to control the levels of economic development, business cycles, and inflation. Table 1 provides the descriptive statistics of dependent and independent variables.

Since the dataset is pooled time-series and cross-section (TSCS) data, following a conventional method in comparative political economy (Beck, 2001; Beck & Katz, 1995, 1996), I use a fixed-effect model with panel-corrected standard errors in order to estimate the effects of independent variables on dependent variables. The fixed-effect model is a parameter estimation method putting unit dummies into regression. Since unit dummy variables perfectly absorb unobservable country-specific effects, and then the fixed effect model utilizes only within-country variance of variables, this method gives us conservative but unbiased and consistent parameter estimates.

Although panel-corrected standard errors correct contemporaneous heteroscedasticity across countries, the fixed-effect model still requires us to address serial correlation of residuals. Since the main explanatory variable of this study—ideological distance among coalition partners—is supposed to affect the changes of spending on new social risk and old social risk policies rather than the level of those spending, I use a lagged dependent variable to model the dynamics of dependent variables (Beck & Katz, 1996). In other words, I assume that a typical budgeting process is incremental and the previous year's budget determines the large portion of the current year's one. Although a lagged dependent variable in a fixed-effect model suppresses the effects of timely-trended variables (see Achen, 2000; Plümper, Troeger, & Manow, 2005), it should be included in the regression models of this study due to the theoretical reason. In addition, all independent variables except macroeconomic indicators are one-year lagged because a typical budgeting process occurs in the previous year of current fiscal year and political factors influence the budgeting politics in the previous year.

(Contd.) —————

$$\text{Centre of Political Gravity of the Cabinet} = \sum_{i=1}^n T_i C_i$$

where  $T_i$  = party i's decimal share of seats and  $C_i$  = party i's position on the ideological dimension. The ideological position of each party is based on the same index with Ideological Distance. See Cusack (2003).

**Table 1. Summary Statistics**

Variables	N	Mean	Min	Max	Overall S.D.	Between-country S.D.	Within-country S.D.
<b>Dependent Variables</b>							
NSR as % of GDP	427	3.55	0.30	11.16	2.20	2.11	0.77
NSR as % of SOCX	427	15.53	1.77	31.33	6.83	6.57	2.47
OSR as % of GDP	427	11.93	4.92	19.86	3.65	3.36	1.58
OSR as % of SOCX	427	55.20	36.99	74.17	8.33	8.19	2.44
<b>Independent Variables</b>							
Logarithm of GDP per capita (PPP)	441	9.71	8.62	10.51	0.35	0.18	0.30
Consumer price index	441	5.29	-11.30	29.30	5.15	3.00	4.23
Growth of real GDP	441	2.60	-6.40	11.70	2.12	0.79	1.98
Unemployment Rate (t-1)	420	7.70	0.20	24.20	4.20	3.75	2.06
% of 65 and Over (t-1)	420	13.76	9.10	17.83	2.06	1.83	1.02
Female Labour Force Participation Rate (t-1)	419	58.92	32.01	80.86	11.56	10.73	4.91
% of Women in Parliaments (t-1)	441	15.23	0.00	42.70	10.77	9.79	4.95
Leftist Party Cabinet (t-1)	378	0.34	0.00	1.00	0.38	0.23	0.30
Christian Democratic Cabinet (t-1)	378	0.15	0.00	0.96	0.26	0.22	0.13
Centre of Political Gravity of the Cabinet (t-1)	421	0.06	-0.47	0.97	0.32	0.20	0.25
Minority Government Dummy (t-1)	421	0.39	0.00	1.00	0.49	0.27	0.41
Ideological Distance (t-1)	421	0.26	0.00	1.46	0.33	0.26	0.21

## Results

This section demonstrates that wider ideological distance among coalition partners has been constraining the state's responses to the transformation of social risk structures from old social risks towards new social risks in recent decades among advanced industrialized countries. The regression analysis with fixed-effect models illuminates that heterogeneous policy preferences among veto players restrain the growth of public spending for new social risk policies both as a percent of GDP and as a percent of total social expenditures. On the other hand, although ideological distance among coalition partners indicates no statistically significant effects on public spending for old social risk policies on average from 1980 until 2001, the regression models suggest that the impacts of veto players on traditional cash benefits changed before and after 1990. The analysis shows that while ideological distance between coalition partners had no clear effects on old social risk policies before 1990, further ideological distance actually promoted the share of traditional cash benefit programs in the total social expenditures after 1990.



**Table 2. Regression of the Spending for New Social Risk Policies on Explanatory Variables (1980 to 2001)**

Dependent Variables	(A1) NSR as % of GDP	(A2) NSR as % of GDP	(A3) NSR as % of SOCX	(A4) NSR as % of SOCX
NSR as % of GDP (t-1)	0.848 (0.052)**	0.851 (0.051)**	- -	- -
NSR as % of SOCX (t-1)	- -	- -	0.853 (0.044)**	0.856 (0.049)**
Logarithm of GDP per capita (PPP)	0.026 (0.162)	0.052 (0.166)	0.163 (0.419)	0.546 (0.420)
Consumer price index	-0.006 (0.008)	-0.004 (0.005)	-0.001 (0.025)	0.025 (0.018)
Growth of real GDP	-0.050 (0.012)**	-0.044 (0.011)**	0.043 (0.033)	0.039 (0.033)
Unemployment Rates (t-1)	-0.002 (0.014)	0.004 (0.011)	0.024 (0.034)	0.050 (0.028)+
% of 65 and Over (t-1)	0.026 (0.026)	0.021 (0.027)	0.181 (0.081)*	0.118 (0.089)
Female Labour Force Participation Rate (t-1)	0.007 (0.006)	0.009 (0.006)	-0.006 (0.024)	0.000 (0.021)
% of Women in Parliaments (t-1)	-0.008 (0.007)	-0.010 (0.006)	-0.019 (0.021)	-0.025 (0.020)
Leftist Party Cabinet (t-1)	0.010 (0.069)	- -	0.184 (0.229)	- -
Christian Democratic Cabinet (t-1)	0.162 (0.148)	- -	-0.052 (0.467)	- -
Centre of Political Gravity of the Cabinet (t-1)	- -	-0.013 (0.053)	- -	-0.030 (0.205)
Minority Government Dummy (t-1)	-0.013 (0.036)	-0.016 (0.030)	-0.085 (0.143)	-0.041 (0.114)
Ideological Distance (t-1)	-0.172 (0.073)*	-0.181 (0.067)**	-0.456 (0.245)+	-0.390 (0.225)+
Constant	-0.614 (1.302)	-1.008 (1.306)	-2.374 (3.644)	-6.135 (3.482)+
Observations	331	389	331	389
Number of countries	18	21	18	21
R-squared	0.98	0.98	0.98	0.98
Model	FE	FE	FE	FE

† Panel-corrected standard errors in parentheses.

††+ significant at 10%; \* significant at 5%; \*\* significant at 1% (two-tailed tests).

††† FE = fixed-effect model.

†††† The coefficients and standard errors of country dummies are not shown.

Table 2 presents the results of regression models of the spending on new social risk policies. Models A1 and A2 regress the spending for new social risk policies as a percent of GDP on explanatory variables. These models clearly show that ideological distance between coalition parties has negative effects on the spending for new social risk policies with statistical significance. While in the model A1 the one standard deviation increase of

ideological distance decreases the expenditures for new social risk policies by 0.057 ( $=0.33 \times 0.172$ ) percent of GDP, in the model A2, which extends the dataset over Greece, Portugal, and Spain, it decreases these expenditures by 0.060 ( $=0.33 \times 0.181$ ) percent of GDP in each year, *ceteris paribus*. In models A3 and A4 the ideological distance also indicates negative effects at less than ten percent significance level. The results suggest that wider ideological distance among coalition partners diminishes the share of new social risk policies in the total social expenditures. The empirical evidence demonstrates the restraining effects of heterogeneous policy preferences among coalition partners on the growth of new social risk policies, and it agrees with the hypothesis of this study.

On the other hand, government partisanship appears to have no effects on new social risk policies. Neither Social Democratic Party dominance nor Christian Democratic Party dominance has statistically significant effects (models A1 and A3). Centre of political gravity of the cabinet, which measures the ideological position of a government on the left-right scale, also indicates no effect on new social risk policies (models A2 and A4). These results contradict the results that Huber and Stephens (2000) show in their similar quantitative analysis, which indicates that government partisanship affects the public funding for social services. It can be inferred that the contrasting results between this study and Huber and Stephens's (2000) one come from the difference of model specification: While this study focuses on short-term *changes* of social service spending by using a lagged dependent variable in a fixed-effect model, Huber and Stephens's (2000) models aim to reveal the *level* effects of power resources by using cumulative scores of government partisanship from 1946. However, those cumulative scores make it difficult for their regression models to estimate the effects of the changes of government composition in recent decades because, for instance, Sweden has a high score of cumulative Social Democratic cabinet even when it is under the center-right government in the 1990s. Depending on this study's results with robust statistical methods, it is safe to say that government partisanship has had no immediate effects on the public expenditures for new social risk policies in recent decades.

In addition, the effects of women's political mobilization on new social risk policies are not clear in the regression models. The effects of women's presence in parliaments cannot be distinguished from zero statistically. Since women's percentage in parliaments and female labor force participation rates are highly correlated (Pearson's  $r = 0.63$ ), I reanalyzed the data by dropping either one of them. But none of the coefficients concerning women's mobilization became statistically significant. As already argued above, a lagged dependent variable in a fixed-effect model tends to suppress the effects of timely-trended variables (Achen, 2000; Plümper, Troeger, & Manow, 2005). Since both women's presence in parliaments and female labor force participation rates have gradually increased in these decades in all of the countries discussed here, it is plausible that the lagged dependent variable absorbed the effects of these variables concerning women's political and economic mobilization in the regression models.

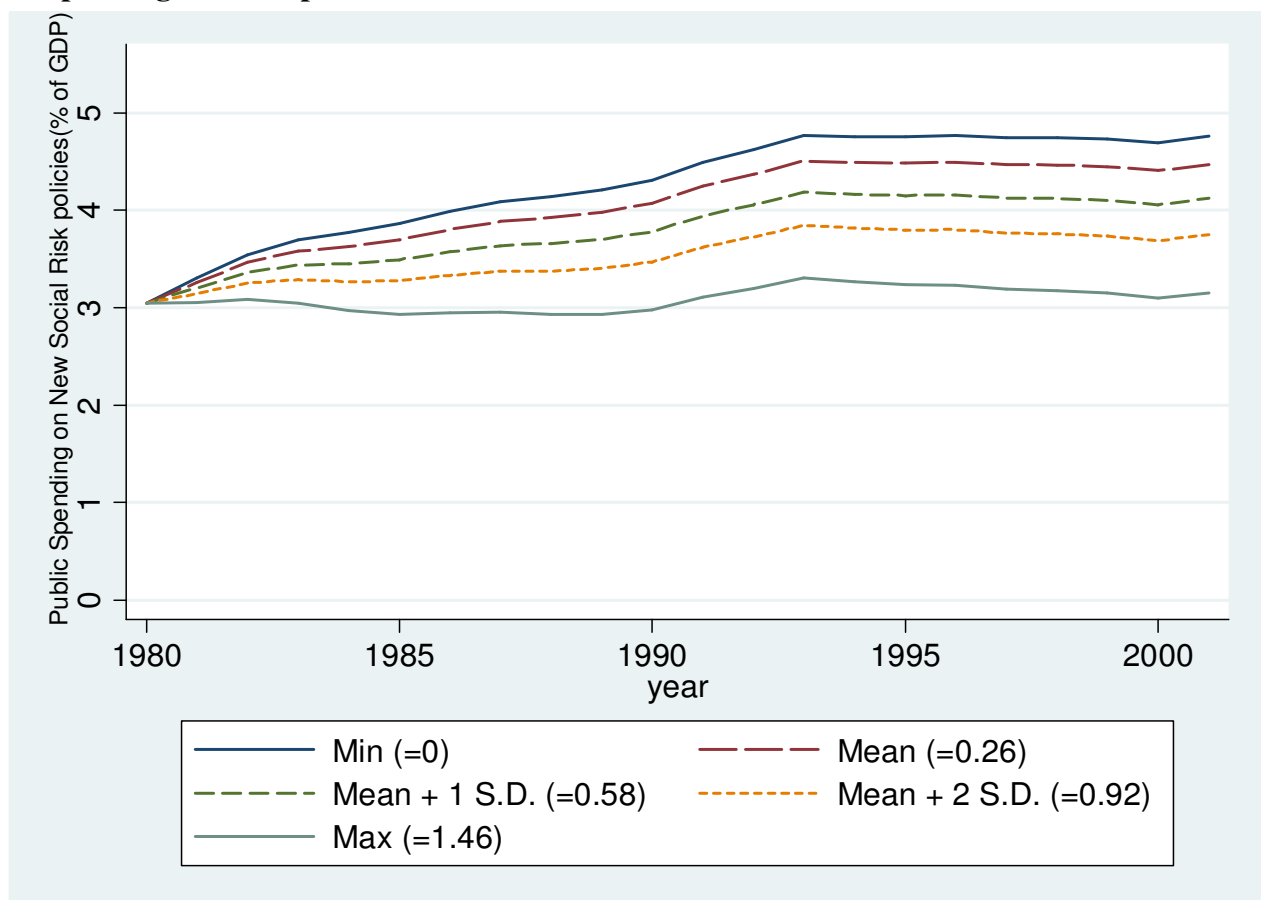
To interpret the substantive impacts of ideological distance among coalition partners on new social risk policies, I computed a series of counterfactual public spending on NSR policies under different scores of the index. This simulation is done by setting all the other variables in the regression equation equal to their mean levels in each year and multiplying these means by their corresponding coefficients in Model A1, and then by examining counterfactual effects of various values of ideological distance (see Figures 2).<sup>7</sup> The simulation suggests that the ideological distance has substantive effects on the growth of the spending for new social risk policies. If one standard deviation (0.33) is added on the mean

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<sup>7</sup> This simulation method draws upon Garrett (1998).

of ideological distance, its cumulative effects from 1980 to 2001 amount to decreasing the public expenditures for new social risk policies by 0.35 % of GDP, compared to the situation under the mean value of ideological distance. Furthermore, from 1980 until 2001, while the spending for NSR policies would grow by more than 1.5 times (3.0% to 4.8%) under the minimal ideological distance, it would be kept in the almost same level under the maximal value. Even though new social risk policies started developing before 1980 in several countries and this study’s regression models do not take huge cross-national variance of dependent and independent variables into consideration, the simulation demonstrates that ideological distance among veto players has substantive restraining effects on new social risk policies.

**Figure 2. Simulation of the effects of ideological distance among coalition partners on the spending for NSR policies: 1980-2001**



Note: “S.D.” refers to standard deviation.  
 Source: The author calculated.

Table 3 presents the results of regression models of the spending on old social risk policies. The variables of veto players—minority government dummy and ideological distance among coalition partners—do not show consistent results. Whereas the coefficients of ideological distance indicate positive effects on the expenditures for old social risk policies as a percent of GDP (models B1 and B2), those coefficients show negative effects on these

expenditures as a percent of the total social expenditures (models B3 and B4). Nevertheless, these effects are not statistically significant at the conventional confidence level.

**Table 3. Regression of the Spending for Old Social Risk Policies on Explanatory Variables (1980 to 2001)**

Dependent Variables	(B1) OSR as % of GDP	(B2) OSR as % of GDP	(B3) OSR as % of SOCX	(B4) OSR as % of SOCX
OSR as % of GDP (t-1)	0.927 (0.036)**	0.924 (0.033)**	- -	- -
OSR as % of SOCX (t-1)	- -	- -	0.828 (0.052)**	0.818 (0.053)**
Logarithm of GDP per capita (PPP)	-0.288 (0.311)	-0.406 (0.305)	-0.325 (0.514)	-0.713 (0.466)
Consumer price index	-0.004 (0.014)	-0.023 (0.011)*	0.046 (0.031)	0.009 (0.027)
Growth of real GDP	-0.181 (0.019)**	-0.163 (0.018)**	-0.213 (0.031)**	-0.186 (0.032)**
Unemployment Rates (t-1)	-0.032 (0.025)	-0.047 (0.019)*	0.120 (0.045)**	0.077 (0.036)*
% of 65 and Over (t-1)	0.014 (0.042)	0.032 (0.043)	-0.068 (0.085)	-0.037 (0.095)
Female Labour Force Participation Rate (t-1)	0.019 (0.011)+	0.020 (0.011)+	0.000 (0.033)	0.012 (0.032)
% of Women in Parliaments (t-1)	-0.007 (0.012)	-0.011 (0.010)	-0.003 (0.027)	-0.012 (0.026)
Leftist Party Cabinet (t-1)	0.101 (0.097)	- -	0.224 (0.253)	- -
Christian Democratic Cabinet (t-1)	0.793 (0.218)**	- -	0.299 (0.485)	- -
Centre of Political Gravity of the Cabinet (t-1)	- -	-0.118 (0.095)	- -	-0.423 (0.291)
Minority Government Dummy (t-1)	-0.021 (0.068)	-0.059 (0.062)	-0.008 (0.182)	-0.195 (0.160)
Ideological Distance (t-1)	-0.072 (0.130)	-0.207 (0.124)+	0.422 (0.267)	0.286 (0.272)
Constant	2.876 (2.821)	3.986 (2.720)	12.991 (5.921)*	16.896 (5.298)**
Observations	313	367	313	367
Number of countries	18	21	18	21
R-squared	0.99	0.98	0.98	0.98
Model	FE	FE	FE	FE

† Panel-corrected standard errors in parentheses

††† significant at 10%; \* significant at 5%; \*\* significant at 1% (two-tailed tests).

††† FE = fixed-effect model.

†††† The coefficients and standard errors of country dummies are not shown.

**Table 4. Regression of the Spending for Old Social Risk Policies on Explanatory Variables with Interaction Terms (1980 to 2001)**

Dependent Variables	(B1')	(B2')	(B3')	(B4')
	OSR as % of GDP	OSR as % of GDP	OSR as % of SOCX	OSR as % of SOCX
Period dummy after 1990	0.550 (0.117)**	0.498 (0.123)**	0.730 (0.332)*	0.164 (0.284)
Ideological Distance (t-1) before 1990	-0.400 (0.247)	-0.610 (0.212)**	-0.261 (0.471)	-0.676 (-1.384)
Ideological Distance (t-1) after 1990	0.009 (0.126)	-0.095 (0.157)	0.643 (0.290)*	0.655 (0.287)*
Minority Government (t-1) before 1990	0.074 (0.096)	0.019 (0.086)	0.594 (0.268)*	0.082 (0.256)
Minority Government (t-1) after 1990	-0.110 (0.075)	-0.139 (0.072)+	-0.346 (0.202)+	-0.386 (0.187)*
$\chi^2$ †	29.92	28.27	14.61	10.05
p-value	0.00	0.000	0.002	0.018
Observations	331	389	331	389
Number of countries	18	21	18	21

† Null hypothesis: the coefficients of period dummy after 1990, period dummy after 1990 x ideological distance (t-1), and period dummy after 1990 x minority government (t-1) are zero.

†† The coefficients of other independent variables and country dummies are not shown.

††† Panel-corrected standard errors in parentheses.

†††† significant at 10%; \* significant at 5%; \*\* significant at 1% (two-tailed tests).

The theory of this study suggests that the effects of veto players are contingent on the developmental phase of welfare programs, and that veto players have positive effects on old social risk policies in the phase of welfare retrenchment. In the 1980s, while several countries started to retrench traditional cash benefit programs, other countries were still in the period of welfare development. To examine the effects of veto players in the period of welfare retrenchment, I put a periodical dummy distinguishing before and after 1990<sup>8</sup> and interaction terms between the periodical dummy, on the one hand, and minority government dummy and ideological distance among coalition partners, on the other hand, into the models B1, B2, B3, and B4 (see Table 4). Chi-square tests on the periodical dummy and interaction terms undoubtedly demonstrate the structural changes before and after 1990. The chi-square tests indicate that the periodical dummy and the interaction terms improve the fits of regression models, at least, at less than five percent significance level. Furthermore, based on the coefficients and variance-covariance matrix of constitutive and interaction terms, I calculated the coefficients and standard errors of ideological distance and minority government dummy before and after 1990 (see Brambor, Clark, & Golder, 2005). They suggest that veto players have different effects on the expenditures for old social risk policies across time: while wider ideological distance among coalition partners has negative effects on these expenditures in the 1980s, it has no effects or positive effects in the 1990s. Although the effects of ideological

<sup>8</sup> This dummy variable takes one from 1990 until 2001; otherwise, zero.

distance cannot be distinguished from zero when the dependent variable takes GDP as its denominator, the ideological distance has statistically significant, positive effects when the dependent variable takes total social expenditures as its denominator. It can be interpreted that since traditional cash benefit programs tend to automatically grow if there is no reform trimming entitlements, a veto-dense polity expanded the share of old social risk policies in the total social expenditures in the 1990s, when most advanced democracies faced fiscal austerity and entered the phase of welfare retrenchment. These results support the hypothesis of this study.

In sum, the regression models of the spending for new social risk policies and the spending for old social risk policies clearly show that the compositions of veto players have structured the state's responses to the transformation of social risk structures in recent decades. On the one hand, empirical evidence suggests that wider ideological distance among coalition partners restrains the growth of the expenditures for new social risk policies. This result is stable across models. On the other hand, the ideological distance does not indicate statistically significant effects on the spending for old social risk policies on average from 1980 to 2001. This point suggests that veto players do not have same constraining effects across the entire social welfare programs. Furthermore, once periodical effects are taken into consideration, the effects of veto players on the expenditures for traditional cash benefits become evident: while ideological distance among coalition partners had no significant effects in the 1980s, it promoted the growth of the share of these expenditures in the total social expenditures in the 1990s. These results are consistent with the hypothesis that the effects of veto players are contingent on the developmental phase of welfare states and contrasting between new social risk and old social risk policies in the period of welfare retrenchment.

## **Conclusion**

The analysis of the determinants of the public expenditures for new social risk and old social risk policies shows the importance of conventional explanatory factors in comparative welfare states literature. In this regard, this study agrees with Bonoli's (2006, p. 5) claim that 'post-industrial social policies can be explained using the same independent variables that are known to have influenced the development of post-war welfare states: socio-economic developments, political mobilisation and institutional effects'. However, while Bonoli emphasizes the path-dependent effects of the timing of various socio-economic changes, this study maintains that veto players constrain the policy shift from old social risk policies towards new social risk policies in advanced industrialized democracies. The empirical evidence of this study supports this claim. It reveals that in the period of welfare retrenchment, whereas wider ideological distance between coalition partners restrains the growth of spending on new social risk policies such as child day care, elderly care, and active labour market programs, it actually promotes the expansion of conventional cash benefit programs.

The empirical results of this study can contribute to several debates in the literature of comparative political economy. First, while some scholars argue that a country with many veto players has difficulties in adjusting their policies to socioeconomic changes (cf. Ha, 2008; Tsebelis, 2002; Tsebelis & Chang, 2004), others claim that a veto-dense polity facilitates a compromise among veto players and then encourages the growth of new social risk policies as the side payments of welfare retrenchment (cf. Bonoli, 2005; Crepaz & Moser, 2004; Häusermann, 2006). This study shows that the restraining effects of veto players exceed their

expansionary effects through side payments or logrolling. Heterogeneous policy preferences among coalition partners make it difficult for the state to recalibrate its social policies. Second, although several studies suggest that government partisanship is still an important determinant of new social risk policies (E. Huber & Stephens, 2000, 2006), this study's empirical evidence does not find any significant impacts of government partisanship on new social risk policies.

If this study correctly estimates the effects of veto players on the development of new social risk policies, it can be inferred that in recent decades, while a centralized polity with relatively cohesive party system has enabled the welfare state to adapt to and promote post-industrialization in Nordic countries, a decentralized polity with heterogeneous policy preferences among coalition partners has prevented the welfare state from expanding social services and activating its citizens in Continental European countries. Formal political institutions still structure the state's ability to respond to socio-economic transformation.

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