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What's left of the left? Partisanship and the political economy of labour market reform: why has the social democratic party in Germany liberalised labour markets?

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Partisanship and the political economy of labour market reform: why has the social democratic party in Germany liberalised labour markets?

Patrick Lunz*

Abstract

The German social democratic party initiated in 2003 the greatest overhaul of labour market legislation in decades, severely cutting unemployment benefits and slashing employment protection legislation. How can we explain this radical policy shift? This paper will present a counter-intuitive answer, arguing that the SPD implemented the reforms because of electoral interests. The rationale is two-fold and relates to changes in labour market policy supply and policy demand. First, the German social democrats strategically adjusted their labour market policy supply, seeking to maximise their office pay-offs by appealing to the median voter in a competitive political space. Second, the shift in policy-supply is also a reaction to changes in labour market policy-demand, with crucial segments of the electorate turning more favourably to welfare state retrenchment. This shift disproportionately benefited the conservative CDU and liberal FDP and forced the SPD to reposition itself in the party landscape.

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"Modernise or die"

Gerhard Schröder (2003)

Introduction

When the social democratic government in Germany pushed through substantive labour market reforms in 2003-2005, the surprise was two-fold. First, reform in the "frozen landscape" (Esping-Andersen 1996: 24) of European welfare states contradicted long-standing claims about political gridlock (Pierson 2001b). Second, the fact that a social democratic government¹ liberalised labour markets – acting against the interests of its traditional worker constituency – was most puzzling. Scholarly consensus suggested that in times of "permanent austerity" (Pierson 2001a), social democratic governments would at least defend the status quo. Contrary to these firm convictions, the SPD initiated the greatest overhaul of labour market legislation in decades, severely cutting unemployment benefits and

¹This paper uses the terms social democratic and socialist interchangeably to denote the principal reformist party of the left in accordance with standard practice in the literature (Simoni 2013).

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slashing employment protection legislation (see, e.g., Eichhorst 2007, Hassel and Schiller 2010, Hinrichs 2010, Leaman 2009).

This unavoidably raises the question why the social democratic government in Germany shifted from demand-side to supply-side labour market policies against the predictions of mainstream partisan theory (see, e.g., Boix 1998, Garrett 1998, Hibbs 1977, Rueda 2007).

Most existing studies emphasise the role of ideas (Stiller 2010), discourse (Seeleib-Kaiser and Fleckenstein 2007) or policy-learning (Fleckenstein 2011, Kemmerling and Bruttel 2006). The downside of these micro-approaches, as Vis (2010: 130) notes, is that they cannot “travel across countries and over time.” A recurring macro-theory sounds like a female first name: TINA, i.e. there is no alternative for the left but to liberalise labour markets. Yet, apart from stylised macroeconomic arguments, it generally does not say why social democratic governments have no alternative. And, by all evidence, many left-wing governments at that time, e.g. in France, did not liberalise labour markets despite supposedly having no alternative (Malo et al. 2000).

This paper will present a counter-intuitive answer, arguing that the German social democratic government implemented the reforms precisely *because* of electoral interests. The rationale is two-fold and relates to changes in labour market *policy supply* and *policy demand*. First, the German social democrats strategically adjusted their labour market policy supply (Kitschelt 1994, 1999, 2001). With the move to the centre, the SPD sought to maximise its office pay-offs by appealing to the median voter (Downs 1957). In contrast to France, where the PS was confronted with intense competition on the left (Goldhammer and Ross 2011: 156), the SPD enjoyed more leeway to shift to the centre (Picot 2009: 155). Second, the shift in policy-supply is also a reaction to changes in labour market policy-demand, with crucial segments of the

electorate turning more favourably to welfare state retrenchment (Picot 2009). This shift disproportionately benefited the conservative CDU and liberal FDP and forced the SPD to reposition itself in the party landscape.

A full discussion of how the political gridlock in Germany has been overcome would require a more in-depth study of the German political economy (for a discussion of the interplay of coalition dynamics, corporatism and federalism see Hassel and Schiller 2010). The aim of this paper is narrower: it focuses on the strategic options available to the social democratic party and complements conventional ideational explanations emphasising Chancellor Schröder's leadership.

To make the case for the above argument, the paper will put the following hypothesis to an empirical test:

H1: Office-seeking social democratic parties liberalise labour markets if it is in their electoral interest.

What would we expect to see if we were right? Office-seeking social democratic parties will liberalise labour markets, i.e. pivot towards the median voter (centripetal competition), if they hope to win more electoral support in the centre than lose on the left² or become the pivotal player in the coalition bargaining (Kitschelt 2001). When facing strong left-wing competition, they shift to the left to quash rival parties (oligopolistic competition). To test this claim, we will update Kitschelt's (1994) spatial mapping of party competition with data from the Chapel Hill Experts Survey [CHES] (Hooghe et al. 2010). Applied to the cases at hand, we expect weak electoral competition on the left in Germany and strong left competition in France. Additionally, social democratic governments pivot to the centre only under the catalyst of shifting policy demand, leading to a slide in electoral

²See Przeworski 1985, Przeworski and Sprague 1986 for early work on electoral trade-offs.

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support. Hence, we expect to see a pro-retrenchment shift in public opinion in Germany, but not in France.

The hypothesis seems easily falsifiable in the light of the SPD's electoral defeat in 2005. Yet, the SPD performed significantly better on Election Day than in polls prior to the Hartz reforms, largely because of rising economic policy approval ratings (Forschungsgruppe Wahlen 2012). While losing the chancellorship, the SPD prevented an outright conservative majority and retained some executive power in a grand coalition. Hence, the reforms were electorally more successful than a cursory reading would suggest.

This paper synthesises recent advances in the partisanship literature. To this effect, it proposes a new categorisation of partisanship theories. In the following, this paper will show that theories we classified as “static models” of partisan politics are contingent on the assumption of social democratic governments pursuing only working class preferences (see, e.g., Boix 1998, Hibbs 1977). “Hybrid models” acknowledge that preferences of the left-leaning electorate might change, consequently shifting the incentives for social democratic governments (Rueda 2007). Finally, “dynamic models” (Kitschelt 1994, 1999, 2001; Picot 2012) also allow for changing workers' preferences. More importantly, they argue that social democratic parties might shift strategies independently of their traditional electorate's preferences.

The remainder of this paper will be organised as follows. Section I will review the three strands of the partisanship literature. Section II will discuss the Hartz reforms in Germany in contrast to the Aubry laws in France. Section III will challenge the explanatory power of static and hybrid partisanship models. Section IV will develop the argument. Finally, section V will extend

the model to similar cases of social democratic labour market reforms in Denmark and the Netherlands.

I. Partisanship and labour market policies

The partisanship literature is voluminous (for an overview, see Häusermann et al. 2013).³ This paper suggests conceptualising the existing theories in three distinct categories, which then will be tested against the empirical observations. We will discuss first (1.1) traditional partisan theories, before turning to (1.2) hybrid models which have contributed to a more nuanced understanding of insider versus outsider preferences and their impact on social democratic labour market policy-making. Finally, (1.3) this paper discusses dynamic models which introduce party competition and changing policy demand into the equation.

1.1 Static partisan theories

Partisan business cycle theory predicts parties to implement reforms strategically, catering to their constituents' preferences. Under a stable Phillips curve, Hibbs (1977) demonstrated that social democratic parties are willing to accept higher levels of inflation to achieve lower levels of unemployment. Hence, left-wing governments are expected to fine-tune labour markets with Keynesian demand stimuli or expansionary monetary policy.

³Therefore, this paper will focus on main contributions dealing with *party politics* in a narrow sense, investigating how "party systems and party competition affect social protection that people get" (Picot 2012: 1). This is why broader approaches, for instance Häusermann's (2010) theory based on coalition-building across parties, trade unions and employer associations will not be considered.

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Keynesian demand-management and easy monetary policies came under scrutiny for their failure to alleviate the sclerotic economic conditions in the 1970s. The literature argued that a central prerequisite for this policy is the consent of the labour movement to moderate wage rises in line with inflation and productivity gains. Olson (1982) argued that this can be achieved by an encompassing and centrally organised union movement. Building on this work, Calmfors and Driffill (1988) plotted the optimal level of wage bargaining as a hump-shaped curve: either the wage bargaining takes place at the national level with encompassing trade unions, or at the individual firm level. In both cases, trade unions have an incentive to keep wage demands in line with inflation and productivity gains in order to preserve their members' employment. In a nutshell, expansionary demand-management policies will only be sustainable in social democratic corporatist regimes (Garrett and Lange 1991, Scharpf 1991), which are able to offset the costs of expansionary demand-management policies favoured by social democratic policy-makers.

While it is true that both the left and the right have resorted in recent times primarily to supply-side policies, this does not imply that these are the same regardless of partisan preferences. On the contrary, Boix (1998:11) argues that “partisan preferences have a key impact on the selection of policies designed to shape the supply-side of the economy.” In Boix' model, social democratic governments are expected to invest in human capital formation to fight unemployment. Conservative governments are expected to drive down the reservation wage by reducing unemployment benefits.

1.2 Hybrid partisan theories

Rueda (2006, 2007) and his co-authors (Pontusson and Rueda 2010, Pontusson et al. 2002) have contributed to a more nuanced understanding of partisanship and social democratic labour market policies, distinguishing between insider

and outsider preferences. Whereas insiders are concerned about employment security, outsiders care about unemployment. Consequently, insider favour stricter employment protection legislation (EPL) which makes firing harder, but potentially deters hiring. This obviously runs counter the interests of outsiders seeking an employment. Also, outsiders would disproportionately benefit from active labour market policies (ALMP). This difference in interests explains the strategic behaviour of left-wing governments. Positing that “social democratic parties have strong incentives to consider insiders their core constituency”, Rueda (2007: 2) contends that they are “associated with high levels of employment protection legislation but not with labour market policies.”

To some extent, Rueda's model is similar to static partisan models in that it considers workers (insiders) as the social democrats' core constituency.⁴ This gives insiders leverage on social democratic policy-making. Yet, in contrast to static models, Rueda allows for changing insider preferences, which in turn impacts on the strategy of social democratic governments. When do insider preferences change? Essentially when insiders become more like outsiders. Two variables determine the convergence or divergence of insider-outsider interests: the level of employment protection and corporatism. First, high levels of unemployment vulnerability, equivalent to low levels of EPL, are likely to align the interests of insiders and outsiders. In other words, if job security is low, social democratic governments are less exposed to insider pressure and hence more likely to pursue pro-outsider policies. In this case, social democratic governments will spend more on ALMP and liberalise the labour market.

Second, Rueda (2007: 3) argues that corporatism magnifies the effects of insider-outsider differences on policy-makers. Because of their central

⁴Yet, he draws opposite conclusions concerning ALMP compared to Boix (1998).

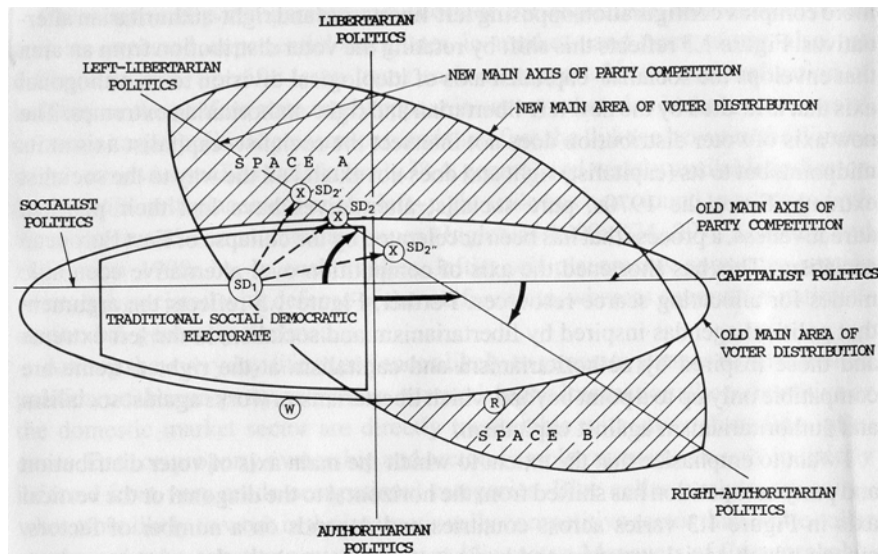
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involvement in industrial relations, Rueda considers unions as key players in determining labour market policies of social democratic parties. Consequently, social democratic governments are more likely to produce pro-insider policies "when they are subjected to pro-insider pressure from unions" (Rueda 2007: 29).

1.3 Dynamic partisan theories

Dynamic models also acknowledge changing preferences of the social democratic electorate. In contrast to hybrid models, however, they drop the assumption of social democrats mechanically following the preferences of their traditional electorate. Rather, dynamic models postulate office-seeking social democratic parties to deviate from their traditional electorate if it helps to secure an electoral majority. Hence, they introduce dynamic party competition models (Kitschelt 1994) and look at changing policy demand in the overall electorate to account for changes in social democratic policy supply (Picot 2012).

Ever since Kitschelt's seminal study on the transformation of European social democracy (1994), it has become standard practice to represent the space of party competition in two dimensions (Hooghe et al. 2002). The horizontal axis displays parties' positions on an economic (socialist vs. capitalist) left-right scale, and the vertical axis on a value-based (libertarian/green/alternative vs. traditional/authoritarian/nationalist) scale.

Figure 1: Competitive space for social democracy

Source: Kitschelt (1994: 32)

Prior to the 1970s, party competition ran along the traditional socialist/capitalist axis. In post-industrial capitalist democracies, this axis has been tilted upwards (see Figure 1). The new main axis of voter distributions therefore runs along a left-libertarian/right-authoritarian divide. Hence, Kitschelt (1994: 32) argues that "social democratic parties were well advised to shift towards more (i) libertarian and (ii) more capitalist positions [from SD_1 to SD_2]."⁵ The story does not stop here. If we examine, starting at SD_2 , the strategic choices available to social democrats, there are two options: either a shift along the new axis towards a more left-libertarian (SD_2') or centrist (SD_2'') position.

Which variable determines whether social democrats pivot towards the left or to the right? Kitschelt (1994: 34) argues this depends on their electoral objectives which in turn are shaped by their competitors' positions. Three electoral strategies emerge. First, policy-seeking social democrats pursue the preferences of their constituents regardless of electoral consequences. Even

⁵For a more detailed elaboration on the political-economic, electoral and party organisation dilemmas facing social democrats, see Kitschelt (1999: 322).

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following crushing defeats, they remain firmly anchored on the left. Because social democrats need to hold office to implement their preferred policies, pure policy-seeking strategies have very little appeal and were gradually abandoned.⁶

Second, vote-seeking social democrats seek to maximise their vote share (Cox 1990). Yet, votes have little intrinsic value but serve the purpose of gaining executive power. A party might well gain the highest number of votes without being able to form a government, because a coalition of losers bars the way. From a rational choice perspective, parties cherish votes but prefer power.

Third and more likely, social democrats seek to increase their chances of holding executive office by capturing "the pivotal voter in the dimension of party competition, [so] no government coalition can be formed against it" (Kitschelt 1994: 34). Two strategies allow achieving this electoral objective. First, social democrats might pivot straight toward the centre (centripetal competition). Yet, while this might increase their bargaining position, left-libertarian voters might shift their allegiance to more radical parties. In this case, social democrats first opt to squeeze left-wing competitors (oligopolistic competition), before pivoting toward the centre.

Contrary to what static partisan theories suggest, social democrats in most countries are not overly concerned with their traditional electorate (policy-seeking), but pursue office-seeking strategies (Schumacher 2012). These strategies might coincide in specific party competition landscapes with policy-seeking (e.g. France), but office-seeking is the dominant strategy. Hence, dynamic partisanship models contend that social democratic parties are responsive to shifting labour market policy demand of the *whole* electorate.

⁶The SPD's programmatic change was adopted in the Bad Godesberger Program (1959)

Considering the variation of social policies across countries, it has been hypothesised that varying support for the welfare state accounts for political change (Giger 2012, Schmidt 2000). In his work on the segmentation of social policy preferences, Picot (2009, 2012) identifies for some countries a shift in labour market policy demand towards retrenchment. He argues that this subtle demand shift can account for fundamental reforms where social democratic parties have to adjust their policy supply to preserve their electoral chances. Therefore, policy-demand is likely to be a crucial variable determining labour market policies of social democratic governments.

This paper has mapped out three strands of partisans approaches to labour market reforms. The following section will unfold the labour market reforms in Germany, which will then be tested in section III against the theoretical expectations developed in this section.

II. Labour market reforms in Germany and France

This section will start with (2.1) a brief theoretical justification of the case selection. Then, we will turn to a comparative case study of the labour market reforms (2.2) in Germany and (2.3) in France.

2.1. Case selection

For the purpose of this paper, we argue that the labour market reforms in Germany and France are reasonably suited candidates for a comparative case study using the method of difference. Both countries are classified in the Esping-Andersen (1990) framework as conservative, Bismarckian welfare

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states (for an update, see Palier 2010); both countries are open economies exposed to similar macroeconomic constraints; both countries share the euro and the strings attached in terms of monetary and fiscal policy; both countries were governed at approximately the same time by left-wing governments⁷. The labour market situation in both countries was broadly similar with high levels of unemployment of around 10 %. Despite these similarities, the policy outcome is completely different. While the SPD implemented wide-reaching labour market reforms, the French PS intensified labour market rigidities (Brandt et al. 2005).

Admittedly, the political systems in both countries are quite different - notably the electoral system (proportional representation in Germany versus majority voting in France). Yet, Schumacher (2011: chapter 3 and 4) argues that the electoral system does not have a major impact on the parties' electoral strategies. The differences in the party structure and system⁸ are endogenous to the argument, i.e. we argue that the difference here can account for the different policy outcome.

The labour market reforms in Germany and France matter for three reasons. First, because of their magnitude: contrary to previous piece-meal attempts, these reforms have brought about fundamental change; second, because of their ideological impact on the left. While the Hartz reforms are the poster child of the new left's "third way" (for the intellectual foundation see Giddens 1998, Hombach 2000, Schröder and Blair 1999; for a discussion see Clasen and Clegg 2004), the French reforms stand for a traditional view of left government (Cliff 2001, Hayden 2006). Third and finally, they matter because of their legacy. The Hartz reforms are praised for regaining Germany's

⁷In Germany, the SPD coalesced with the Greens; in France, the PS with an array of left-leaning splinter parties, including the Greens and the PCF. In both cases, the social democrats occupied all ministries relevant for the reforms.

⁸Consolidated party system in Germany versus a fragmented system in France

international competitiveness (for a critical discussion see Carlin and Soskice 2009) and enjoy broad political support. On the contrary, the French 35-hours week is ever since its introduction at the heart of the left-right political cleavage.

2.2. Labour market reforms in Germany 2003-2005

In order to understand the magnitude of the German labour market reforms, we will provide a brief summary of the main legislative changes before tracking their impact on key OECD labour market indicators⁹.

Table 1 summarises the four waves of labour market reforms from 2003-2005, Hartz I-IV. After a timid start in the first term, the Schröder II government set in motion an ambitious reform agenda.

Table 1: Overview of Hartz reforms

Hartz I	Deregulation of temporary agency work Tightening the criteria of reasonable work and the sanction regime
Hartz II	Introduction of mini-job scheme
Hartz III	Reduction of the regulatory density of the Social Code III Tightening the sanction regime
Hartz IV	Introduction of ALG II

Source: Adapted from Fleckenstein (2011: 88)

The reforms' leitmotiv is job creation by cutting down barriers for temporary work. Also, they aimed at reducing the reservation wage by tightening unemployment benefits and widening the criteria of job-offers unemployed are expected to accept. If job-seekers reject "reasonable" offers, benefits will be

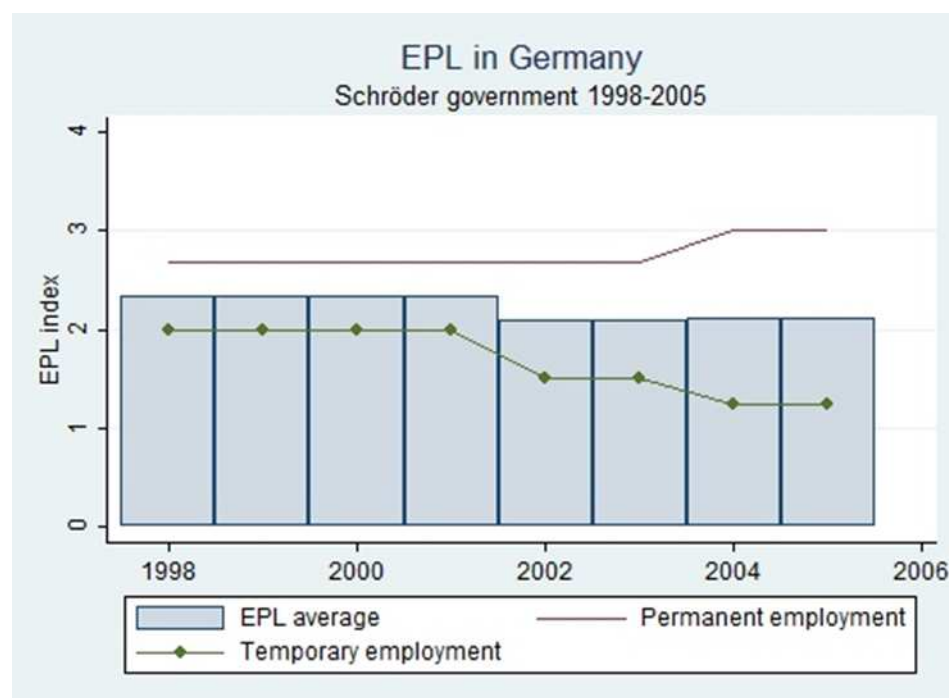
⁹All labour market data stem from the OECD database, accessible at www.stats.oecd.org.

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cut. The most salient piece of reform is undoubtedly Hartz IV which merged unemployment and social assistance schemes. The duration of the regular unemployment benefits was shortened from up to 36 months to 12 months. After this period, job-seekers are shifted to *Arbeitslosengeld II* (ALG II) benefits. Besides the lower rates, ALG II benefits are - contrary to the former social assistance - means-tested, taking personal assets like savings or real-estate are taken into account. The objective of this measure consists in driving down unemployment expenditure, but also giving additional incentives to the unemployed to speed up their job search (activation).

In line with the OECD Jobs Strategy (1994), the Hartz reforms aim to render the supply-side of labour markets more flexible. The reforms' impact on key labour market indices is significant.

Figure 2: EPL in Germany 1998-2005



Source: OECD (2012)

In overall terms, the OECD EPL index¹⁰ has decreased from 2.34 points in 2001 to 2.12 points in 2005. Interestingly, employment protection for regular employment has risen from 2.7 to 3.0 points over the same period. Hence, the adjustment was borne by temporary employment, whose protection was slashed from 2.0 to 1.3 points. The deregulation of temporary agency work contained in Hartz I has contributed to this net decline. Combined with the introduction of mini-job schemes, this reform has led to a rising share of temporary employment, which increased from 12.7% to 14.5%. Simultaneously, unemployment benefits as a share of previous earnings have dropped from 25.7% to 23.7%. Consequently, Germany is among the top performers in an OECD review of labour market reform intensity (Brandt et al. 2005: 56).

2.3. Labour market reforms in France 1998-2000

Analogous to the discussion of the Hartz reforms, this section will summarise the main aspects of the French reforms before assessing their impact on key OECD labour market indicators.

In contrast to the liberal supply-side reforms in Germany, the French reforms restricted labour supply by cutting the statutory weekly working time from 39 to 35 hours. The rationale was to induce additional labour demand, or at least to share the “pie” of work between more employees, thereby reducing unemployment¹¹. The reform was introduced by two legislative acts. The first, Aubry I, enacted the 35-hour week. What is more, it provided incentives for social partners to engage in sector-wide and firm-level negotiations on

¹⁰The EPL index is calculated on a 0-6 scale, where 0 signifies weak and 6 strong EPL.

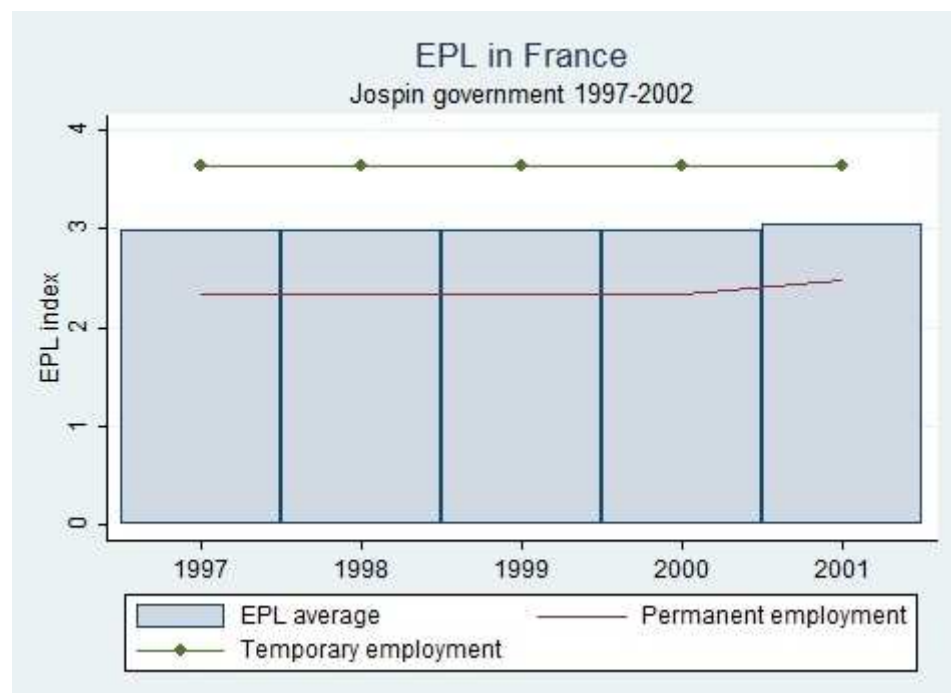
¹¹Note that the conceptualisation of employment as a pie to be shared among potential employees is highly contentious issue among economists.

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working time reduction (Hayden 2006). The second law, Aubry II, essentially responded to concerns voiced by the employer federation, MEDEF. It introduced some degree of flexibility concerning the distribution of working time across the year. Also, it watered down the requirements for firms to benefit from payroll tax cuts. Instead of sticking to the conditionality of job creation introduced in Aubry I, firms needed to reach a 35-hour agreement and simply express a "commitment to creating or saving jobs" (Hayden 2006: 509). Yet, the working time reduction as the cornerstone of the reforms remained untouched (Eichhorst 2007).

The reforms had a very measured effect on the main OECD labour market indices, because they primarily concerned the statutory working time and touched employment protection only marginally.

Figure 3: EPL in France 1997-2002



Source: OECD (2012)

Overall EPL remained essentially stable at 2.8 points, with a slight increase to 2.9 in 2001. While the protection of regular contracts increased by 0.1 points to 2.4, temporary contracts stayed at constantly high levels at 3.6 points. Contrary to Germany, temporary employment as a share of total employment diminished during this period from 15.5 to 14.5%. In the absence of reforms in line with the OECD job strategy, France is placed in the bottom tier of labour market reform intensity (Brandt et al. 2005: 56).

The reduction of the weekly working time by four hours while maintaining salaries would have added up to an immediate increase in unit-labour-costs of around 11% (Eichhorst 2007). This would obviously have had devastating effects on the international competitiveness of French industries. In order to offset these costs, the French government offered substantive pay-roll cuts. These measures come with a hefty price-tag. According to recent estimates, the Aubry laws cost the government per year € 21.8 billion (Sénat 2011).

The German and French labour market reforms could not have been more different in terms of scope, direction and impact. The next two sections will test the empirical observations of the labour market reforms against the expectations of the different strands of partisanship developed in the literature review.

III. Testing the explanatory power of competing theories

This section will test the explanatory power of static and hybrid partisanship models developed in section I for the labour market reforms in Germany and France. When discussing the theories, we need to ascertain whether they are (i) consistent with the observations in Germany and France and (ii) allow explaining the divergent outcomes.

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3.1. Static partisan theories

The discussion of the reforms' impact on key labour market indicators will be confronted with the expectations drawn from traditional partisan literature both in regards supply-side theories (Boix 1998). As we will see, neither the German, nor the French case fit with the predictions of the literature. The most striking difference between the German and French reforms is the dichotomy between demand (France) and supply-side reforms (Germany). In France, the reduction of the statutory working time is nominally a supply-side reform, but designed to stimulate labour demand. As discussed in the literature review, demand-side policies require in the Olson (1982) model encompassing labour movements to keep wage increases under control. This is not the case in France, where only 8% of the workforce was unionised in 1998. However, the French wage-bargaining structure fits better the criterion of decentralisation set out in the Calmfors and Driffil (1988) model. The OECD employment outlook (2004) describes the French system as significantly decentralised.

In sum, France introduced generously subsidised supply-side reforms, amounting to thinly veiled labour market demand-side policies; and this despite weak corporatism. In Germany, expansive demand-management, though theoretically feasible according to Olson (1982) and Calmfors and Driffil (1988), was ruled out by fiscal constraints.

Boix (1998) posited that left-wing governments would conduct supply-side reforms in line with their traditional constituents' preferences. In his model, conservative governments are expected to stimulate employment by reducing the reservation wage, while social democratic governments invest in human capital formation.

In view of the reforms described in section II, this paper questions the explanatory power of this theory. Boix' theory can account for the French reforms. Yet, contrary to Boix' model, the German social democratic government implemented reforms closer to the predicted preferences of conservative governments, shortened unemployment benefits and put pressure on job-seekers to speed up their search. Also, it does not give an explanation as to why the reforms happened in Germany and not in France.

3.2. Hybrid partisan theories

Are the experiences in Germany and France consistent with Rueda's model? The evidence presented in section II suggests that the Hartz reforms run counter to Rueda's predictions.

In Germany, the overall strictness of EPL has decreased. Admittedly, insiders have been touched only at the margins; their employment protection has even increased against the trend. However, the sharp reduction in the duration of unemployment benefits might be of concern to insiders. Also, the dualisation of the labour market puts pressure on insider wages. All in all, insiders have reasons to be worried about too flexible labour markets. Hence, it does "seem clear that insiders also lost in the reform" (Palier and Thelen 2010:137).

On outsiders, the impact is somewhat ambiguous. On the one hand, outsiders had to bear the full burden of EPL reduction: across the OECD, Germany displays one of the lowest levels of temporary EPL. On the other hand, it was arguably the flexibilisation of temporary employment which allowed outsiders to access employment in the first place. Once in employment, former outsiders can learn new skills, raising their chances of gaining

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permanent employment. Hence, outsiders benefit most of the reforms in the boom-cycle, but carry the burden of adjustment in the bust-cycle.

Concerning expenditure on ALMP, the Hartz legislation contains measures like compulsory training for job-seekers likely to increase spending on ALMP. Yet, OECD (2012) data shows no increase in ALMP expenditure as a percentage of GDP. However, there is also no significant decrease in ALMP as Rueda's model predicts.

In France, insider interests were bolstered by a slight increase in EPL of permanent contracts. Also, the reduction in weekly working hours with constant wages clearly benefits insiders, equalling an 11% real wage increase. The impact on outsider interests largely depends on job creation. Proponents of the Aubry laws estimate that 300.000 jobs were created, while critics argue they had a detrimental effect on unemployment in the long run (for an overview, see Roger et al. 2004). If the Aubry laws have helped to bring outsiders into permanent employment, then outsiders have also benefited. On the contrary, if the reforms increased rigidities and made hiring more difficult, then outsiders have drawn the shorter straw. Thus, France broadly fits Rueda's expectations.

Does the model explain why the retrenchment happened in Germany but not in France? Rueda's model takes into account changing preferences of social democratic voters. Have insider and outsider interests converged in Germany, but not in France? First, the initial level of EPL has a strong impact on the interest formation of insiders. If job insecurity is high, then the distinction between insiders and outsiders will become blurred. Consequently, the thrust of insider-lobbying on social democratic governments is weakened. Looking at the data, this reasoning fails to explain why the social democratic government in Germany has enacted reforms and France did not. According

to the OECD EPL index, German employees have enjoyed at the outset of the reforms roughly the same level of employment protection as their French colleagues (see Figures 2 and 3 above).

The second parameter determining the strategy of a left-leaning government is corporatism. In Rueda's insider-outsider framework, high levels of corporatism are considered to increase insider pressure on social democratic governments. In order to explain the reforms in Germany and the absence of reforms in France, we would need to see for example high levels of union density in France and low union density in Germany. Yet, the contrary is the case: in 2000, membership in trade unions in France stood at a meagre 8% compared to 24.6% in Germany. The same is true for the aggregate Hicks and Kenworthy (1998) corporatism index, where Germany (0.76) displays a considerably higher score than France (0.36). Hence, if Rueda's model was correct, then the reforms should have happened in France and not in Germany.

To summarise, Rueda's model gives a fairly correct explanation of the reform outcomes in France, but less so for Germany. Also, the model is overstretched when it comes to explain the reasons for the different reform outcomes. This is because Rueda's argument hinges on the assumption that social democratic governments consider insiders as their core constituency. Häusermann *et al* (2013) point out that this claim receives hardly any empirical justification. In contrast, this paper contends that the electoral strategy of social democratic parties is more nuanced: under certain circumstances, social democrats might turn more responsive to the interests of outsiders even to the detriment of insiders. This is because office-seeking social democratic parties, like the German SPD or the French PS not necessarily seek to promote the interests of their traditional constituency, but to build a majority-winning coalition to get into government.

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This section has tested the German and French labour market reforms against the theoretical expectations of static and hybrid partisan theories. Yet, the German labour market reforms remain as puzzling as before. The following section will develop my argument of electorally-motivated social democratic labour market reforms.

IV. Dynamic partisan theories: Explaining labour market reform

Having discarded competing explanations, we now turn to the assessment of the research hypothesis. Because of the great number of existing qualitative studies (see, e.g. Fleckenstein 2011, Stiller 2010), and for a better generalisation of the argument, this paper will analyse primarily quantitative evidence. As for the previous discussion of static and hybrid partisanship models, this section needs to ascertain whether dynamic partisanship theories are (i) consistent with the observations in Germany and France; and (ii) allow to explain the divergent outcomes.

The independent variables this paper examines are (4.1) the political space of party competition and (4.2) changes in labour market policy demand. If the hypothesis holds true, we expect to find evidence that the social democratic government in Germany liberalised labour markets because of weak left electoral competition and a pro-retrenchment change in demand. The French government re-regulated labour markets because of strong left electoral competition and an absence of demand change.

4.1 Changing policy-supply meets shifting policy-demand

The following will set out the workhorse model for the empirical investigation of the research hypothesis and acknowledge possible limitations of my theory.

On the policy supply side, Kitschelt (2001: 273-282) identifies four criteria under which welfare state retrenchment is politically feasible: (1) low credibility of the other welfare party in terms of defending welfare spending, (2) low electoral trade-offs because of weak competition on the left, (3) party organisation allowing for strategic flexibility and (4) salience of the socio-economic dimension for party competition.

If we apply this framework to Germany and France, we discover three similarities: (1) both conservative welfare state parties (CDU/RPR) have retrenched the welfare state in their previous spell in government, (2) strong party leadership in both SPD and PS is theoretically able to pursue office-seeking strategies against the party base (Schumacher 2012), and (3) the socio-economic dimension is of high salience in both countries (Bélanger 2006, Forschungsgruppe Wahlen 2012). If Kitschelt is right, then the remaining criterion of left-wing party competition can account for the policy variation.

In order to locate social democratic parties and their competitors in the landscape of party competition, Kitschelt (1994) draws on expert survey data collected by Laver and Hunt (1992), which dates back to the late 1980s. To my knowledge, there is no update of this work with recent data. That is why we have decided to perform it myself. The raw data stems from the Chapel Hill

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Expert Survey¹². Expert surveys are considered as a reliable tool to estimate the parties' spatial positioning (Benoit and Laver 2006: 58).

On the policy demand side, we expect welfare state retrenchment to become more likely when the overall public turns more favourably to reform. To find evidence for this hypothesis, we examine data from the International Social Survey Program (ISSP 1996) on the role of government. This analysis is supplemented by an assessment of the electoral impact of this policy demand shift in terms of its distributional consequences for the different parties, using data from the German General Social Survey (GGSS 2012).

The model has three possible limitations. First, it is subject to the general caveats of rational choice theories. Kitschelt (1994: 32) acknowledges that “office-maximising strategies or oligopolistic competition are not rational strategies per se, but depend on circumstances that make pursuing such objectives feasible.” Each strategy entails complex calculations of advantages and disadvantages which are easier to rationalise ex-post than ex-ante (Hassel and Schiller 2010: 146). Assuming party leaders to take decisions on the basis of perfect cost-benefit analysis stretches rational choice theory to its limits.

Second, this approach cannot claim to produce hard numbers to determine which strategy is likely to prevail. On the policy-supply side, it cannot estimate an absolute threshold of electoral competition on the left, above which labour market liberalisation is unthinkable. Similarly, it is unable to calculate a minimum policy demand shift for successful reforms. What this paper can safely demonstrate, however, is that certain electoral strategies make sense in a particular setting, while others do not. Rather than discarding micro-theories, this paper sets a framework in which these theories operate.

¹²The dataset is available at http://www.unc.edu/~hooghe/data_pp.php

Third, the model is rooted in the party competition literature. By definition, it touches only at the margins on institutionalist (Scharpf 1988, Tsebelis 2002, Schmidt 2002)¹³ or industrial relations approaches (Baccaro and Simoni 2010). Yet, the model of party competition works regardless of the electoral system (proportional representation in Germany vs. majoritarian voting in France), because parties were found to adopt similar strategies across electoral systems (Schumacher 2011: chapter 3 and 4). Within partisanship theory, this model is built on what we call the "it's the economy, stupid" assumption, i.e. the economic left-right axis is of high salience for the electoral decisions (see Kitschelt 2001). This necessary operationalization discards other potentially important electoral issues like foreign or immigration policy. Yet, polls in Germany and France show that unemployment and the state of the economy topped the list of the most salient electoral topics (Bélanger 2006, Forschungsgruppe Wahlen 2012). For a generalisation of my argument, a systematic testing of this working hypothesis is necessary.

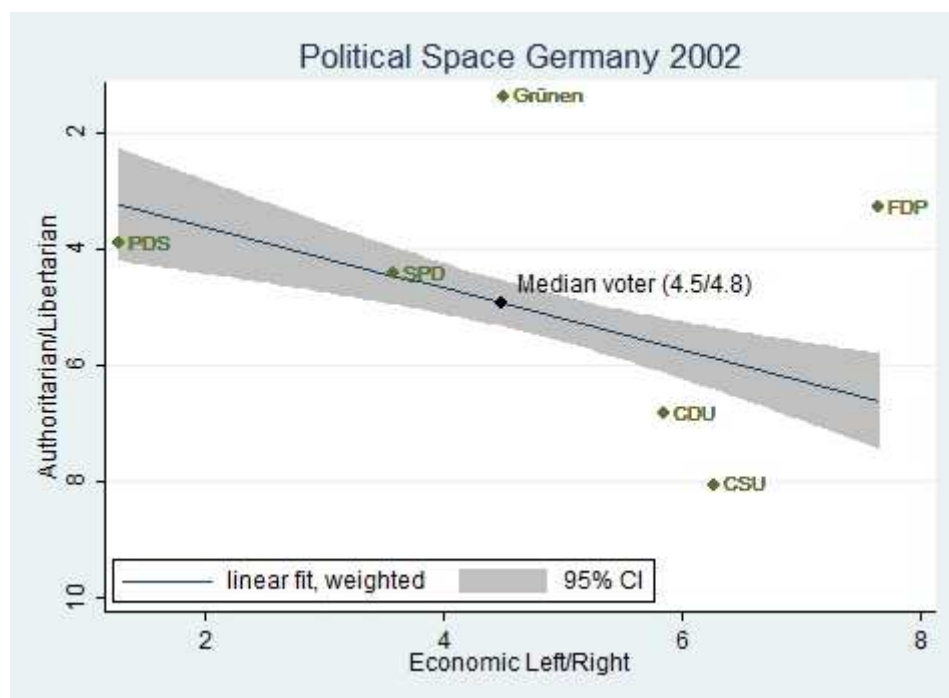
4.2 The supply-side: Comparing the political spaces of party competition

The following section will map out the political space of party competition for both Germany and France. The results confirm the hypothesis of weak left competition in Germany and high left fragmentation in France.

¹³Note that the German reforms happened against all institutionalist odds of joint decision traps (Scharpf) or veto-players (Tsebelis, Schmidt) blocking reform, so this is not an arbitrary choice.

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Figure 4: Political space in Germany in 2002



Source: author's calculations, data from CHES

Figure 4 shows the political space of German party competition prior to the Hartz reforms. Each party is located according to its mean scores on an economic left/right and libertarian/authoritarian scale.¹⁴ The estimated regression line represents Kitschelt's new competitive axis, weighted according to the electoral results of the 1998 general elections.¹⁵ The figure also displays the population mean which approximates the position of the median voter towards whom we expect the SPD to shift.¹⁶ What does this figure tell us? Prior to 1999, the SPD has accomplished the shift towards the new main axis of voter distribution as predicted by Kitschelt. Now, in 2002, the party faced two strategic options: either to pivot toward the centre or shift

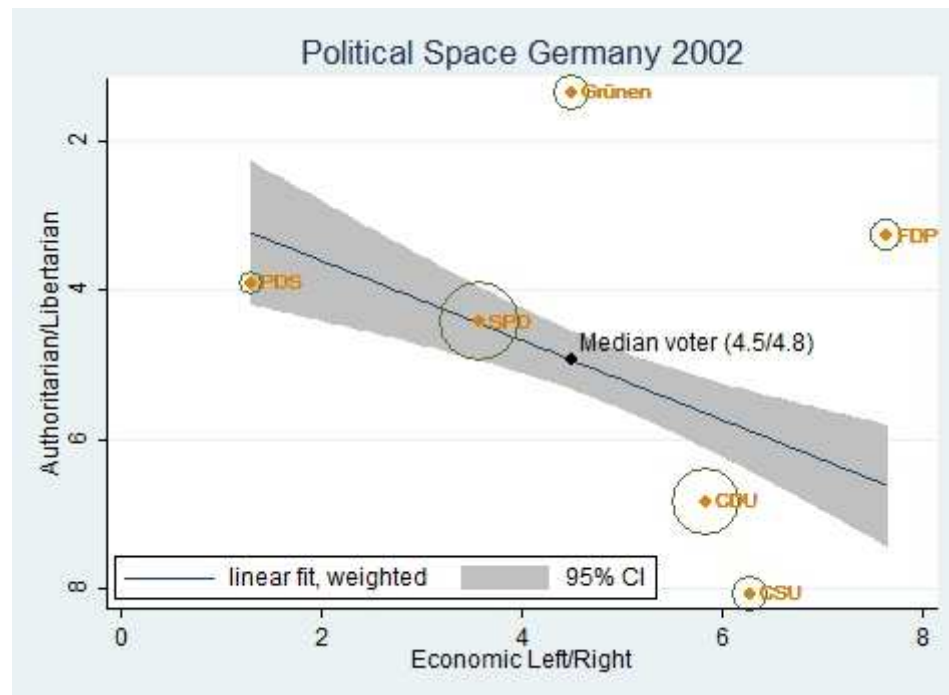
¹⁴Note that the libertarian/authoritarian scale has been inversed, to mirror Kitschelt's (1994: 32) framework developed in figure Fehler: Referenz nicht gefunden.

¹⁵The results are statistically significant at the $p < 0.01$ level and reported, as the electoral results used for the weighting, in the annex.

¹⁶The population mean is calculated as the mean of all parties' positions, weighted by their vote share.

to the left. Recall that the feasibility of each strategy depends on the particular circumstances of the domestic political space.

Figure 5: Political space in Germany in 2002, with party weights



Source: author's calculations, data from CHES

Figure 5 also shows the German political space in 2002. Parties are visualised according to their electoral results, i.e. larger circles represent a higher share of the votes.

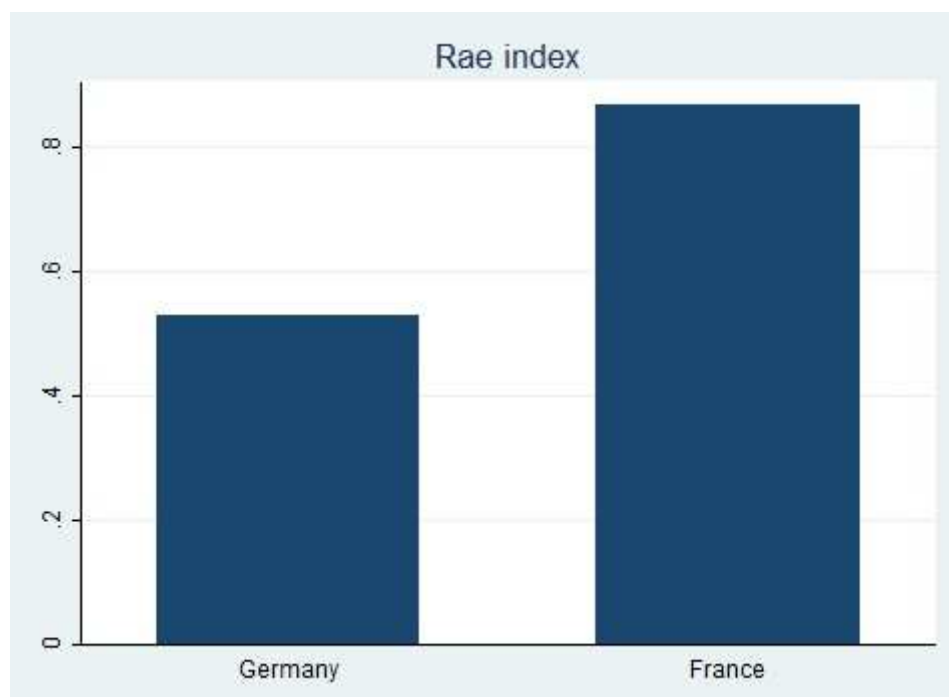
We see only weak electoral competition to the left of the SPD. Only 4% of the voters in 1998 cast a ballot for a party to the left of the left.¹⁷ The PDS - now the Linkspartei - was at the time not taken as a serious challenger, as the party was still exclusively rooted in East Germany and performed very poorly in the West (Picot 2009: 169). Hence, the SPD had reasons to believe that the pivot was safe, establishing itself as linchpin for any coalition.

¹⁷See the electoral results in the annex.

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This intuition is confirmed through a more formal analysis of left-wing party fragmentation. The Rae-index (Rae 1967) provides an easily comparable measure of party fragmentation on a 0-1 scale, which we adapted to capture only left party competition.¹⁸ The closer to one, the stronger the competition on the economic left. Though criticised for its excessive simplicity (Rozenas 2012), it remains with the similar "effective number of parties" index (Laakso and Taagepera 1979), the standard measure for party fragmentation. As figure 6 shows, the German left-wing party spectrum is considerably less fractured than the French, which made it for the SPD much easier to pivot to the centre.

Figure 6: Rae-index of left party fragmentation



Source: author's calculation, data from CHES

¹⁸ $F = \left(\sum_{i=1}^n v_i - \sum_{i=1}^n v_i^2 \right)$; where v_i denotes the vote (in %) for the different left parties (economic left-right index < 5). The sum of all left parties squared proportion of votes is subtracted from the total share of left parties. For a better cross-country comparison, the results are rescaled (0-1): $F_{rescaled} = F \times \left(\frac{1}{\sum_{i=1}^n v_i} \right)$

Centripetal pivoting holds particular appeal in the coalition-based¹⁹ German political system. If close to the median voter, the SPD wields broad attraction to two kingmakers in the system: both the FDP on the libertarian axis and the Greens on the economic axis are potential coalition partners. A grand coalition with the CDU is equally imaginable, be it as the junior partner as in 2005-2009. Finally, the Linkspartei has little choice but to seek an alliance with the SPD if it wants to hold executive power.

What is more, Kitschelt (2001: 295) noted that if the CDU "moves to the market-liberal right, then the new red-green coalition enjoys more leeway to enact retrenchment without having to fear that dissatisfied voters will turn to the main opposition party." This was the case in the late 1990s, as the CDU drifted to the right (Picot 2012: 121). Hence, Hassel and Schiller (2010: 161) argue the SPD leadership was convinced that centripetal pivoting would increase their chances of holding executive office. In the light of the complex cost-benefit analysis, the lost elections in 2009 cannot be held as absolute evidence to the contrary.

Analogous to the German case study, Figure 7 below shows the political space of French party competition shortly before the implementation of the Aubry laws. The regression line is weighted according to the results of the first round of the 1997 legislative elections.²⁰ The French political spectrum fits neatly Kitschelt's prediction of shifting electoral cleavages. Having moved towards, even overshoot, the new main axis of party competition, the PS faced two strategic options: either to pivot to the centre or shift to the left. Recall

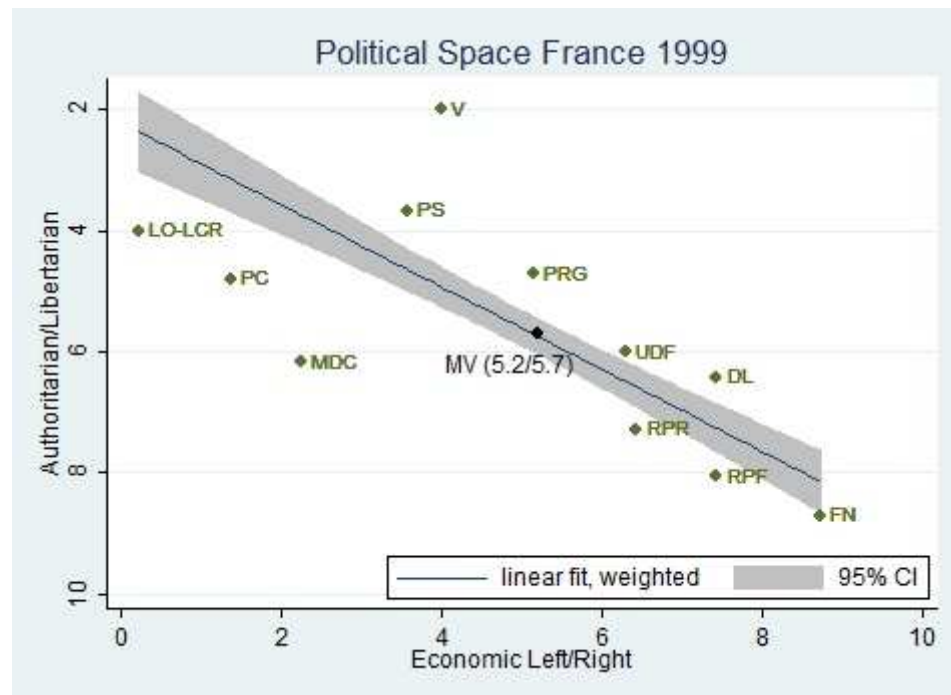
¹⁹Note the flexibility in coalition-building across ideological divides in Germany, as opposed to the polarized French system, where coalitions are usually formed within a political camp. For instance, a social democratic-liberal coalition has governed under Chancellor Schmidt in the 1970s.

²⁰The results are significant at the $p < 0.01$ level and reported, as the electoral results used for the weighting, in the annexe. The first round results were chosen because – contrary to the second round – they reflect more adequately the full political spectrum.

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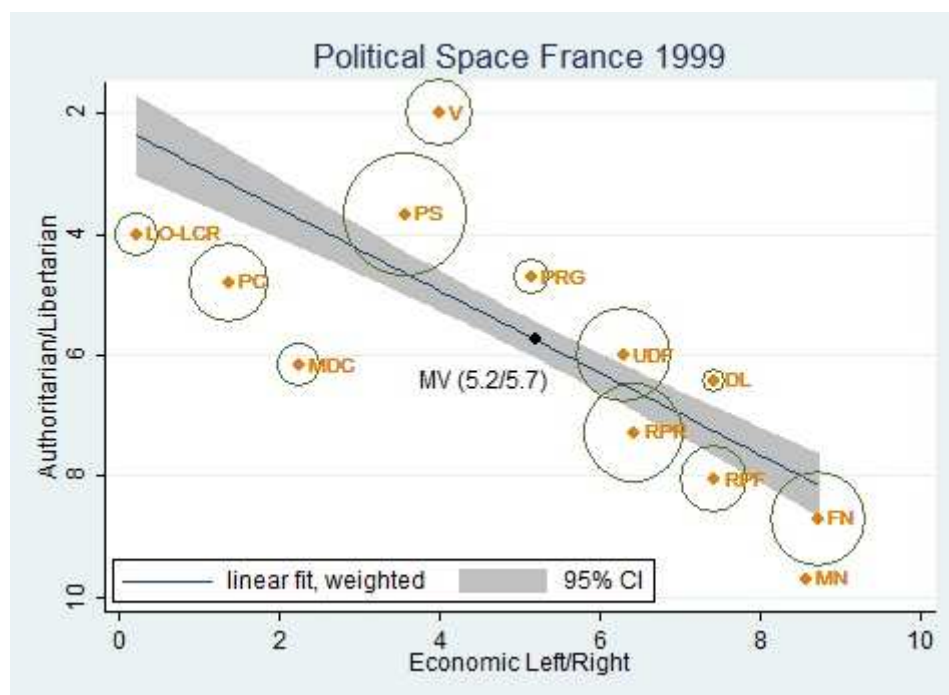
that the feasibility of each strategy depends on the particular circumstances of the domestic political space.

Figure 7: Political space in France in 1999



Source: author's calculations, data from CHES

To illustrate this point, let us turn to figure 8, supplementing the spatial mapping with the scores of the parties in the first round of the 1997 legislative elections.

Figure 8: Political space in France in 1999, with party weights

Source: author's calculations, data from CHES

In France, parties on the left of the PS have traditionally captured an important part of the electorate. In the 1997 general elections, 15% of the votes were located to the far left. What is more, the PS itself is deeply divided into several internal factions, some of them firmly rooted to the far-left of the political spectrum (Goldhammer and Ross 2011: 158). This leaves for the PS hardly any margin to move towards the centre (Laver et al. 2006). Put more formally, the Rae-index of left-party fragmentation is considerably higher in France than in Germany (see Figure 6 above).

Also, the French electoral system of two-round voting might give further incentives for oligopolistic competition. In the first round, parties play to their own constituents, while moving in the second round towards the centre. The presidential bid of the socialist Lionel Jospin in 2002 illustrates the danger of premature centripetal competition for the French PS. Jospin failed to qualify for the second round because his move to the centre triggered the success of

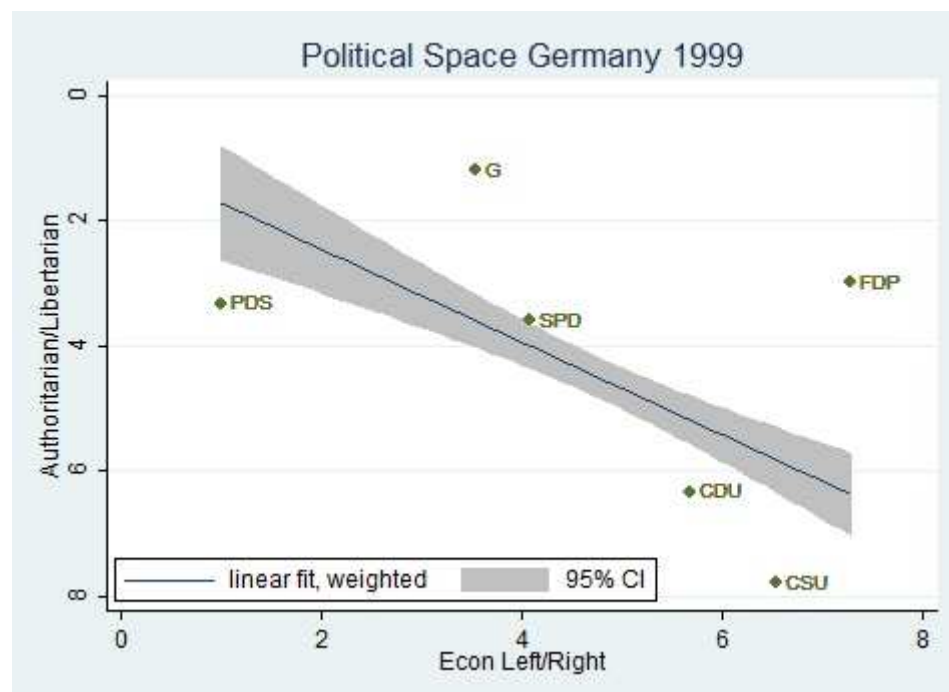
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left-wing splinter candidates (Laver et al. 2006: 670). Hence, the dominant strategy for the PS in 1999 is oligopolistic competition: first quashing other left-wing parties, before moving to centre.

4.3 The demand-side: The shrinking majority of welfare state defenders

If the decision for the SPD to pivot toward the centre was straightforward, as the analysis of the 2002 German party competition space seems to suggest, it is fair to ask why it has not occurred earlier. After all, what was right in the second term of the Schröder government can surely not have been wrong in its first term? This intuition is confirmed when analysing the German political space in 1999 which looks broadly similar to the one in 2002.

Figure 9: Political space in Germany in 1999



Source: author's calculations, data from CHES

If there was already a permissive political space in 1999 there must have been a catalyst to unleash the reform dynamics. This trigger was a further shift in policy demand.

Conventional wisdom says that social policies are universally popular, which renders welfare state retrenchment politically hazardous. But what if we submit this assumption to empirical testing?

Table 2: Social policy preferences in Germany

Social policy preferences (in %)	1994	2000	2004
reduce	9.8	20.2	23.2
sustain	53.4	53.7	55.1
expand	36.7	26.1	21.7

Source: Adapted from Picot (2012:116)

While in 1994 an overwhelming majority of 90% wanted either to expand or sustain the welfare state, the percentage has dropped in 2004 to 75%. Admittedly, this was still a large majority. Yet, it is worth looking beyond the aggregate numbers to discover two interesting issues. First, the share of respondents advocating an expansion of the welfare state fell even further from 36.7 to 21.7%. Second, and more interestingly, what does this shift entail for the system of party competition? In order to get an idea of the distributional effects, Picot (2012: 118) suggests to compare the share of party supporters in each of the preference groups (reduce/sustain/expand) with the overall party support. This technique allows estimating a party's voter potential among different social policy preference groups.²¹

²¹ $F^j = \frac{p_i^j - \sum_{i=1}^n p_i^j}{\sum_{i=1}^n p_i^j}$, where p_i^j denotes the party preferences within each welfare state preference group. The party preference share in the whole electorate is subtracted from the party preference share

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Table 3: Social policy and party preferences in Germany

	CDU/CSU	SPD	FDP	Greens	PDS
Reduce					
1994	57	-35.9	29.4	-50.2	-100
2000	33.3	-29.1	114.4	-33.8	-67.6
2004	33.3	-22.7	82.6	-28.2	-51.8
Sustain					
1994	10	-0,7	9.9	1	-63.8
2000	4.7	7.4	-19.3	15.1	-24.5
2004	-6.4	18.4	-20.3	23.7	-3.5
Expand					
1994	-35.3	8.1	1.8	29.6	141
2000	-32.3	5.9	-23.5	0.3	98.4
2004	-24.5	-1.8	-9.5	-19.1	96.4

Key: The SPD had in 1994 8.1% more prospective voters among respondents favouring social policy expansion compared to the total electorate

Source: Adapted from Picot (2012: 119)

Prior to the reforms in 2000, the SPD only had a larger voter reservoir compared to the CDU among respondents favouring a welfare state expansion. Yet, this group was shrinking in numbers and will continue doing so in the future. Among the crucial, because rising group advocating welfare state retrenchment, the SPD trailed its main opponent by 65%. Hence, the demand shift "disproportionally favoured the Christian Democrats as well as the Liberals and disadvantaged the Social Democrats" (Picot 2012: 118). To rephrase the new left's catchphrase: "to liberalise or to die", this was the question for Germans social democrats. The SPD went for the former.

within a social policy group. The results are divided by the party preference share in the overall electorate.

France is an interesting test case to isolate the respective effects of supply and demand-side on reform outcomes. As discussed above, the French political landscape makes it unlikely for the PS to engage in major labour market reforms. But what about the demand-side? If there was demand for labour market reform, then we can infer that supply-side obstacles outweigh demand-side incentives. If policy-demand was equally missing, then we can at least conclude that liberal labour market reforms enacted by the PS remain unlikely any time soon.

Concerning public attitudes towards social policy (ISSP 1996), French voters were far more likely than Germans to fully agree with the statement that governments should provide a decent standard of living for the unemployed. Also, true to the French *dirigiste* tradition, half of French respondents agreed that the government should control wages by law compared to 27% in Germany. Finally, French workers consider labour law, as opposed to collective agreements negotiated between social partners, as their main source of economic security (Bonoli 2000: 437). Against this backdrop, any labour market reform would need to contend with strong public opposition. No significant shift in favour of labour market reform has occurred.

Therefore, we conclude that both the labour market policy supply and demand-side were hostile to social democratic labour market reform in France. This finding calls for further research to isolate the respective impact of labour market policy supply and demand.

This section has argued that the counter-intuitive labour markets reforms in Germany can be traced back to a strategic shift in social democratic labour market policy supply and changing labour market policy demand. Both conditions were missing in France. The following section will attempt a generalisation of this argument.

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V. Generalisation of the argument

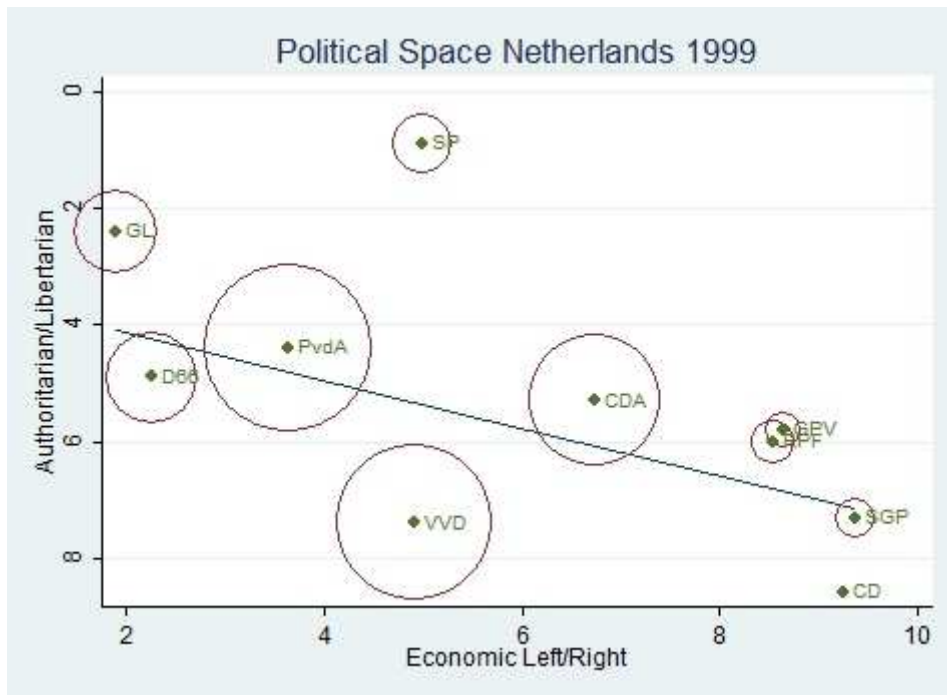
This last section suggests looking beyond the reforms in Germany and France and contemplating the wider picture of social democratic labour market reform in Europe. Are the partisan dynamics described above only valid for Germany and France, or do they wield some broader explanatory power for social democratic labour market reform in other countries at different points in time? Briefly discussing labour market reform in the Netherlands and Denmark, we will point out possible generalisations and limitations of my theory (see also Green-Pedersen 2001).

5.1 Labour market reform in the Netherlands

In the Netherlands, the coalition led by the social democratic PvdA implemented during its two terms from 1994-2002 significant labour market reforms (Vis 2010: 187). Amongst other measures, unemployment benefits were cut, eligibility rules tightened and the definition of a "suitable job" widened. Also, EPL for regular contracts was slightly lowered and temporary work rendered more flexible (Vis 2010: 188).

If we look at the spatial mapping of the political space in the Netherlands in 1999, it seems to run counter the argument of left-party competition (see figure 10). Indeed, the social democratic PvdA faced with the progressive D66 and the GreenLeft credible electoral competition on the left. In the 1994 general elections, D66 took 15.4% and GL 3.4% of the vote. Therefore, there are a 18.8% of votes left of the PvdA, which we had expected to make a pivot towards the centre unlikely.

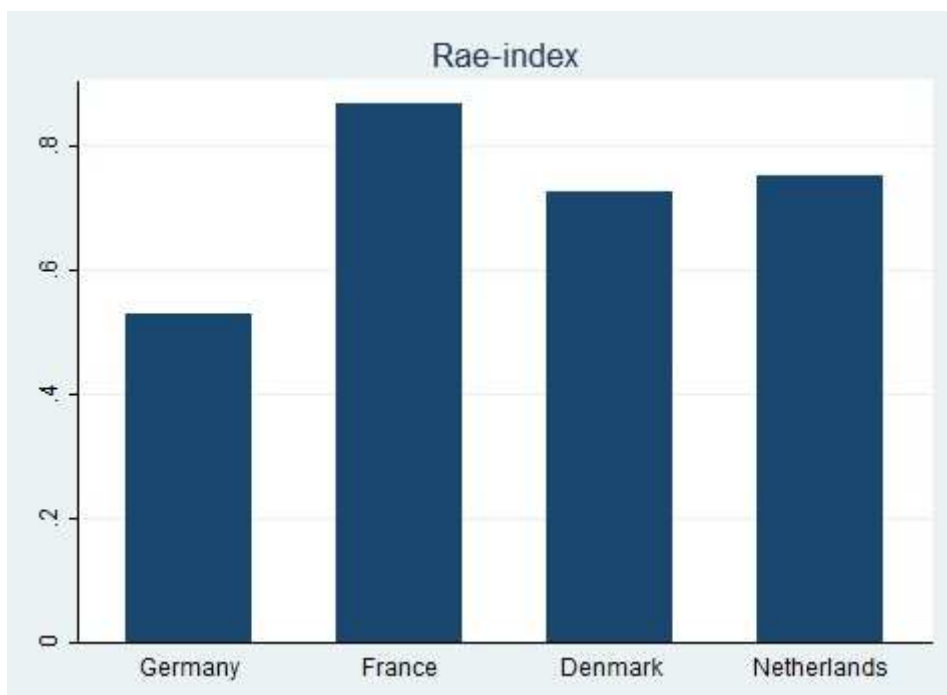
Figure 10: Political space in the Netherlands in 1999



Source: author's calculations, data from CHES

The Rae-index reveals a significantly higher degree of left-party fragmentation than in Germany, though still much lower than in France.

Figure 11: Rae-index of left party fragmentation II



Source: author's calculations, data from CHES

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Yet, the story does not end here. Besides the PvdA and the conservative-liberal VVD, D66 entered the coalition government, taking notably the ministry of economic affairs. Hence, the social democrats could bind in their main opponents on the left and the right which had to take responsibility for the welfare state retrenchment. In the 1999 general elections, the only remaining left-wing opposition party GL boosted its vote share to 7.3%, as predicted by the model. D66 was punished by the voters losing 6%, while the PvdA gained 5%. This analysis suggests that the coalition configuration is a potentially significant intervening variable which deserves further empirical research in the vein of Kitschelt (2001).

The fact that social democrats were able to reform labour markets without losing popular support suggests they were in phase with the *labour market demand* of the wider electorate (Bonoli 2000: 432).

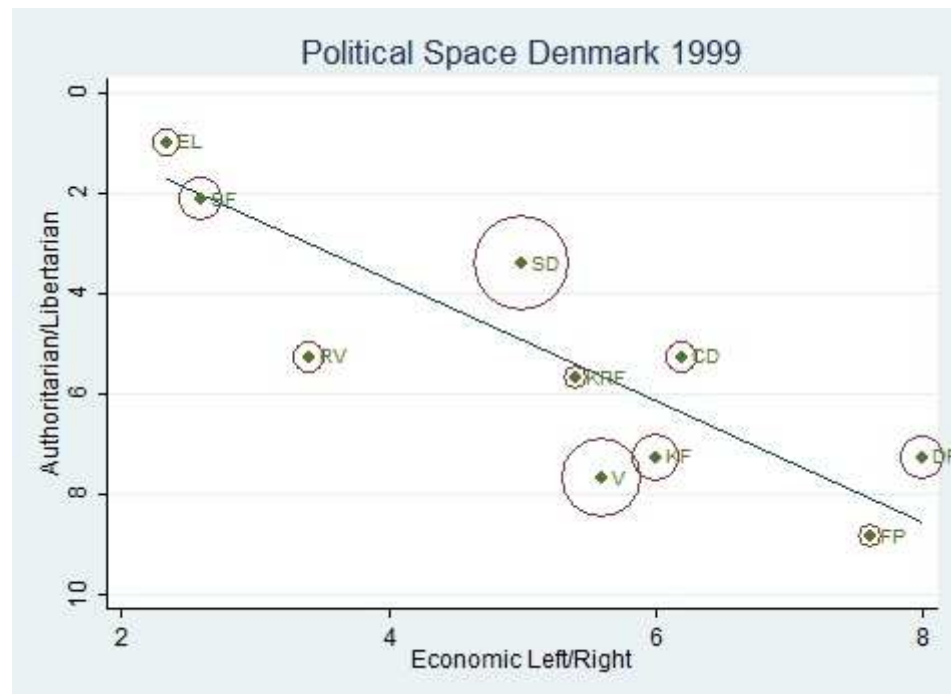
5.2 Labour market reform in Denmark

In Denmark, the Nyrup Rasmussen IV cabinet implemented from 1998-2001 several liberal labour market reforms. Most notably, it lowered the average replacement rates of unemployment insurance and limited their maximum duration (Vis 2010: 185).

The plotting of the political space reveals strong electoral competition to the left of the governing social democrats (SD). Yet, one of the parties to the left of the social democrats, Radical Venstre (RV), entered a coalition government with the social democrats and was therefore neutralised in the party competition. The left-wing parties remaining in opposition, the Socialist People's Party (SF/7.6%) and the Red-Green Alliance (EL/2.7%), scored together 10.3%. Therefore, there is a significant share of voters located on the

far left. Also, the Socialists People's Party is a credible competitor to poach disappointed voters of the social democrats (see figure 12).

Figure 12: Political space in Denmark in 1999



Source: author's calculations, data from CHES

This finding is in apparent contradiction with the theory of left party competition. Yet, the campaign focussed less on economic policies than on the so-dubbed immigration crisis (Qvortrup 2002: 205). Thus it seems as if the working hypothesis of a high salience of the socio-economic axis on electoral behaviour did not hold true in Denmark.

In terms of labour market policy demand, the main conservative opposition party, Venstre (V), embraced the defence of the welfare state (Qvtrup 2002: 205). This suggests that there has not been a significant shift in public opinion in favour of welfare state retrenchment.

Hence, the Danish case indicates that labour market reform can happen on the basis of party competition without a supplementary nudge of a demand shift.

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This finding calls for further research to determine under which conditions policy supply incentives can overcome policy demand obstacles.

Conclusion

This paper set out to explain the counter-intuitive labour market liberalisation in Germany. We argued that the reforms happened because the SPD changed its electoral strategy for two reasons. First, it sought to maximise its office pay-offs in the permissive context of weak left competition in the German political landscape. Second, it responded to changing attitudes towards labour market policies within crucial segments of the German electorate.

While the model of party competition developed in this paper does a good job of explaining labour market reform in Germany and France and worked satisfactorily when extended to Denmark and the Netherlands, two shortcomings have become apparent. First, the Dutch example drew attention to coalition-building dynamics, which add a further dimension to my basic party competition model. Second, voters may care less about the economy than other electoral issues. In the case of the Danish general elections in 2001, the authoritarian/libertarian axis trumped the economic left-right axis. Sometimes, random events like natural catastrophes dominate the campaign and mute other issues, for example the floods in East Germany before the 2002 election. This is why a generalisation of the argument developed here is contingent on a high electoral salience of economic issues.

The findings of this paper matter for two reasons. In terms of its contribution to the literature, this paper has argued to move beyond static and hybrid models of partisanship. To my mind, these models wrongly postulate that social democratic parties are ultimately motivated by policy-seeking, that is

furthering the interests of their traditional constituents. This potential flaw is increasingly recognised in the literature (Häusermann et al. 2013). Instead, this link should be left to empirical verification. If tested, it appears that social democratic parties pursue more complex and versatile strategies. This is why promising new theories adopt a dynamic approach to partisan politics, giving more room to the political (Vis 2010) and wider social context (Häusermann 2010) in which these reforms are shaped.

Finally, the implications of these findings can partly account for the unfreezing of the European welfare state. In contrast to mainstream theories elaborating on political gridlock (Pierson 2001b), this paper has developed an electorally motivated account for labour market reforms. Political spaces between countries vary, as do the objectives and electoral strategies of different social democratic parties, not to mention the actual preferences of voters. If social democratic governments liberalise labour markets, it is not because there is no alternative; it is because they strategically decide to do so.

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Abbreviations

ALG II	Arbeitslosengeld II (unemployment benefits II)
ALMP	Active Labour Market Policies
CHES	Chapel Hill Experts Survey
EPL	Employment Protection Legislation
MEDEF	Mouvement des Entreprises de France (French Employer Federation)
OECD	Organisation for Economic Cooperation and Development
TINA	There is no Alternative

Index of parties

Denmark

DF	Danish People's Party
EL	Red-Green Alliance
FP	Progress Party
KRF	Christian Democratic Party
RV	Danish Social Liberal Party
SD	Social Democrats
SF	Socialist People's Party

France

DL	Liberal Democrats
FN	National Front
LO-LCR	Revolutionary Communist League
MDC	Citizens' Movement
PC	French Communist Party
PRG	Radical Party of the Left
PS	Socialist Party
RPF	Rally for France
RPR	Rally for the Republic
UDF	Union for French Democracy
V	Greens

Germany

CDU	Christian Democratic Union
CSU	Christian Social Union of Bavaria
FDP	Free Democratic Party
Grünen	Greens
PDS	Party of Democratic Socialism
SPD	Social Democratic Party of Germany

The Netherlands

CDA	Christian Democratic Appeal
D66	Democrats 66
GL	GreenLeft
GPV	Reformed Political League
PvdA	Labour Party
SGP	Reformed Political Party
VVD	People's Party for Freedom and Democracy

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Annex

The data are drawn from the Chapel Hill Experts Survey database, author's own calculations.

Annex, table 1: electoral results in Germany

	1998	2002
SPD	40,9	38,5
CDU	28,4	29,5
CSU	6,7	9,0
GRÜNE	6,7	8,6
FDP	6,2	8,6
PDS	5,1	4

Annex, table 2: regression results Germany

	Libertarian/Authoritarian
Econ left/right	0.532***
Constant	2.551***
Observations	84
R-squared	0.18

*** significant at 1% level

Annex, table 3: electoral results France

	1997	2002
PS	23,53	24,11
RPR	15,7	33,3
FN	14,94	11,34
UDF	14,21	4,84
PCF	9,94	4,82
Verts	6,81	4,51
RPF	6,59	0,8
MDC	2,79	1,09
LO-LCR	2,52	2,27
PRG	1,44	1,54

Annex, table 4: regression results France

	Libertarian/Authoritarian
Econ left/right	.680***
Constant	2.21937***
Observations	77
R-squared	0.63

*** significant at 1% level

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