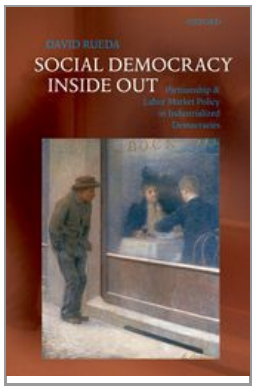

Social Democracy Inside Out: Partisanship and Labor Market Policy in Advanced Industrialized Democracies
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The Relationship between Partisan Government and Policy: An Analysis of OECD Data

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[–] Abstract and Keywords

The previous chapters have shown that in the presence of insider-outsider conflict, social democratic governments will promote insider policies regardless of the consequences for outsiders. However, it has also been argued that there are factors that make the interests of insiders more similar to those of outsiders, i.e., employment protection and corporatism. This chapter tests whether the relationship between government partisanship and policy is affected by these factors. It begins by analysing the dependent variables and their relationship to this book's hypotheses. It then introduces the explanatory variables. Finally, it briefly explores some methodological issues relevant to the statistical analysis, presents the results, and relates them to the model developed in previous chapters.

Keywords: government partisanship, policy outcomes, insider-outsider conflict, employment protection, labour market policies, corporatism

Chapter 3 has shown that the preferences of the insider–outsider model are accurate. Insiders care more about the levels of employment protection that they enjoy than about labor market policies that will benefit outsiders. Outsiders, on the other hand, have strong preferences about labor market policy, but are not concerned about the employment security of insiders. The analysis of survey data also showed that when employment protection levels decline, insiders do become more likely to share the preferences of outsiders. Corporatism, finally, emerged as a factor that also affected insider–outsider differences. In agreement with the economic insider–outsider expectations, corporatism seemed to insulate insiders from unemployment and to make their preferences more different from those of outsiders.

Once we know what insiders and outsiders want, we need to explore what parties do. My insider–outsider partisanship model is based on a set of individual-level assumptions that has received a significant amount of support from the analysis in Chapter 3. But this is only the first step. The second step involves analyzing whether parties respond to the preferences of their core constituencies when they get to power. The arguments presented in Chapter 2 have straightforward implications for our understanding of the relationship between government partisanship and policy. For reasons that should now be apparent, the insider–outsider model predicts the following partisan differences regarding policy: (*a*) partisanship will significantly affect pro-insider policies, as I expect social democratic governments to be associated with higher levels of employment protection; and (*b*) partisanship will not significantly affect pro-outsider **(p.69)** policies (given the preferences of their core constituencies, neither social democratic nor conservative governments have an incentive to promote labor market policy).

The previous chapters have made clear that in the presence of insider–outsider conflict, social democratic governments will promote insider policies regardless of the consequences for outsiders. I have also argued, however, that there are factors that make the interests of insiders more similar to those of outsiders. I have focused on the effects of employment protection and corporatism. Part of this chapter is therefore dedicated to testing whether the relationship between government partisanship and policy is affected by these factors. In the following pages I will first analyze the dependent variables and their relationship to this book's hypotheses. Then I will introduce the explanatory variables. Finally, I will briefly explore some methodological issues relevant to the statistical analysis, present the results, and relate them to the model developed in previous chapters.

4.1. The Dependent Variables

Three goals guide the choice of dependent variables in this chapter's analysis: that they help distinguish whether governments favor insiders or outsiders, provide evidence that tests my model against other theoretical alternatives, and, ultimately, contribute to an explanation of macroeconomic outcomes in OECD countries since the early 1970s. The previous chapters have shown what policy outcomes the insider–outsider model implies.

I therefore use three policy measures to test the hypotheses: employment protection legislation represents pro-insider policy; and ALMPs and PLMPs represent pro-outsider measures. These are important policies that greatly affect a nation's political economy. They are the subject of continuous political attention by the public and impact the strategies of parties, whether in government or not. Levels of employment protection, ALMP, or the welfare state also deeply influence economic outcomes in industrialized democracies. As such, they have received a significant amount of attention from scholars in comparative politics. In the following pages I demonstrate that the model proposed in this book is a better explanation of these policy outcomes than the existing alternatives in the literature.

While the differences between insiders and outsiders have been emphasized in the preceding chapters, I must note that the existence of two **(p.70)** distinct groups within labor only affects the strategies of partisan governments when there is a conflict between insiders and outsiders. The coincidence of insider and outsider goals is possible in some policy areas. One such policy is demand management (a traditional Keynesian macroeconomic strategy for social democrats). Demand management policies surely pose less of a conflict between insider and outsider preferences. There is, however, an important literature showing the difficulties social democratic governments face when trying to develop Keynesian policies after the early 1970s. The challenges posed by rational expectations (Alesina 1989) and increasing levels of internationalization (Alt 1985) are often identified as the reasons for the end of the golden age of social democracy. In Boix's words, '(m)anaging demand has become a rather inane issue' (1998*a*: 2).

Accepting the relevance of these challenges, however, still leaves some options open to social democratic governments. Employment protection and labor market policies can be used by partisan governments to promote employment, growth, and equality in an environment that impedes demand management. In a context characterized by openness and capital mobility, producing a satisfactory political explanation for these policies, therefore, becomes an even more important challenge.

4.1.1. Employment Protection

Employment protection legislation covers measures affecting dismissals, lay-offs, severance payments, notice periods, administrative authorization, and union consultation rights (OECD 1994). The model developed in Chapter 2 made clear that lowering employment protection directly attacks the interests of insiders. For outsiders, however, lower insider employment protection means a higher likelihood of exiting unemployment and precarious employment. For the members of the upscale groups, employment protection is a limitation to market forces and to their autonomy as employers. Because insiders and upscale groups have opposing interests (as shown in Chapter 3) and they are the core constituencies of social democratic and conservative governments, the insider–outsider model implies the existence of marked partisan differences regarding job protection.

As was the case for the multilevel analysis in Chapter 3, I use a variable provided in Baker

et al. (2004). I remind readers that the data were created by joining together several series: an original one from Lazear (1990), an update using OECD data from Blanchard and Wolfers (2000), and **(p.71)** a further update and interpolation from Nickell and Nunziata (2000).[1] Lazear's index measures the severance pay and advance notice a blue-collar worker with ten years of service receives upon termination without cause. Cause is illustratively explained by Lazear as generally meaning 'for reasons having to do with the worker's own shortcomings, and it must be extreme. A reading of the rules suggests that in most countries, dismissal with cause requires the kind of evidence necessary to withdraw an American academic's tenure' (1990: 708). The OECD index is constructed by averaging the scores obtained by each country in three categories: 'procedural inconveniences which the employer faces when trying to dismiss employees; notice and severance pay provisions; and prevailing standards of and penalties for unfair dismissal' (OECD 1999: 54). Conceptually, the overall strictness of protection against dismissal is an ideal dependent variable with which to test my hypothesis. This measure, however, suffers from the unfortunate practical limitation of being available only as a summary value for the 1980s and the 1990s. The transformations and updates from Blanchard and Wolfers (2000) and Nickell and Nunziata (2000) make the OECD index into a yearly variable which allows for a significant increase in the number of observations as well as in the complexity of the estimated models.[2]

Table 4.1 shows the employment protection levels for all the countries in this chapter's analysis from 1970 to 1995. As the table points out, the variable ranges from 0 to 2, where higher values mean stricter employment protection. Table 4.1 makes clear two things: the great degree of cross-national variation in employment protection levels and the existence of a diversity of temporal patterns throughout the 1970–95 period.

In terms of the variation across countries, there are three distinct groups in the sample. The first group, comprising mostly the liberal market economies, has the lowest levels of employment protection. The USA (0.1 throughout the period) is the country where the smallest amount of protection is provided. It is followed closely by Canada (0.3 throughout the period) and by the UK (which starts out with an index equal to 0.24 in 1970 and then experiences a relative increase to 0.35 for the rest of the period). Australia and Switzerland can also be included in this group, with still quite low employment protection (0.5 and 0.55, respectively) for the whole period under analysis. A second group with intermediate **(p.72)**

Table 4.1. Employment protection in industrialized democracies, 1970–95

Country	1970	1975	1980	1985	1990	1995
Australia	0.5	0.5	0.5	0.5	0.5	0.5
Austria	0.65	0.78	1.13	1.3	1.3	1.3
Belgium	1.37	1.55	1.55	1.55	1.41	1.19
Canada	0.3	0.3	0.3	0.3	0.3	0.3
Denmark	1.02	1.1	1.1	1.1	0.97	0.74

Finland	1.2	1.2	1.2	1.2	1.15	1.08
France	0.8	1.17	1.3	1.3	1.38	1.5
Germany	1.28	1.65	1.65	1.65	1.56	1.41
Italy	2	2	2	2	1.94	1.78
Japan	1.4	1.4	1.4	1.4	1.4	1.4
Netherlands	1.35	1.35	1.35	1.35	1.3	1.23
Norway	1.55	1.55	1.55	1.55	1.49	1.39
Sweden	0.36	1.32	1.8	1.8	1.62	1.32
Switzerland	0.55	0.55	0.55	0.55	0.55	0.55
UK	0.24	0.33	0.35	0.35	0.35	0.35
USA	0.1	0.1	0.1	0.1	0.1	0.1

Notes: Employment protection is measured as an index ranging from 0 to 2, higher values mean more employment protection.

Source: Baker et al. (2004).

levels of employment protection can be identified. It contains Austria, Denmark, Finland, France, and the Netherlands. In this group, Denmark has a relatively low level of employment protection throughout the period (around 1 or 1.1) while Finland (around 1.2), Austria (1.3 after 1980), and the Netherlands (around 1.35 for most of the period) have slightly higher levels. France has a highly variable level of employment protection (from 0.8 in 1970 to 1.3 in 1980 and 1.5 in 1995) and it moves from a moderately low index to quite a high one. The final group comprises those countries with the highest employment protection in our sample: Belgium, Germany, Italy, Japan, Norway, and Sweden. The averages for the period are around 1.5 for Belgium, Germany, and Norway. Japan's index is a little lower (1.4) and Italy's is much higher (this is the country with the highest level of employment protection, around 2 for most of the period). Sweden is a special case in this group. Although generally a country with high levels of employment protection, the variation through time is quite dramatic.

The levels of employment protection are very stable in some countries. The index does not vary in Australia, Canada, Japan, Switzerland, and the USA. There are, however, some considerable changes through time in most of the countries. Austria and the UK experience a pattern in which employment protection levels increase in the 1970s and then remain **(p.73)** stable from 1980 until 1995. The pattern for Belgium, Denmark, Germany, and Sweden, on the other hand, is one in which protection increases in the 1970s, remains stable in the 1980s, and then decreases in the 1990s. In Finland, Italy, the Netherlands, and Norway, the index remains stable throughout the 1970s and 1980s and then declines in the 1990s. Finally, the table suggests that in France employment protection experiences a pretty stable increase throughout the period.

4.1.2. Labor Market Policies

The previous chapters have explained why labor market policies are considered to represent the interests of outsiders in this book's model. ALMPs are aimed at reducing unemployment by shaping the supply, demand, and mobility of labor while PLMPs provide unemployment compensation.

I argued in Chapter 2 that several factors make ALMPs an ideal policy for analyzing the insider–outsider partisanship model: they are unambiguously pro-outsider, since they are aimed at the creation of employment; they can reflect partisan differences in an unambiguous fashion, since they can receive a significant amount of resources or be mostly ignored by governments; and they are widely believed by policymakers to be an effective tool against unemployment.

Unlike the abundant literature on demand management or the welfare state, the politics that determine ALMPs have not received enough attention in the political science literature.[3] Theoretically, the starting point for most authors is to consider ALMPs one more measure that social democratic parties will employ to benefit labor.[4] But the empirical tests of whether this is in fact the case suffer from real limitations. Most analyses rely on a very limited number of observations—Boix's regressions, for example, range from 18 to 21 observations (1998*a*: 75–9) and Janoski's from 36 to 38 (1994: 70–8). This severely limits the possibility of systematically testing alternative hypotheses while simultaneously controlling for other relevant factors (these regressions typically have no more than three variables), which in turn introduces great caveats into the significance of the results. Others do not systematically assess the validity of their claims **(p.74)** across countries and through time, which limits the generalizability of their conclusions.[5]

In this book's model, outsiders are considered the beneficiaries of ALMPs. As explained in more detail in previous chapters, insiders, on the other hand, pay the costs of these policies (through taxation) but do not benefit from them, since they are significantly protected from unemployment. In addition, ALMPs are designed to promote entry into the labor market of outsiders who will underbid insiders' wage demands. Since insiders are the core constituency of social democratic parties, my argument implies the absence of any government partisanship effects on ALMPs (neither social democrats nor conservatives have incentives to promote them).

ALMPs are generally defined as those labor market policies directed to training and rehabilitation; information, counseling, and financial support to find a job; and government job creation.[6] The OECD data used in the statistical analysis encompasses the following five areas: (*a*) public employment services and administration, (*b*) labor market training, (*c*) youth measures, (*d*) subsidized employment, and (*e*) measures for the disabled.[7] Table 4.2 shows the levels of ALMP (measured as a percentage of GDP) in the countries included in this chapter's analysis.

As was the case with Table 4.1, Table 4.2 reflects a high degree of cross-national and temporal variation in our sample. Examining the existing cross-national diversity in more detail, we can place countries into three general groups with low, intermediate, and high

levels of ALMPs. The largest group is the one characterized by low levels of ALMPs. Australia, Austria, Canada, Italy, Japan, Switzerland, the UK, and the USA all belong to this group. All these countries dedicate less than 1 percent of GDP to ALMPs, some of them significantly less. Within this group, Australia, Austria, Italy, Japan, Switzerland, and the USA have an average from 1980 to 2000 that is significantly less than 0.5 percent of GDP dedicated to ALMPs. Canada and the UK are only slightly higher, with averages that do not reach 0.75 percent of GDP. The second group is a small one, with countries whose intermediate levels of ALMP hover around the 1 percent of GDP mark. Finland and Norway are in this group (in both countries, however, 1995 represents a spike in the pattern with higher levels than in the **(p.75)**

Table 4.2. Active labor market policy in industrialized democracies, 1980–2000

Country	1980	1985	1990	1995	2000
Australia	0	0.41	0.25	0.81	0.46
Austria	—	0.27	0.3	0.36	0.5
Belgium	—	1.31	1.21	1.37	1.31
Canada	0.29	0.65	0.53	0.57	0.41
Denmark	0.43	0.85	1.09	1.88	1.58
Finland	0.99	0.91	0.99	1.54	1
France	0	0.66	0.81	1.29	1.31
Germany	—	0.7	1.09	1.26	1.16
Italy	—	—	0.24	0.18	0.5
Japan	—	—	0.31	0.31	0.29
Netherlands	0.58	1.01	1.09	1.11	1.47
Norway	—	0.61	0.92	1.33	0.74
Sweden	1.21	2.12	1.67	2.23	1.31
Switzerland	0.07	0.19	0.23	0.49	0.37
UK	0.56	0.73	0.59	0.44	0.36
USA	0.16	0.12	0.22	0.2	0.15

Notes: ALMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

rest of the period). The high ALMP group comprises Belgium, Denmark, France, Germany, the Netherlands, and Sweden. Although there is a high degree of variation throughout the period for some of these countries, the averages for the members of this group tend to approach 1.2 percent of GDP (in some cases, the level is much higher). Two countries are unusual in this group: Sweden and France. Sweden is a case that is difficult to put together with any other because of its uncommonly high levels of ALMPs. ALMP

consistently receives more resources in Sweden than anywhere else (in 1985 2.12 percent of GDP was dedicated to ALMPs while in 1995 it was 2.23 percent). France is unusual because of the increase experienced in the period under analysis. While in 1980 and 1985 only 0 percent and 0.66 percent of France's GDP was dedicated to ALMPs, by 2000 it had reached 1.31 percent.

Turning now to temporal variation within the countries in the sample, several interesting patterns emerge from the numbers in Table 4.2. Reflecting the increasing importance of these policies in industrialized democracies, a number of countries in the table have experienced a systematic rise in the resources dedicated to ALMPs. Austria, France, and the Netherlands are the best examples of this pattern. But Denmark, Germany, Norway, and Switzerland are also in this group (with increases up to 1995). The countries with either stable or no clear pattern in ALMPs are Australia, Belgium, Finland, Italy, Japan, Sweden, and the USA. No **(p.76)** country experiences a systematic decrease, although the UK is the exception that comes closest (there is growth from 1980 to 1985, and steady decline since then).

The second and complementary side to the labor market analysis emphasized PLMPs as the goal of outsiders. PLMPs have received a remarkable amount of attention in the comparative political economy literature. My insider–outsider partisanship model goes against the grain of much of the traditional literature arguing for the association of social democracy and the welfare state. When analyzing the last thirty years, I do not share the assumptions of many political scientists exploring the political determinants of the welfare state. The implications of the insider–outsider partisanship model regarding PLMPs are not different from those relating to ALMPs. Outsiders are considered the main beneficiaries of PLMPs. Before the widespread adoption of employment protection in the early 1970s, the interests of insiders and outsiders regarding labor market policy were closely aligned. Insider vulnerability to unemployment was higher and social democratic governments could promote labor market policies that favored outsiders. The emergence of employment protection caused the interests of insiders and outsiders to diverge. As PLMPs increasingly became policies that insiders pay the costs of while outsiders receive the benefits from, social democratic governments become less likely to promote them and partisanship becomes insignificant.

The variable used to capture PLMPs in this chapter's analysis measures total public social expenditure as a percentage of GDP. The data come from the OECD, and the measure is described as follows: '(s)ocial expenditure is the provision by public (and private) institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare' (OECD 2004). These figures for social expenditure mainly include social benefits for old age, survivors, incapacity, health, family support, ALMP, unemployment, and housing.[8] It is important to point out that this is a very encompassing measure of social policy. Rather than only looking at unemployment benefits, I capture a wide range of social policies provided to individuals when their employment income does not support them.[9] I would like to point out, however, that all the results to be analyzed in the

sections below are confirmed when I use a more restrictive measure of PLMPs including only unemployment benefits.

(p.77)

Table 4.3. Passive labor market policy in industrialized democracies, 1980–2000

Country	1980	1985	1990	1995	2000
Australia	11.32	13.48	14.22	17.83	18.56
Austria	22.46	24.1	24.1	26.64	26.02
Belgium	24.13	26.91	26.92	28.07	26.71
Canada	14.32	17.45	18.61	19.62	17.33
Denmark	29.06	27.87	29.32	32.4	28.89
Finland	18.53	23	24.75	31.1	24.5
France	21.14	26.62	26.61	29.24	28.34
Germany	22.98	23.62	22.8	27.46	27.17
Italy	18.42	21.27	23.26	23.02	24.07
Japan	10.19	11.03	11.2	13.5	16.13
Netherlands	26.95	27.32	27.65	25.58	21.77
Norway	17.91	19.1	24.68	25.98	23
Sweden	28.83	29.96	30.78	32.96	28.6
Switzerland	14.17	15.14	17.92	23.88	25.4
UK	17.93	21.1	19.55	23.01	21.69
USA	13.26	12.96	13.43	15.45	14.24

Notes: PLMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

Table 4.3 shows the levels of PLMP (measured as a percentage of GDP) in all countries. The high degree of cross-national variation in the table is best illustrated by dividing the countries into three groups, as I did when describing the levels of employment protection and ALMP. Australia, Canada, Japan, and the USA all belong to the group characterized by low levels of PLMP. All these countries dedicate less than 20 percent of GDP to social policy. Japan is the country with the lowest levels of PLMP in our sample (around 10 percent of GDP from 1980 to 1990 and around 15 percent in 1995 and 2000). Within this group, Canada dedicates the highest level of resources to social policy, with an average of around 17 percent of GDP for the entire period. The second group is characterized by intermediate levels of PLMPs. Austria, Italy, Norway, Switzerland, and the UK are in this group. The average levels of PLMPs in all these countries fluctuate around the low 20s as a percentage of GDP. Although Norway, Switzerland, and the UK

start the period with low levels that are more similar to the previous group, they experience intermediate levels of PLMPs in more recent years. The high PLMP group comprises Belgium, Denmark, Finland, France, Germany, the Netherlands, and Sweden. Although there is a high degree of variation throughout the period for some of these countries, the averages for this group tend to fluctuate around the high 20s as a percentage of GDP. Sweden is the country with the highest levels of PLMPs (passing the 30 percent mark in 1990 and 1995), but countries **(p.78)** like Denmark and Finland are not that far behind. It is also the case that France, Finland, and Germany start the period with much lower levels of PLMPs and only join this group in the more recent years.

In terms of temporal variation, several patterns are present in the data in Table 4.3. There is first a group of countries that experience relatively steady growth in social policy. Australia, Austria, Germany, Italy, the Netherlands, and Switzerland are all countries whose levels of PLMP increase more or less continuously throughout the period. Then there is a second group characterized by increases in the levels of social policy from 1980 to 1995, but decline in the year 2000. Belgium, Canada, Finland, France, the Netherlands, Norway, and Sweden all fit this pattern of growth and decline in the resources dedicated to PLMP. The only exception in this group is the Netherlands, since the decline started in 1995 rather than 2000 in this country. There is finally a group defined by the lack of a clear temporal pattern. The evolution of social policy in Denmark, the UK, and the USA throughout this period does not seem to follow a particular temporal design (with increases and decreases in several years of the series).

4.2. Explanatory Variables

The previous paragraphs have illustrated the high degree of cross-national and temporal variation that the dependent variables in this chapter's analysis display. It is my contention that the insider–outsider model will be a significant contribution to the explanation of all this variation. I emphasize the direct effects (or absence thereof) of government partisanship as a determinant of policy and the intermediating effects of employment protection and corporatism.

4.2.1. Government Partisanship

Very little needs to be said at this point about the theorized influence of government partisanship on employment protection and labor market policy. But some attention should be paid to the operationalization of partisanship.

The government partisanship measure used in my analysis attempts to capture the ideological position of governments in relation to a left-right continuum. Two variables are needed for the construction of this kind of measure: one that reflects the presence of parties in government **(p.79)** and another that measures their ideological characteristics. There are, however, important questions surrounding the quantification of both these factors. There is first the issue of how to measure the influence of parties in government.[10] One option is to take into consideration the proportion of cabinet seats that all parties in government possess. But once a party is in government, the support it enjoys may be influenced not only by its position in the cabinet but also by the degree of

support it has in parliament. Numerous authors have found evidence supporting that a government's behavior will be influenced by its share of seats in parliament (see e.g. Müller and Strøm 2000). As argued by Garrett, the balance of power in cabinet governments delineates the direct control of parties over policy while the balance of power in parliament captures the broader political constraints facing the government (1998: 59).

Regarding the second factor influencing government partisanship, the measurement of party ideological positions is not straightforward either. Assessments of left-right party positions are mainly based on two different measures: the analysis of expert opinions and of party manifestos. These two measures imply a different set of complications. Expert opinions are produced from surveys that are administered rarely and therefore do not reflect changes through time. In addition, questions may be interpreted differently in different national contexts (Gabel and Huber 2000). Data extracted from party manifestos, on the other hand, can be criticized for being a reflection of what parties say to win elections, and not necessarily of what they will do once they have won them. This is a particularly relevant problem for the analysis in this chapter. Social democratic parties, for example, may not wish to emphasize in their election manifestos their intentions not to increase ALMP levels to prevent critics from describing them as unconcerned about unemployment (even if this is what they will do to satisfy insiders).

No choice is therefore free of costs. I follow much of the comparative political economy literature and use a measure of the percentage of cabinet seats held by social democratic and other Left parties (see Armingeon et al. 2005).[11] This variable captures the influence of Left parties in power as a function of their presence in the cabinet. Not factoring in the degree of support enjoyed in parliament is not problematic since, as shown **(p.80)** by Powell, governments tend to 'apportion their cabinet portfolios to parties in simple proportion to the relative percentage of seats held by each in the lower house of the legislature' (2000: 173, see also Laver and Schofield 1990). Ideology in this case is assigned in a simple fashion, a party is either considered to be Leftist or not.[12] In most cases, this is a straightforward endeavor (in the UK, for example, Labor is Leftist). In others, it is not so simple. In Belgium, for example, five parties are categorized as belonging to the Left: *Belgische Socialistische Partij* (BSP, Flemish), *Kommunistische Partij van Belgie* (KPB), *Parti Socialiste Belge* (PSB, Francophone), *Agalev*, and *Ecolo*. In two of our countries, moreover, no party is considered to be Leftist enough to fall into this category. Since neither the Liberal Party in Canada nor the Democratic Party in the USA are considered to belong to the Left, this variable is always 0 in these two countries.[13]

Elsewhere, I have used other variables to measure government partisanship. In Rueda (2005, 2006), government partisanship is captured by two different variables. The first is an index of the cabinet ideological center of gravity that uses expert opinions to measure ideology (see Cusack 1997 for details). The second one uses party manifestos to assess a party's left-right position. I will refer to these alternative results to confirm this chapter's findings.

Table 4.4 presents the levels of Left government in the countries (from 1970 to 2000) included in this analysis. As the table shows, the presence of social democratic government is highly variable depending on the country. Some countries are unmistakably characterized by very low levels of Left government. Of course the USA and Canada, since they are not considered to have a Left party, belong to this group. But so do Japan and Switzerland (in Japan the Left is a marginal portion of the cabinet only in 1995, while in Switzerland it constitutes only 29% of the cabinet throughout the entire period). There is then a group with intermediate levels of social democratic government (hovering around the 50% mark). Belgium and Finland belong to this group. A third group with generally high levels of Left government comprises Australia, Austria, and Sweden. Although there is some temporal fluctuation (especially in Austria, where Left government experiences a marked decline starting in 1990), in these three countries the social democratic presence in cabinets is higher than 80 percent for most of the period. There is finally a large group that **(p.81)**

Table 4.4. Left government in industrialized democracies, 1970–2000

Country	1970	1975	1980	1985	1990	1995	2000
Australia	0	86.3	0	100	100	100	0
Austria	64.24	85.71	100	80	46.68	50	4.29
Belgium	40.74	0	43.43	0	47.37	53.33	53.33
Canada	0	0	0	0	0	0	0
Denmark	0	88.22	100	0	0	75	79.89
Finland	47.66	31.22	47.06	47.06	44.96	40.03	50
France	0	0	0	95.65	66.67	0	100
Germany	75	75	75.22	0	0	0	100
Italy	26.53	0	29.02	30	37.5	0	48.65
Japan	0	0	0	0	0	28.57	0
Netherlands	0	56.25	0	0	50	35.71	40
Norway	0	100	100	0	16.16	100	79.24
Sweden	100	100	0	100	100	100	100
Switzerland	28.57	28.57	28.57	28.57	28.57	28.57	28.57
UK	46.58	100	0	0	0	0	100
USA	0	0	0	0	0	0	0

Notes: Left government measured as percentage of Left parties in total cabinet posts, weighted by days.

Source: Armingeon et al. (2005).

displays too high a degree of variability to be easily classified. Denmark, France, Germany, Italy, the Netherlands, Norway, and the UK fall into this group. In Denmark,

France, Germany, Norway, and the UK, the levels of Left government go from very low (often 0) to very high (often 100) depending on the election. In Italy and Netherlands, on the other hand, the levels only fluctuate between low and intermediate.

It is clear that a high degree of temporal variation is present in our sample. Unlike Tables 4.1 to 4.3, however, it is difficult to find patterns when looking at the levels of Left government. There are countries that display a considerable amount of stability. This is certainly the case in Canada, Japan, Switzerland, and the USA at the low level, and Finland and Sweden at the intermediate and high levels of Left government. But the cabinet participation of social democratic parties in other countries seems dependent on the results of particular elections and not necessarily subject to temporal trends.

4.2.2. Employment Protection

As I have explained in previous chapters, the differences between insiders and outsiders (and the influence over social democratic parties) can be either mitigated or exacerbated by the levels of employment protection insiders enjoy. When insiders lose their insulation to unemployment and **(p.82)** become more like outsiders, social democratic parties will be more likely to promote labor market policies.

Employment protection was one of the three policies explained in the dependent variable section. Now, it also becomes an explanatory variable. The analysis below is developed in two steps. First, I explore the influence of government partisanship on pro-insider (employment protection) and pro-outsider policies (ALMPs and PLMPs). Secondly, I analyze the intermediating effects of existing levels of employment protection and corporatism on the relationship between government partisanship and labor market policy. In its role as a dependent variable, the employment protection measure used in this analysis was described in detail. I refer readers to Table 4.1 and the discussion that accompanied it.

4.2.3. Corporatism

While employment protection has a straightforward effect on insider vulnerability to unemployment, corporatism is a more ambiguous factor. What I have called the economic insider–outsider framework emphasizes the role of corporatism as a set of institutional arrangements that protect the interests of insiders. The Olsonian interpretation of corporatism, on the other hand, emphasizes the effects of institutional encompassment. In this view, corporatist arrangements are believed to facilitate the consideration of outsider interests by insiders and, therefore, social democratic parties. These alternative interpretations imply different predictions about the influence of government partisanship on policy. The economic insider–outsider view would lead us to expect higher levels of social democratic government to be associated with more resources dedicated to labor market policy only when corporatism is low (and the influence of insiders is, therefore, minimized). The Olsonian view implies exactly the opposite. Higher levels of social democratic government should be associated with more resources dedicated to labor market policy only when corporatism is high (and insiders are, therefore, less likely to free ride).

My conceptualization of corporatism is influenced by Katzenstein (1985), Traxler (1999), and Kenworthy (2003). In the words of Kenworthy,

> corporatism consists of various types of institutional arrangements whereby important political-economic decisions are reached via negotiation between or in consultation with peak-level representatives of employees and employers (and/or other interest groups and the state).
>
> (Kenworthy 2003: 11)

(p.83)

Table 4.5. Corporatism in industrialized democracies, 1970–94

Country	1970	1975	1980	1985	1990	1994
Australia	0.27	0.2	0.13	0.2	0.2	0.13
Austria	0.96	0.96	0.96	0.96	0.96	0.96
Belgium	0.8	0.66	0.66	0.66	0.66	0.66
Canada	0.17	0.1	0.03	0.03	0.03	0.03
Denmark	0.83	0.76	0.76	0.76	0.61	0.61
Finland	0.9	0.9	0.83	0.9	0.9	0.83
France	0.5	0.43	0.43	0.36	0.36	0.36
Germany	0.84	0.84	0.84	0.76	0.76	0.76
Italy	0.4	0.4	0.47	0.4	0.4	0.4
Japan	0.73	0.73	0.8	0.8	0.8	0.8
Netherlands	0.74	0.67	0.6	0.53	0.53	0.53
Norway	0.99	0.99	0.99	0.99	0.92	0.92
Sweden	0.99	0.99	0.99	0.99	0.85	0.78
Switzerland	0.55	0.55	0.55	0.55	0.55	0.55
UK	0.21	0.28	0.07	0.07	0.07	0.07
USA	0.15	0.08	0.01	0.01	0.01	0.01

Notes: Corporatism is measured as an index ranging from 0 to 1.

Source: Hicks and Kenworthy (1998).

As was mentioned in Chapter 3, the measure for corporatism used in this book encapsulates a number of economic characteristics: the centralization and coordination of unions, business, and wage-setting; the cooperation between government and interest groups; the existence of tripartite organizations, the degree of cooperation among economic actors, etc. (see Hicks and Kenworthy 1998 for details). The variable ranges from 0 to 1 (where higher values mean more corporatism) and reflects a continuum

across countries and through time. There are two important advantages to this corporatism measure. First, it is not a dichotomous variable and it allows for a great degree of variation among countries. Second, while other measures of corporatism are country-specific, this does vary through time. This within-country temporal variation is optimal for my analysis, since I am interested in how the changing characteristics of corporatism constrain the actions of social democratic government.

Table 4.5 provides the levels of corporatism for all countries included in this chapter's analysis from 1970 to 1994.[14] Three differentiated clusters can be identified: a low corporatism group (levels under 0.3), an intermediate one (levels between 0.3 and 0.7), and a high one (levels over 0.7). Australia, Canada, the UK, and the USA belong to the first group. The USA, Canada, and the UK are the countries with the lowest levels of corporatism in this group (starting in 1980, it is 0.01 in the USA, 0.03 in **(p.84)** Canada, and 0.07 in the UK). Australia reaches the highest level in this group (0.2). In the intermediate group, we can include Belgium, France, Italy, the Netherlands, and Switzerland. France, Italy, and Switzerland have relatively stable levels that always stay within the boundaries I have set for intermediate corporatism. Belgium and the Netherlands, however, have higher levels in 1970 and then fall into the intermediate level for the rest of the period. There are seven countries in the last group. Austria, Denmark, Finland, Germany, Japan, Norway, and Sweden all have high levels of corporatism. Sweden, Norway, and Austria (0.99, 0.99, and 0.96, respectively, for most of the period) have the highest levels in the sample. Denmark and Germany, on the other hand, have the lowest levels in this group. In fact, Denmark, with a level of 0.76 from 1975 to 1985, falls into the intermediate group starting in 1990 (with a level of 0.61).

The table also makes clear that corporatism has decreased substantially in most of the countries. Corporatism experiences a decline in Belgium, Canada, Denmark, France, Germany, the Netherlands, Sweden, the UK, and the USA. It also experiences a general decline with a slight recovery in Australia (the recovery takes place in 1985 and 1990). Although corporatism remains relatively stable in five countries (Austria, Finland, Italy, Norway, and Switzerland) it can only be said to increase in one (Japan, from 1975 to 1980).

4.2.4. Other Explanatory Variables

4.2.4.1. LABOR MARKET INSTITUTIONS

As I explained in more detail in Chapter 2, the behavior of unions is a relevant factor in a government's policy orientation. I expect pressure from unions to make either pro-insider or pro-outsider policies more likely. I use corporatism as an aggregate index of the characteristics of a labor market in the interaction analysis of the factors that can affect the relationship between government partisanship and policy (see details below). For the direct analysis of the influence of partisanship on policy, I use two additional measures: wage bargaining coordination and union density.[15]

The measure used in my analysis to capture wage bargaining coordination is provided by Kenworthy (2001). It ranges from 1 to 5, with higher **(p.85)** values representing more

coordination.[16] The union density measure is provided by Golden, Wallerstein and Lange (2006). It represents employed union members as a percentage of employed labor force.

4.2.4.2. TRADE AND FINANCIAL OPENNESS

There are two opposing accounts of the effects of internationalization on partisan politics. There is first a large literature suggesting that growing levels of trade and financial openness diminish the ability of social democratic parties to produce Leftist policy and therefore weaken partisan differences.[17] Then there are some authors who argue either that international forces do not affect some partisan differences (like Garrett and Lange 1991; Boix 1998 *a*) or that they actually have strengthened the influence of partisanship on policies and economic outcomes (Garrett 1998). The results presented in the following pages do not address whether international dependence limits the autonomy of governments. Rather, they look at the great variance in policy within the sample and try to assess the factors that are responsible for it. I expect that, once the influence of internationalization is controlled for, insider–outsider differences will account for whether partisanship affects policy or not.

Trade openness is measured as imports plus exports as percentage of GDP (European Commission 2006). Financial openness, or lack thereof, is measured as the absence, or existence, of capital account restrictions (Prasad et al. 2003).

4.2.4.3. GOVERNMENT DEFICIT

Deficits are introduced into the analysis as a measure of the limitations a government faces when deciding policy strategies. The general argument **(p.86)** is that governments with higher deficits have fewer resources at their disposal and therefore would encounter more difficulties when trying to expand their spending. One widely accepted interpretation of the policy changes of the early 1980s, for example, is that many governments had reached unsustainable levels of public debt (see Schwartz 1994, among others). I use a variable measuring annual deficits as a percentage of GDP (Armingeon et al. 2005). I include this measure only in the regressions with labor market policy as the dependent variable (since any relationship between resource limitations and legislation affecting employment seems unlikely).

UNEMPLOYMENT

Some authors have argued that policy levels simply respond to increasing needs (whether demographic, economic, or other).[18] I engage these arguments, at least partially, by controlling for the effects of unemployment. It is important for the validity of my conclusions that the results of the influence of partisanship over policy are not affected by increasing needs. We want to be able to conclude, for example, that social democratic governments do not promote higher levels of ALMPs regardless of the size of unemployment. The unemployment rate also acts as a partial proxy for the number of outsiders in an economy. It is essential that the results control for the size of the outsider group, since the insider–outsider partisanship model maintains that social democratic governments will appeal to insiders even when outsiders are numerous. I use the Eurostat definition of unemployment (European Commission 2006).

4.2.4.5. GDP GROWTH

Most analyses of economic policy include a measure of economic growth. This is particularly relevant because it is important to control for the effects of growth on the policy decisions of partisan governments. I use a variable measuring real growth of GDP as percentage change from previous year (European Commission 2006).

4.3. Methodology and Results

I use annual data from 16 industrialized democracies and present OLS results. The countries are Australia, Austria, Belgium, Canada, Denmark, **(p.87)** Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the UK, and the USA. The countries for which the data are available depend on the dependent variable. For the analysis of the determinants of employment protection, the time period available extends from 1970 to 1998 (except for Switzerland, where employment protection is only available from 1991). For the analysis of the determinants of ALMP, we have data for a more reduced time series. For most countries the data are available from 1980 to 1998. For Belgium, Germany, and Norway, however, they are only available starting in 1985; for Austria, Italy, and Japan, only from 1990 to 1998 (Switzerland is again an exception since the series starts in 1991). The availability for the last dependent variable, social policy, is slightly better. All countries provide data from 1980 to 1998 (except Norway, 1988–98, and Switzerland, 1991–8).

The pooled time-series cross-sectional nature of the data significantly increases the number of observations and therefore allows the testing of more complex causal models. There are, however, some complications. The first one has to do with the dynamic nature of the data. Beck, among others, has pointed out that '(m)odern time-series analysts model the dynamics directly as part of the specification' (Beck 2001: 279). One of the most convenient ways to do this is to estimate a single equation error correction model. The estimation of an error correction model is appropriate when we are interested in the rate at which the dependent variable returns to equilibrium in response to changes in the explanatory variables. There are two important advantages to error correction models: (*a*) they allow us to estimate the short- and long-term effects of the explanatory variables, and (*b*) they are a solution to issues of nonstationarity in pooled time-series cross-sectional data (see Beck and Katz 1996; Beck 2001).[19]

To estimate an error correction model, I take first differences of the dependent and the explanatory variable of interest (government partisanship). The specification adopted in the empirical analysis is as follows:

$$\Delta \mathrm{POLICY}_{it} = \beta_0 + \beta_1 \mathrm{POLICY}_{it-1} + \beta_2 \Delta \mathrm{PARTISANSHIP}_{it} + \beta_3 \mathrm{PARTISANSHIP}_{it-1} + \beta_4 X_{1it} + \ldots + \beta_n X_{nit} + \varepsilon_{it}$$

where *i* and *t* refer to the particular countries and years, β_0 represents a general intercept, POLICY is the dependent variable (and the explanatory lagged dependent variable), PARTISANSHIP is the explanatory variable of interest (introduced into the model as first difference and as a lag), and **(p.88)** X_1 to X_n are the other explanatory

variables, β_1 to β_n are the slopes of the explanatory variables, and ε_{it} denotes the errors.

As I mentioned above, an error correction model allows the estimatation of the short- and long-term effects of the explanatory variables. More specifically, in this model the slope of the first difference, β_2, captures the immediate or contemporaneous effect of government partisanship on policy. The slope of the lag, β_3, captures the long-term or equilibrium effect of government partisanship on policy. The long-term effects, moreover, take place at a rate determined by the slope of the lagged dependent variable, β_1.[20]

The existence of country-specific factors not included in the analysis (country-specific omitted variables) could affect the accurate estimation of the model. Like most analyses in comparative political economy, it is reasonable to assume that there are a number of country-specific effects that cannot be introduced explicitly into my model (specific historical circumstances, difficult to capture institutional developments, etc.). To deal with these variables I produce a set of estimates with random effects.[21]

Finally, Beck and Katz (1995, 1996) have proposed a method that produces consistent standard errors estimates in the presence of panel heteroscedastic errors. Since their recommendations have been widely followed in the recent comparative political economy literature (see, e.g. Garrett 1998; Hall and Franzese 1998; Iversen 1998), I also present the results estimating panel-corrected standard errors.

4.3.1. The Determinants of Employment Protection—ALMPs and PLMPs

The following pages contain the results of the regressions. The model with panel-corrected standard errors and the one with random effects are presented side by side. For each variable, I present the estimates of the coefficients, their standard errors, and p values from two-sided t tests of significance. To make the interpretation of the results easier, the significance levels of the estimates are also indicated by the asterisks in the usual manner (*** if p value < .01, ** if < .05, and * if < .1). In all cases I present the estimates of the constant and the lagged dependent variable first, immediately followed by the main variable of interest: cabinet partisanship (as first difference and as a lag). Then I produce the estimates for the rest of the explanatory variables.

(p.89)

Table 4.6. The determinants of employment protection, 1970–98

	Panel-corrected standard errors	Random effects
Constant	**.031** *** (.007) *.000*	**.061** *** (.014) *.000*
Lagged dependent variable	**−.016** *** (.006) *.007*	**−.038** *** (.008) *.000*
ΔLeft government	**−.0001** (.0001) *.372*	**−.0001** (.0001) *.188*
Lag of Left government	**.0002** *** (.0001) *.006*	**.0001** *** (.0001) *.018*
Union density	**−.027** * (.014) *.052*	**−.034** (.024) *.150*

Wage bargaining coordination	**.001** (.002) *.651*	**.004** * (.002) *.080*
Trade openness	**.002** (.007) *.253*	**−.0002** * (.0001) *.089*
Lack of financial openness	**.0000** (.0001) *.879*	**.010** * (.006) *.064*
Lag of unemployment rate	**−.003** *** (.001) *.000*	**−.003** *** (.001) *.001*
GDP growth	**.001** (.001) *.378*	**.001** (.001) *.129*
N	425	425
R^2	.16	.12

Notes: Employment protection is measured as an index ranging from 0 to 2, higher values mean more employment protection.

Source: Baker et al. (2004).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

Table 4.6 presents the results for the determinants of employment protection. The pro-insider orientation of social democratic governments seems obvious when examining the estimates in the table. Leaving aside the constant, only three factors are significant at better than the traditional 95 percent level of confidence: the lagged dependent variable, the long-term effect of Left government, and the previous year's unemployment rate. The most important finding for this chapter's arguments **(p.90)** is that, as expected, social democratic governments are significantly associated with higher levels of employment protection in the long term (the contemporaneous effect is insignificant). This result is confirmed by both models (with panel-corrected standard errors and with random effects). During the period of time under analysis, the long-term effect of Left government has been a significant increase in employment protection for insiders. This result is all the more meaningful when we remember that in many OECD countries unemployment increased dramatically during this period. As indicated by the estimate for the lagged dependent variable, the long-term effects of social democratic government, moreover, take place at a rate of 16 percent (in the panel-corrected standard error model) or 38 percent (in the random effects model) per year.

The only other explanatory variable which reaches significance at more than the 95 percent level of confidence is the previous year's unemployment rate. Higher levels of

unemployment reduce the employment protection of insiders. Since this variable represents a pool of potential competitors for insiders, it is not surprising that greater levels of unemployment reduce the power of insiders to demand employment protection.

The substantive significance of the findings is perhaps best illustrated by calculating the long-term effects of a change in government partisanship while keeping the other variables constant. Using the estimates for the lag of Left government in Table 4.6, we can find the long-term effect that would result from a gain from 0 to 100 percent of cabinet seats. Let me first point out that this kind of electoral victory by Left parties is not an unreasonable scenario to use as an illustration. Many countries in the sample experience similar victories (the Left coming to power and forming a government on their own after being in the opposition). The estimates in the table show that such a change in Left government would be associated with an increase in employment protection equal to 1.25, using the results with panel-corrected standard errors. To put this increase in context, we can look at the employment levels of a particular country. Looking back to Table 4.1, it was shown that in Australia the employment protection index was 0.5 in 1995. A change in Left government of the magnitude suggested above would therefore be associated with a 250 percent long-term increase in employment protection in Australia.

I have explored the robustness of the employment protection conclusions described above in related work. Rueda (2005) uses two different definitions of government partisanship (a cabinet ideological center of gravity measure and one based on party manifesto data) but confirms the findings in Table 4.6 in a number of different ways. It shows that **(p.91)** these alternative measures of partisanship do not affect the results. It also indicates that a model with country fixed effects corroborates the findings in Table 4.6. The analysis in Rueda (2005) indicates that the results are robust to several specifications of the government partisanship lag as well.

Tables 4.7 and 4.8 present the results of the analysis of active and passive labor market policies. If Table 4.6 made clear the pro-insider orientation of Left governments when examining the determinants of employment protection, Tables 4.7 and 4.8 make equally obvious their lack of attention to outsider interests. The most important findings regarding the insider–outsider model relate to the estimates for Left government. The tables show, as hypothesized, the lack of any long-term partisanship effect on the levels of either active or passive labor market policy. In the long-term, social democratic government has no effect on ALMPs or PLMPs (this is confirmed by both the panel-corrected standard errors model and the one with random effects). The tables also show that the immediate effects of Left government on PLMPs is statistically insignificant.[22] Table 4.7 indicates, moreover, that the immediate effect of social democratic government on ALMPs is significant but negative. Increasing levels of Left government are in fact associated with decreasing levels of ALMP in the short term. It is important to emphasize that these results contradict the conventional wisdom, and much of the existing literature, regarding the influence of partisanship on active policies (see, e.g. Janoski 1990, 1994; Boix 1998 *a*; Swank and Martin 2001). These results reinforce the conclusions of the insider–outsider model: when insiders do not share the goals of outsiders, social

democratic governments do not promote pro-outsider policies.[23]

The substantive significance of the findings in Table 4.7 can be illustrated by performing a calculation similar to the one in the discussion of Table 4.6. Using the estimates for the first difference of Left government in Table 4.7, we can calculate the immediate effect resulting from a gain by the Left from 0 to 100 percent of cabinet seats. Such a change in Left government would be associated with an immediate decrease in ALMPs equal to 0.13. We can once again put this effect in context by looking at the ALMP levels of a particular country. In Table 4.2, we see that in Germany, for example, ALMPs represented 0.7 percent of GDP in 1985. **(p.92)**

Table 4.7. The determinants of active labor market policy, 1980–98

	Panel-corrected standard errors	Random effects
Constant	**−.023** (.040) *.560*	**−.023** (.048) *.625*
Lagged dependent variable	**−.088** * (.045) *.050*	**−.088** *** (.027) *.001*
Δ **Left government**	**−.0013** ** (.0006) *.042*	**−.0013** ** (.0004) *.011*
Lag of Left government	**.0002** (.0004) *.648*	**.0002** (.0003) *.586*
Employment protection	**.028** (.030) *.351*	**.028** (.032) *.384*
Union density	**.085** (.065) *.193*	**.085** (.072) *.242*
Wage bargaining coordination	**.006** (.011) *.588*	**.006** (.012) *.603*
Trade openness	**.0007** * (.0004) *.093*	**.0007** (.0005) *.127*
Lack of financial openness	**.033** (.025) *.196*	**.033** (.031) *.295*
Lag of unemployment rate	**.003** (.004) *.424*	**.003** (.004) *.449*
Government deficit	**−.012** ** (.005) *.011*	**−.012** *** (.004) *.001*
GDP growth	**−.012** ** (.005) *.025*	**−.012** ** (.006) *.037*
N	232	232
R^2	.18	.18

Notes: ALMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

The suggested change in Left government would therefore be associated with a whopping 19 percent immediate decrease in ALMPs in Germany.

Tables 4.7 and 4.8 also show that other explanatory variables reach significance at more than the 95 percent level of confidence. Government **(p.93)**

Table 4.8. The determinants of passive labor market policy, 1980–98

	Panel-corrected standard errors	Random effects
Constant	**2.115** *** (.262) *.000*	**2.188** *** (.246) *.000*
Lagged dependent variable	**−.043** *** (.012) *.000*	**−.045** *** (.013) *.001*
Δ **Left government**	**.000** (.002) *.849*	**.000** (.002) *.854*
Lag of Left government	**.002** (.001) *.149*	**.002** (.001) *.199*
Employment protection	**.102** (.125) *.413*	**.122** (.139) *.381*
Union density	**.270** (.247) *.273*	**.328** (.322) *.307*
Wage bargaining coordination	**−.075** (.049) *.127*	**−.083** (.053) *.116*
Trade openness	**.002** (.002) *.374*	**.002** (.002) *.414*
Lack of financial openness	**.025** (.140) *.857*	**−.004** (.134) *.974*
Lag of unemployment rate	**−.051** ** (.022) *.018*	**−.059** *** (.021) *.004*
Government deficit	**−.042** ** (.019) *.028*	**−.045** *** (.016) *.004*
GDP growth	**−.290** *** (.030) *.000*	**−.286** *** (.026) *.000*
N	259	259
R^2	.48	.48

Notes: PLMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

deficits and GDP growth are significant determinants of both ALMPs and PLMPs. The previous year's unemployment rate, on the other hand, is only significant as a determinant of PLMPs. Unsurprisingly, the results suggest that increasing levels of government deficit and unemployment **(p.94)** reduce the resources dedicated to labor market policy (although in the case of unemployment the effect is only significant on PLMPs). It is perhaps less straightforward that GDP growth is also associated with decreasing levels of ALMPs and PLMPs.

In Rueda (2005, 2006), I use a number of different specifications for the variables and the models to further explore the relationship between government partisanship and labor market policy. The two alternative definitions of government partisanship in Rueda (2005, 2006), a cabinet ideological center of gravity measure and one based on party manifesto data, confirm the findings in Tables 4.7 and 4.8. These analyses also indicate that a model with country fixed effects does not make any difference to the substantive results, and neither do several specifications of the government partisanship lag.

4.3.2. The Mediating Effects of Employment Protection and Corporatism

To analyze the mediating effect of employment protection and corporatism on the relationship between government partisanship and labor market policy, I introduce a set of interactions in the model. I estimate interactions for employment protection and corporatism separately. The models follow the same specifications as those explained above. As before, I estimate single equation error correction models but in this case, the lag and first difference of Left government is interacted with the variables capturing either employment protection or corporatism.

Tables 4.9 and 4.10 present the results for the interactions with employment protection. Table 4.9 contains the analysis of ALMPs and Table 4.10 of PLMPs. I will focus on the effects of the interaction between Left government and employment protection (since the estimates for the other explanatory variables are not that different from the ones in the non-interactive models). Regrettably, the results in Tables 4.9 and 4.10 do not offer us a particularly intuitive way of understanding the effects of the interaction. The statistical significance of the lower-order coefficients, in particular, does not tell us much about the relationship between the interacted variables.[24] To illustrate the effects of the interacted terms and to simplify the assessment of their statistical significance, I calculate conditional effects. Having identified the range of variation in employment protection in Table 4.1, I define a low and a high value. Low employment protection is defined as a score of 0.4 (this is not a particularly low level, **(p.95)**

Table 4.9. The determinants of active labor market policy, 1980–98 (interaction with employment protection)

	Panel-corrected standard errors	Random effects
Constant	**−.021** (.040) *.603*	**−.021** (.048) *.664*

Lagged dependent variable	**−.086** * (.044) *.053*	**−.086** *** (.027) *.002*
Δ Left government	**.001** (.001) *.233*	**.001** (.001) *.337*
Lag of Left government	**.001** (.001) *.225*	**.001** (.001) *.262*
Employment protection	**.058** (.035) *.101*	**.058** (.040) *.146*
Δ Left government * Employment protection	**−.002** * (.001) *.050*	**−.002** * (.001) *.051*
Lag of Left government * Employment protection	**−.001** (.001) *.370*	**−.001** (.001) *.313*
Union density	**.089** (.065) *.170*	**.089** (.072) *.217*
Wage bargaining coordination	**−.003** (.012) *.788*	**−.003** (.014) *.813*
Trade openness	**.0008** ** (.0004) *.040*	**.0008** * (.0005) *.077*
Lack of financial openness	**.039** (.027) *.150*	**.039** (.032) *.220*
Lag of unemployment rate	**.001** (.005) *.806*	**.001** (.005) *.806*
Government deficit	**−.012** ** (.005) *.010*	**−.012** *** (.004) *.001*
GDP growth	**−.011** * (.005) *.039*	**−.011** * (.006) *.057*
N	232	232
R^2	.20	.20

Notes: ALMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

(p.96)

Table 4.10. The determinants of passive labor market policy, 1980–98 (interaction with employment protection)

	Panel-corrected	Random

	standard errors	effects
Constant	**2.113** *** (.259) *.000*	**2.254** *** (.259) *.000*
Lagged dependent variable	**−.042** *** (.012) *.001*	**−.046** *** (.014) *.001*
Δ Left government	**.000** (.007) *.973*	**.000** (.007) *.950*
Lag of Left government	**.007** ** (.003) *.030*	**.005** (.004) *.157*
Employment protection	**.230** (.140) *.100*	**.235** (.175) *.180*
ΔLeft government * Employment protection	**−.000** (.005) *.968*	**.000** (.005) *.942*
Lag of Left government * Employment protection	**−.004** * (.003) *.080*	**−.004** (.003) *.283*
Union density	**.294** (.243) *.227*	**.409** (.348) *.240*
Wage bargaining coordination	**−.116** ** (.055) *.036*	**−.116** * (.061) *.058*
Trade openness	**.002** (.002) *.233*	**.002** (.003) *.352*
Lack of financial openness	**.061** (.142) *.667*	**−.008** (.138) *.953*
Lag of unemployment rate	**−.062** *** (.023) *.006*	**−.074** *** (.022) *.001*
Government deficit	**−.043** ** (.019) *.026*	**−.048** *** (.016) *.003*
GDP growth	**−.288** *** (.030) *.000*	**−.281** *** (.026) *.000*
N	259	259
R^2	.49	.49

Notes: PLMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

(p.97)

Table 4.11. The determinants of active labor market policy, 1980–98 (conditional on employment protection levels)

	Panel-corrected standard errors		Random effects	
	Low employment protection	High employment protection	Low employment protection	High employment protection
Δ Left government	**.001** (.001) *.524*	**−.002** ** (.001) *.019*	**.001** (.001) *.627*	**−.002** ** (.001) *.002*
Lag of Left government	**.001** (.000) *.206*	**−.000** (.001) *.679*	**.001** (.001) *.270*	**−.000** (.001) *.574*

Notes: ALMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

Canada, the UK, and the USA all display lower levels of employment protection throughout the period). High employment protection is defined as a score of 1.7 (again, this is not an unrealistically high level—Italy, throughout the period, and Sweden, in the 1980s, have higher levels of employment protection). I then calculate the long-term and immediate effects of Left government conditional on these two levels of employment protection. Tables 4.11 and 4.12 present the results.

Table 4.11 presents the effects of Left government on ALMPs and Table 4.12 on PLMPs. Each table presents conditional effects for both model alternatives (the one estimating panel-corrected standard errors and the one with random effects). When analyzing Table 4.7, I pointed out that social democratic government had no long-term effect on ALMPs and that its immediate effects were in fact negative. Table 4.11 confirms the long-term results, the lag of Left government is an insignificant determinant of ALMPs whether employment protection is high or low. In line with the expectations of the insider–outsider model, the immediate effects of Left government are contingent on the levels of employment protection. Table 4.11 shows that high employment protection is entirely responsible for the effects we saw in Table 4.7. While social democratic government is insignificant in low employment protection countries, it is statistically significant and

negative when employment protection is high. It is indeed the case that insiders who experience high levels of employment protection do not pressure social democratic parties to **(p.98)**

Table 4.12. The determinants of passive labor market policy, 1980–98 (conditional on employment protection levels)

	Panel-corrected standard errors		Random effects	
	Low employment protection	High employment protection	Low employment protection	High employment protection
Δ Left government	**.000** (.005) *.976*	**−.000** (.003) *.973*	**−.000** (.005) *.955*	**.000** (.004) *.947*
Lag of Left government	**.005** ** (.002) *.029*	**−.001** (.002) *.677*	**.004** (.003) *.133*	**−.001** (.003) *.794*

Notes: PLMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

promote ALMPs. In fact, when insiders are well insulated from unemployment, social democratic governments are associated with lower (rather than higher) levels of ALMPs.

Turning now to the effects of partisanship on PLMPs, the general conclusion of the non-interactive model was that Left government was not a significant determinant of social policy. Table 4.12 offers a more subtle picture. When we look at the effects of social democratic government conditional on the levels of employment protection, we can see that partisanship does have a long-term effect but only when employment protection is low. The lag of Left government is significant at better than a 95 percent level of confidence in the panel-corrected standard error model.[25] Again in a manner that supports this book's arguments, the table suggests that when insiders have little employment protection, they do become more interested in social policy (like outsiders). As a consequence of this, social democratic governments promote higher levels of PLMPs, but only when employment protection is low.

To explore the mediating effects of corporatism on the relationship between government partisanship and labor market policy, I introduce interactions in the model in the same way as in the employment protection analysis. Tables 4.13 and 4.14 present the results for the interactions with corporatism. Table 4.13 contains the analysis of ALMPs and

(p.99)

Table 4.13. The determinants of active labor market policy, 1980–94 (interaction with corporatism)

	Panel-corrected standard errors	Random effects
Constant	**−.025** (.047) *.603*	**−.025** (.060) *.679*
Lagged dependent variable	**−.070** (.063) *.272*	**−.070** ** (.034) *.040*
Δ Left government	**.000** (.001) *.873*	**.000** (.002) *.890*
Lag of Left government	**.001** (.001) *.100*	**.001** (.001) *.116*
Corporatism	**.012** (.109) *.914*	**.012** (.098) *.904*
Δ Left government * Corporatism	**−.003** (.002) *.119*	**−.003** (.002) *.130*
Lag of Left government * Corporatism	**−.002** (.001) *.268*	**−.002** (.001) *.162*
Employment protection	**.049** (.055) *.367*	**.049** (.050) *.326*
Union density	**.157** * (.088) *.073*	**.157** (.100) *.116*
Trade openness	**.001** (.001) *.238*	**.001** (.001) *.283*
Lack of financial openness	**.014** (.038) *.724*	**.014** (.039) *.729*
Lag of unemployment rate	**−.004** (.008) *.601*	**−.004** (.007) *.559*
Government deficit	**−.016** *** (.006) *.009*	**−.016** *** (.004) *.000*
GDP growth	**−.003** (.006) *.568*	**−.003** (.007) *.632*
N	168	168
R^2	.21	.21

Notes: ALMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p-value < .01,

** if < .05, and

* if < .1).

(p.100)

Table 4.14. The determinants of passive labor market policy, 1980–94 (interaction with corporatism)

	Panel-corrected standard errors	Random effects
Constant	**1.612** *** (.238) *.000*	**1.612** *** (.246) *.000*
Lagged dependent variable	**−.023** * (.013) *.082*	**−.023** (.014) *.105*
Δ **Left Government**	**.014** ** (.007) *.035*	**.014** ** (.007) *.043*
Lag of Left government	**.005** ** (.002) *.042*	**.005** * (.003) *.083*
Corporatism	**.308** (.421) *.465*	**.308** (.387) *.427*
Δ **Left government** * **Corporatism**	**−.015** * (.009) *.092*	**−.015** (.011) *.144*
Lag of Left government * **Corporatism**	**−.003** (.004) *.501*	**−.003** (.005) *.565*
Employment protection	**−.165** (.169) *.329*	**−.165** (.168) *.326*
Union density	**.105** (.254) *.678*	**.105** (.378) *.781*
Trade openness	**.001** (.002) *.694*	**.001** (.003) *.722*
Lack of financial openness	**−.031** (.149) *.834*	**−.031** (.159) *.844*
Lag of unemployment rate	**−.032** (.042) *.444*	**−.032** (.033) *.328*
Government deficit	**−.041** * (.021) *.057*	**−.041** ** (.018) *.021*
GDP growth	**−.284** *** (.032) *.000*	**−.284** *** (.029) *.000*
N	195	195
R^2	.49	.49

Notes: PLMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

(p.101)

Table 4.15. The determinants of active labor market policy, 1980–94 (conditional on corporatism levels)

	Panel-corrected standard errors		Random effects	
	Low corporatism	High corporatism	Low corporatism	High corporatism
Δ **Left government**	**−.000** (.001) *.787*	**−.003** ** (.001) *.014*	**−.000** (.001) *.813*	**−.003** ** (.001) *.002*
Lag of Left government	**.001** (.000) *.120*	**−.000** (.001) *.591*	**.001** (.000) *.138*	**−.000** (.001) *.517*

Notes: ALMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

Table 4.14 of PLMPs. Two things must be pointed out before analyzing the results in the tables. First, since corporatism is introduced into the model, the measure of wage bargaining coordination (encapsulated now by the more encompassing measure of corporatism) is excluded from the analysis. Second, the measure for corporatism is available only up to 1994, which reduces the number of observations in the analyses.

I will focus my attention on the influence of the interaction between Left government and corporatism. To illustrate the effects of the interacted terms, I will once again calculate conditional effects. Having described the range of variation in the sample (when analyzing Table 4.5), I define a low and a high corporatism value. Low corporatism is defined as a score of 0.15 (not an unrealistically low level, since Canada, the UK, and the USA display lower levels of corporatism during most of the period under analysis). High corporatism is defined as a score of 0.9 (again, not an unrealistically high level, Austria, Norway, and Sweden have higher levels throughout the period). I then calculate the long-term and immediate effects of Left government conditional on these two levels of corporatism.

Tables 4.15 and 4.16 present the results.

Table 4.15 presents the effects of Left government on ALMPs and Table 4.16 on PLMPs. When analyzing Table 4.7, I pointed out that social democratic government had no long-term effect on ALMPs and that its immediate effects were in fact negative. Table 4.15 confirms the long-term results found in the non-interactive model (Table 4.7) and the **(p.102)**

Table 4.16. The determinants of passive labor market policy, 1980–94 (conditional on corporatism levels)

	Panel-corrected standard errors		Random effects	
	Low corporatism	High corporatism	Low corporatism	High corporatism
Δ **Left government**	**.012** ** (.006) *.031*	**.000** (.004) *.901*	**.012** ** (.006) *.034*	**.000** (.004) *.917*
Lag of Left government	**.004** ** (.002) *.019*	**.002** (.002) *.339*	**.004** ** (.002) *.046*	**.002** (.003) *.421*

Notes: PLMPs are measured as a percentage of GDP.

Source: Armingeon et al. (2005).

All entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p values from two-sided t tests.

The asterisks signify statistical significance in the usual manner (

*** if p value < .01,

** if < .05, and

* if < .1).

interactions with employment protection (Tables 4.9 and 4.11). The lag of Left government is an insignificant determinant of ALMPs whether corporatism is high or low. The immediate effects of Left government, however, are contingent on the levels of corporatism. Just as when analyzing employment protection, Table 4.15 shows that while social democratic government is insignificant in low corporatism countries, it is statistically significant and negative when corporatism is high. It is indeed the case that insiders in countries characterized by high levels of corporatism do not pressure social democratic parties to promote ALMPs. In fact, in these countries, social democratic governments are associated with lower (rather than higher) levels of ALMPs. These results challenge the widely accepted Olsonian understanding of corporatism and support the opposing

economic insider–outsider views.

When looking at PLMPs, the general conclusion in the non-interactive model had been that Left government was not a significant determinant of social policy. As was the case when making the distinction between high and low employment protection, the consideration of corporatist levels transforms this view. Table 4.16 makes clear that social democratic government does have both a long-term and an immediate effect on PLMPs, but only when corporatism is low. The first difference and the lag of Left government are significant at better than a 95 percent level of confidence in both the panel-corrected standard error and the random effects models. Social democratic government promotes higher levels of **(p.103)** PLMPs only in countries where insiders are not protected by high levels of corporatism. When corporatist arrangements exist, the influence of Left government is highly insignificant. This result suggests, as in the case of ALMPs,[26] that the economic insider–outsider interpretation of corporatism may be more accurate than an Olsonian one. The table suggests that when insiders do not have corporatist arrangements to protect them, they do become more interested in social policy (like outsiders). As a consequence of this, social democratic governments promote higher levels of PLMPs, but only when corporatism is low.

Notes:

(1) For an analysis of the close relationship between severance pay and overall employment protection, see OECD (1994).

(2) The OECD data, used from 1985 onward, is constructed on the basis of a more extensive collection of employment protection dimensions.

(3) Notable exceptions are Janoski (1990, 1994), Garrett and Lange (1991), Boix (1998*a*), Swank and Martin (2001), Martin and Swank (2004), and Rueda (2005, 2006).

(4) This is the case in Janoski (1990, 1994), Garrett and Lange (1991), Boix (1998*a*), Swank and Martin (2001), and Martin and Swank (2004).

(5) This applies to Janoski's country-specific treatment of the determinants of ALMPs (1990, 1994).

(6) See, among others, Wilensky and Turner (1987); Jackman, Pissarides, and Savouri (1990); Janoski (1990, 1994).

(7) See the OECD's *Employment Outlook* for details.

(8) A few other minor policies fall under the OECD definition of social expenditure. See OECD (2004) for details.

(9) This includes ALMPs, although they are a small proportion of the total.

(10) See Huber and Powell (1994) for a more detailed analysis of some of the options.

(11) Regarding partisan options to the Left of the social democrats, some communist parties are included in this measure. But the government participation of communist parties in the sample that I analyze is limited enough not to affect the conclusions made about the influence of partisanship over policy.

(12) The classification of parties is done following Schmidt (1996).

(13) See Armingeon et al. (2005) for details.

(14) The data are available only until 1994.

(15) This is a practical decision. Ideally, I would include corporatism in these analyses as well. But the data for wage bargaining coordination and union density is more extensive (corporatism data are only available until 1994).

(16) Kenworthy (2001: 79) explains the coordination scores for different wage bargaining arrangements as follows: 1, fragmented wage bargaining, confined largely to individual firms or plants; 2, mixed industry- and firm-level bargaining, with little or no pattern setting, and relatively weak elements of government coordination such as setting of basic pay rate or wage indexation; 3, industry-level bargaining with somewhat irregular and uncertain pattern setting and only moderate union concentration, government wage arbitration; 4, centralized bargaining by peak confederation(s) or government imposition of a wage schedule/freeze, without a peace obligation, informal centralization of industry- and firm-level bargaining by peak associations, extensive, regularized pattern setting coupled with a high degree of union concentration; and 5, centralized bargaining by peak confederation(s) or government imposition of a wage schedule/freeze, with a peace obligation, informal centralization of industry-level bargaining by a powerful, monopolistic union confederation, extensive, regularized pattern setting, and highly synchronized bargaining coupled with coordination of bargaining by influential large firms.

(17) See e.g. Scharpf (1991); Kurzer (1993); Moses (1994); Iversen (1996); Scharpf and Schmidt (2000).

(18) See e.g. Wilensky (1975).

(19) For two applications of error correction models similar to the one in this chapter, see Iversen and Cusack (2000) and Keele (2007).

(20) The long-term effect of an explanatory variable can be calculated by dividing the slope of its lag by the minus slope of the lagged dependent variable. For government partisanship, this would mean: β_3/β_1. See Bannerjee et al. (1993) and Keele (2007) for details.

(21) For details on estimating random effects with panel data, see Hsiao (1986).

(22) All results in Table 4.8 are confirmed by an analysis using a more restrictive measure of passive labor market policy only including unemployment benefits.

(23) Other authors have observed similar results to those presented in Tables 4.7 and 4.8. See Moene and Wallerstein (2003) for a comparative analysis and King (1995) for one of the UK.

(24) In the political science literature, the meaning of interactions is commonly misinterpreted. For some illustrations of this, see Braumoeller (2004).

(25) This result is not confirmed by the random effects model.

(26) This was also the conclusion of the individual analysis in Chapter 3.