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**The Politics of Active Labor Market Policy in Post-Industrial Democracies:  
Divergent Policy Responses to New Social Risks among Pro-Welfare Parties**

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**The Politics of Active Labor Market Policy in Post-Industrial Democracies:  
Divergent Policy Responses to New Social Risks among Pro-Welfare Parties**

Takeshi Hieda\*

**Abstract**

This paper explores whether partisan differences have influenced the recent changes in labor market programs. It argues that political parties have different preferences for labor market policy, according to their position in a two-dimensional party competition space. That is, a left-libertarian party prefers *activation*; a left-authoritarian party, *dualism*; a right-libertarian party, *workfare*; and a right-authoritarian party, *dualism* or *workfare*. From among these three strategies, while activation supports labor market programs for precarious and irregular workers, dualism promotes social protection programs for labor market insiders. Through an analysis of the pooled time-series and cross-section data of 18 OECD countries from 1985 to 2007, this paper reveals that a left-libertarian government raises its budget for active labor market programs, while a left-authoritarian government fosters early retirement programs and strict employment protection legislation. This paper concludes that post-industrial party competition has important consequences for labor market policy.

**Keywords:** Comparative Public Policy; Active Labor Market Policy; New Social Risks; Party System; New Politics

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## 1. Introduction

This study examines the conditions under which the state is likely to develop Active Labor Market Programs (ALMPs). Workers are currently facing increasing difficulty adjusting to the rapid change of industrial structures and the expansion of the service sector. While all the state had to do was steer aggregate demands with Keynesian macroeconomic policy and provide financial remedies for the unemployed and needy *ex post* during the golden age of welfare states, the state is now required to enhance the employability of citizens—including not just male breadwinners but also long-term unemployed youth, underprivileged minorities, and single mothers—and integrate them into the labor market in the post-industrial economy. As a result, active labor market policy gains its currency among policymakers in advanced industrialized countries. In fact, international organizations, such as the Organization for Economic Co-operation and Development (OECD) and European Union, recommend this policy measure, and many of the advanced democracies appear to be following their lead (see Armingeon 2007).<sup>1</sup> In addition, evaluation studies of ALMPs are flourishing in economic literature (see, as an overview, Heckman et al. 1999; Kluve 2006; Martin and Grubb 2001).

Despite the practical importance of this policy field, however, the understanding of the political determinants of ALMPs is still incomplete and inconsistent in the literature on comparative political economy. On the one hand, conventional partisan models suggest that leftist governments contribute to public spending for ALMPs (Boix 1998; Huo et al.

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<sup>1</sup>While the OECD encouraged its member countries to develop ALMPs in OECD (1994a, 1994b, 2010b), the European Union adopted the European Employment Strategy at the Luxembourg Jobs Summit in 1997 to coordinate active methods.

2008; Martin and Swank 2004; Swank and Martin 2001). On the other hand, an “insider–outsider” approach claims that political partisanship has no effect on active labor market policy because social democratic parties only care about the interests of labor-market insiders (Rueda 2005, 2006, 2008). Does political partisanship influence active labor market policy? How can we reconcile these seemingly contradictory claims among comparative political economists?

This paper maintains that partisan differences in a two-dimensional policy space, composed of the redistributive “left–right” and the social-value “libertarian–authoritarian” dimensions, affect the preferences and strategies of political parties for labor market programs in post-industrial democracies. While party politics researchers have long been arguing that party systems are being transformed from uni-dimensional to multi-dimensional in advanced democracies, comparative political economists adhere to the conventional “left–right” perspective. To bridge the gap between these two strands of literature, this study presents a theoretical model to explain the policy consequences of party system transformation under post-industrialization. It argues that political parties now contend with each other over human capital formation policy on the social-value dimension as well as the redistributive dimension. The model predicts that a left–libertarian party prefers activation; a left–authoritarian party, dualism; a right–libertarian party, workfare; and a right–authoritarian party, dualism or workfare. Out of these three strategies, facing a policy choice under budget constraints while activation promotes the expansion of ALMPs, dualism is expected to contribute to social

protection for male breadwinners, such as early retirement pensions and employment protection legislation (EPL).

To test the theoretical model, this paper empirically investigates the effects of a government policy position in the two-dimensional policy space on public spending for ALMPs and other labor market programs. This study innovatively measures each party's policy position in the two-dimensional policy space by constructing an indicator on the basis of the Comparative Manifesto Project's data (Budge et al. 2001; Klingemann et al. 2006; Volkens et al. 2009, 2010), and it assesses the effects of government partisanship by analyzing the time-series and cross-section data of 18 advanced industrialized democracies from 1985 to 2007 with a unit fixed-effect model. This paper, then, reveals that a government's policy positions in the redistributive and social-value dimensions interact with each other. A left-libertarian government expands public spending for ALMPs, while a left-authoritarian government promotes employment protection for regular employees and preserves the generosity of early retirement pensions. The empirical results suggest that comparative political economists should get beyond the conventional "left-right" perspective when considering the politics of labor market and employment policy.

The structure of the paper is as follows: Section 2 describes the basic characteristics of active labor market policy and its economic and political functions. Section 3 presents a two-dimensional party competition model and its empirical implications for labor market programs. Section 4 presents data for this paper's multivariate regression analyses, and Section 5 explains the analytical methods used in the

regression analyses. Section 6 shows the results of the time-series and cross-section analyses, and Section 7 concludes the entire arguments of this paper.

## **2. Active Labor Market Policy: Concepts, Contents, and Functions**

“Active labor market program” (ALMP) is the generic term referring to various kinds of public programs that aim at integrating the unemployed and underemployed into the mainstream economy. ALMPs are usually composed of vocational training, job placement services, temporary financial assistance, employment subsidies, and direct job creation. In contrast, “passive labor market program” refers to cash benefits directed to unemployment insurance, unemployment assistance, and early retirement pensions (Kenworthy 2010, 438; Martin and Grubb 2001, 12-3).

ALMPs constitute an important part of “new social risk” policies. As an increasing number of social scientists start engaging in the debate on this issue, new social risks are becoming a central research topic in the literature of comparative public policy (cf. Armingeon and Bonoli 2006; Bonoli 2005, 2007; Esping-Andersen 1999, 2002; Häusermann 2006; Taylor-Gooby 2004b). The concept of new social risks is defined as social risks emerging owing to post-industrialization and its social and economic consequences (Taylor-Gooby 2004a, 3). In other words, new social risks are derived from the emergence of the service economy, massive entry of women into the labor market, demise of male-dominant/female-caregiver family models, and so on. These risks consist of, for example, the inability to reconcile paid work and care work, poverty among single parents, and precarious employment and/or long-term unemployment among poorly

educated/low-skilled workers. Since new social risks refer to those risks that prevent citizens from being fully engaged in paid employment, the crucial task of the state is to integrate those facing new social risks into the labor market through various policy measures in the post-industrial society. ALMP is a representative example of these policy tools, which explains why as post-industrialization advances, ALMP attracts increasing interest from policymakers.

Although ALMPs are now popular as a measure connecting social policies to economic performance among policymakers, ALMPs do not necessarily benefit all unemployed citizens in an equitable way. The benefits of ALMPs are concentrated upon specific demographic groups. First, youth programs are obviously targeted for the younger, unskilled demographic. Second, as Martin and Grubb's (2001) meta-analysis of ALMP evaluation literature shows, on- and off-the-job training and job-search assistance are intended for all unemployed but particularly help women and single parents to re-enter the labor market. Third, wage subsidies for private-sector employment are also targeted for younger, unemployed individuals. To summarize, ALMPs primarily help those who are young or female to secure a place in the labor market.

This paper's assumption that political parties differ from one another regarding ALMPs is based on the fact that the benefits of these programs are skewed to particular demographic groups. Since the degree of exposure to new social risks varies across demographic groups, the potential benefits of ALMPs also differ according to each citizen's age, gender, skill set, and employment history. If political parties would concern themselves with maximizing votes as well as developing policy, they would present

different solutions to unemployment and underemployment problems according to their targeted constituents.

The next section identifies political parties' preferences regarding labor market policy by examining their electoral strategies in post-industrial democracies.

### **3. Post-industrial Party Competition and Labor Market Policy**

This study contends that party competition along a class cleavage and a newly emerging social-value cleavage determines a political party's policy preferences for labor market programs in the post-industrial society. Although it is argued that left-right politics has been losing its influence on conventional welfare programs in mature welfare states (e.g., Pierson 1994; Pierson 1996; Ross 2000), partisan differences along the redistributive dimension still have an impact on each government's human capital investment strategies under post-industrialization and global competition (Boix 1997, 1998; Iversen and Stephens 2008). In general, while leftist parties prefer to employ public measures to assist the unemployed and invest in human resources, rightist parties opt for reducing public involvement in unemployment problems and leaving human capital formation to private measures. Even if the state now places more emphasis on "recommodifying" aspects of social policy as society shifts from an industrial economy toward a knowledge-based one (cf. Jessop 2002), there is still room for government partisanship along the redistributive dimension to affect labor market policy. However, labor market programs are also debated along the social-value cleavage as well, because different labor market programs please distinct constituents of pro-welfare parties. As



Inglehart (1977, 1997), Kitschelt (1994, 1997), and others point out, “new politics,” such as environmental protection, fulfillment of individual liberty, feminism, and multiculturalism, appear in the politics of advanced democracies, and, as a result, reactions to such rapid changes in social values emerge as political issues in those countries. The contention over the issue of values transforms party systems from being uni-dimensional to multi-dimensional. Among supporters of pro-welfare parties, professionals and service sector workers prefer flexible labor markets and a vibrant economy with activation measures, while organized blue-collar workers prefer strict employment protection and early retirement programs. Hence, partisan differences around the social-value dimension influence a government’s policy choices regarding labor market policies. Overall, the conventional left–right politics along the redistributive dimension interacts with the new politics along the social-value dimension and then influences labor market policies.

The majority of previous studies on ALMPs agree that the presence of social democratic governments has a positive effect on the expansion of these programs (Boix 1998; Huo et al. 2008; Janoski 1990, 1994; Martin and Swank 2004; Swank and Martin 2001). Boix theorizes about the partisanship approach to human capital investment policy, maintaining that leftist and rightist parties have different priorities and employ distinct supply-side economic policies to maximize growth and reduce unemployment under global competition (see Boix 1997, 1998). That is, while leftist governments—concerned with achieving equality as well as growth—increase public spending on human capital formation to enhance national competitiveness, rightist governments—prioritizing growth over equality—seek to create an incentive structure to encourage private investment and labor

supply by cutting taxes and lowering social wages. If Boix's argument is valid, partisan differences along the redistributive "left-right" dimension lead to disparate labor market policies. Leftist governments increase their involvement in ALMPs in order to adapt their national economies to post-industrialization without sacrificing equality. By contrast, rightist governments, trying to achieve economic growth as well, deregulate the labor markets and encourage labor market participation by sanctioning inactivity.

Rueda presents his "insider-outsider" approach as an alternative to the conventional left-right approach, and maintains that government partisanship has no effect on ALMPs (Rueda 2005, 2006, 2008). He argues that "social democratic parties have strong incentives to consider insiders their core constituency" (Rueda 2005, 62). That is, while social democratic parties have incentives to protect industrial workers as their core constituents (insiders), these parties are less enthusiastic about promoting the interests of precarious—such as part-time and fixed-term contract—workers (outsiders). Rueda states that the presence of leftist governments elevates the strictness of employment protection legislation, while it does not influence the generosity of ALMPs and unemployment benefits because both of them are not beneficial for labor market insiders with employment protection.

Although the left-right partisanship approach and the insider-outsider approach seemingly contradict each other, this paper claims that we can integrate these two approaches under a coherent framework. Rueda's (2005, 2006, 2008) critique of the conventional left-right approach is valid, as long as he states that leftist parties care less about ALMPs when they rally support from organized blue-collar labor. However, the

electoral base of leftist parties is not necessarily limited to unionized male blue-collar workers, and it is theoretically possible for these parties to appeal to newly emerging service and professional workers with new social risk policies.<sup>2</sup> In essence, potential constituents of leftist parties are diversified in post-industrial societies, and, as a result, current leftist parties are facing the choice between sticking to traditional core supporters and ignoring the policy demands from labor market outsiders, on the one hand, and untying their organizational constraints with blue-collar unions and seeking electoral support from public and private service-sector workers and young voters, on the other. The preferences of leftist parties regarding labor market programs can differ according to their electoral strategies under post-industrial electoral competition.

This study maintains that leftist parties should be differentiated along the social-value dimension when we consider their policy preferences with respect to labor market policies. The social-value position of each political party is a significant determinant of its policy preferences regarding ALMPs, because the demographic that potentially benefits from ALMPs overlaps the constituents with libertarian values. For instance, younger generations tend to align themselves with the libertarian side (Inglehart 1997), and they are more likely to have precarious jobs than older generations and are more likely to benefit from ALMPs. In addition, women have taken up a large proportion of service-sector jobs during the process of post-industrialization, and ALMPs help young

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<sup>2</sup>In fact, Häusermann's analysis of the International Social Survey Program in 1996 suggests that socio-cultural professionals support traditional left parties as much as new left parties in France and Switzerland, while their support is significantly skewed toward new left parties in Germany. Whether a social democratic party exclusively serves the material interests of "insiders" depends on each country's political context. See Häusermann (2010a, Chapter 4).

women smooth out their career hiatus due to childbearing and rearing. In contrast, male blue-collar workers are less likely to benefit from ALMPs and more likely to have authoritarian values than other categories (see Häusermann 2010a, Chapter 4). When leftist parties cajole these organized blue-collar union workers into voting for them, they are least expected to appeal with ALMPs.

As Figure 1 indicates, this paper maintains that political parties, depending on their policy position in the two-dimensional policy space, employ three different strategies for human capital investment policy and form distinct policy preferences for labor market programs.

[Figure 1 around here]

Left-libertarian parties, supported by newly emerging service and professional workers, seek *activation*. Since their goal is to enhance citizens' employability without sacrificing equality, they prefer to expand the role of the public sector in human capital formation. For the left-libertarian parties, ALMPs are an important policy instrument in integrating young, unemployed individuals into the labor market and in claiming that their policy is well adapted to the knowledge-based economy. Although actual unemployed youngsters probably need passive cash benefits as well as active measures, left-libertarian parties and their constituents prioritize ALMPs over passive labor market programs to maintain flexible labor markets for the service sector and prevent social exclusion and welfare dependency.

Left-authoritarian parties, which rally traditional blue-collar workers, opt for *dualism*. A dualism approach generates two different types of labor markets: the labor

market for protected unionized industrial workers (insiders) and the one for part-time and term-limited contract workers (outsiders) (cf. Palier and Thelen 2010). Since left-authoritarian parties seek electoral support from male-dominant blue-collar unions in the manufacturing sector, they prioritize the job protection of male industrial workers over other labor market programs. While these parties care less about ALMPs because the programs are less likely to benefit labor market insiders, they do have incentives to protect early retirement programs against welfare retrenchment and promote employment protection regulation for labor market insiders.

Right-libertarian parties develop *workfare* strategies. These parties encourage labor force participation and adapt the national economy to post-industrialization by deregulating the labor market and enhancing its flexibility. Since right-libertarian parties intend to downsize the public sector, they do not prefer increasing public intervention in human capital formation with either active or passive labor market programs. Rather, these parties enhance labor mobility and ensure the supply of cheap labor by sanctioning inactivity.

Right-authoritarian parties prefer either dualism or workfare, depending on the configuration of their core constituencies. If right-authoritarian parties try to please the capitalist and management class, they adopt the workfare strategy. On the other hand, if they seek electoral support from traditionalist blue-collar workers and the old middle-class, they prefer dualism.

This paper's argument—political parties have distinct preferences with respect to labor market programs according to their policy position in the two-dimensional party

competition space—leads to the following hypotheses. First, if partisan differences have an influence on a government’s policy choice regarding labor market programs, the expansion of ALMPs requires a “left” and “libertarian” government. Second, a “left” and “authoritarian” government prioritizes labor market programs for insiders, such as early retirement pensions and employment protection legislation over ALMPs. In later sections, this paper empirically explores the validity of these two hypotheses.

#### **4. Data**

##### *Dependent Variables*

This study analyzes data from 18 advanced industrialized countries for the time period of 1985 to 2007.<sup>3</sup> Its main dependent variable is *Public Expenditures for ALMPs as a Percentage of GDP*, the data of which come from the OECD (2010a). In the OECD’s classification, ALMPs include (1) public employment service and administration, (2) training, (3) job rotation and job sharing, (4) employment incentives, (5) supported employment and rehabilitation, (6) direct job creation, and (7) start-up incentives. Figure 2 shows the temporal variations of public spending for ALMPs, by country, from 1985 to 2007.

[Figure 2 around here]

To compare the effects of government partisanship between ALMPs and other labor market programs for labor market insiders, this study also uses as its dependent

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<sup>3</sup>These 18 countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, The Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

variables *Public Expenditures for Early Retirement Programs as a Percentage of GDP* and *Strictness of Employment Protection Legislation (EPL) for Regular Employment*. The former measures public spending devoted to early retirement programs, which is classified as “No. 90: Early Retirement” in the OECD (2010a) *Labour market programmes:*

*Expenditure and participants*. As is well known in the literature on comparative political economy, many advanced industrialized countries responded to mass unemployment after the oil crisis of the 1970s with the expansion of early retirement programs. That is, the countries tried to eliminate redundant workers and restore the balance of labor demand and supply by coaxing older, less-productive workers from the labor market with the incentive of early retirement pensions (cf. Ebbinghaus 2006). Besides the efficacy of those labor market programs, the potential beneficiaries differ sharply between ALMPs and early retirement pensions. The latter programs benefit mainly older unionized workers with stable job tenures, and therefore it is expected that left-authoritarian parties prioritize the preservation of early retirement programs over the development of ALMPs.

The Strictness of Employment Protection Legislation (EPL) for Regular Employment measures “the stringency of national legislation on employment protection for regular job types” (OECD 2011). OECD’s (2011) database *Labour market programmes: Employment Protection* reports the strictness of EPL for four different categories: collective dismissals, overall employment, regular employment, and temporary employment. To assess the partisan differences over labor market programs for insiders, this study uses the degree of stringency of EPL for regular employment as its dependent variable. It is a composite index of regulatory legislation regarding the following nine items: (1) dismissal

notification procedures, (2) delay involved before notice, (3) length of the notice period, (4) severance pay, (5) definition of “unfair dismissal,” (6) length of the trial period, (7) compensation following unfair dismissal, (8) possibility of reinstatement following unfair dismissal, and (9) maximum time to make a claim of unfair dismissal (Venn 2009, 38-9). Since the definition of “labor market insiders” hinges on the presence of workers protected against dismissal regardless of economic exigencies (cf. Rueda 2005), trade unions organizing male industrial workers and political parties relying on the support of those workers have a core stake on stringent EPL.

#### *Explanatory Variables*

To test the influence of party competition along the social-value dimension as well as the redistributive dimension over labor market policy, this study utilizes a recently constructed new dataset, which is essentially an extended and updated version of Tsebelis’s (n.d.) *Veto Players Dataset* with the newest data on government composition. While Tsebelis’s dataset does not consider the social-value dimension, does not cover Italian and Japanese data after their respective party system transformations in the mid-1990s, and ends in 1999, this study’s dataset covers the social libertarian–authoritarian dimension as well as the economic left–right dimension by using the Comparative Manifestos Project’s (CMP) data (Budge et al. 2001; Klingemann et al. 2006; Volkens et al. 2009, 2010) and extends the time period until 2007 with the data from various issues of the *European Journal of Political Research*.

[Table 1 around here]



This dataset locates each political party's policy position in the two-dimensional policy space with CMP's data. To estimate each political party's policy positions in the redistributive left–right and the social-value libertarian–authoritarian dimensions, the new dataset generates two indicators: *Economic Left–Right Policy Position* and *Social Libertarian–Authoritarian Policy Position*. CMP assigns each sentence in electoral programs to one of 56 predetermined categories and calculates the ratio of each category in each electoral manifesto. Following McDonald and Mendes (2001, 108-11), while this dataset attributes 13 categories to “Left” and 9 categories to “Right,” it ascribes 5 categories each to “Libertarian” and “Authoritarian” (see Table 1). An Economic Left–Right Policy Position subtracts the score of “Left” categories from that of “Right” categories (‘–’ = left; ‘+’ = right) in each country and each election. In the same way, a Social Libertarian–Authoritarian Policy Position subtracts the score of “Libertarian” categories from that of “Authoritarian” categories (‘–’ = libertarian; ‘+’ = authoritarian) in each country and each election. This study assumes that political parties maintain their policy positions during the interval between elections, and it transforms the left–right and the libertarian–authoritarian scores into annual data on the basis of this assumption. Although separating the social-value dimension from the economic left–right dimension makes no sense unless these two dimensions are orthogonal to each other, the two-dimensional policy space appears conceptually and substantively valid. As Figure 3 demonstrates, the correlation between Economic Left–Right Policy Position and Social Libertarian–Authoritarian Policy Position is quite weak (Pearson's  $r = 0.211$  for all parties in the 18 countries, 1985–2010).

[Figure 3 around here]

After each political party's policy positions are located on the left–right as well as the libertarian–authoritarian dimensions, each single-party or coalition government's policy positions in these two dimensions are estimated. The dataset uses, as the measure of each government's policy position, an average of each coalition party's policy position weighted by its share of seats in the lower house among governing parties, calculated using the following equation:

$$\text{Government Policy Position} = \sum_i^n P_i W_i ,$$

where  $P_i$  denotes a coalition party  $i$ 's policy position in either the left–right dimension or the libertarian–authoritarian dimension, and  $W_i$  indicates a coalition party  $i$ 's decimal share of seats to the entire ruling coalition's seats in the lower house. On the basis of the data of each government's policy position, I calculated *Government Left–Right Policy Position* and *Government Libertarian–Authoritarian Policy Position*. These variables are the annual scores of government policy position in the redistributive left–right and the social libertarian–authoritarian dimensions, respectively, weighted by the duration of cabinets in each year.

*Control Variables*

As control variables, I put economic institutional, politico-economic, and business cyclical variables into regression models (see detailed variable definitions and sources in Appendix). Since dependent variables concern the intensity of public involvement, following the power resources theory, this paper examines the relationship between labor market programs and *Union Density* (cf. Esping-Andersen 1985; Korpi 1983; Stephens 1979). Higher union density is expected to be related to well-developed ALMPs, generous early retirement programs, and strict EPL.

The degree of *Wage Bargaining Centralization* is also considered an important determinant of ALMPs. As the Rehn–Meidner model suggests, while solidaristic wage coordination puts pressure on less productive firms to restructure their production lines and reduce their workforce, it creates labor demands in higher-productive firms and sectors (cf. Rehn 1985). As a result, solidaristic wage-setting requires the state to reallocate its labor force from less productive work places to more productive ones with ALMPs. Thus, the higher degree of wage bargaining coordination is supposed to lead to the greater efforts of the state on behalf of ALMPs and *vice versa*. However, the effects of wage bargaining institutions on early retirement programs and EPL are not clear.

To assess the influences of post-industrialization, the percentage of *Service Sector Employment* is put into regression models. The theoretical expectation of post-industrialization's effects on labor market programs is unclear in comparative political economy. On the one hand, since deindustrialization exposes industrial workers to the risk of unemployment and generates a huge amount of precarious jobs in the service sector, it requires the state to expand its welfare programs to protect vulnerable individuals against

social risks (Iversen and Cusack 2000). It is expected that post-industrialization will lead to the expansion of ALMPs and early retirement programs. On the other hand, post-industrialization is also accompanied by “permanent austerity” (Pierson 2001). That is, post-industrialization comes with stagnant economic growth, lower fertility rates, and an aging population. These factors put downward pressure on the expansion of welfare states and deprive them of responding to unemployment problems with ALMPs and other labor market programs.

To assess the effects of each country’s exposure to the globalized economy, following Rueda (2006, 2008), this study puts the degree of *Trade Openness* and *Capital Mobility* into regression equations. The effects of internationalization and globalization on welfare states are, in general, inconclusive in comparative political economy. On the one hand, globalization theorists argue that the integration of national economies into the global market forces national governments to “race to the bottom,” and as a result, it curtails the size of welfare states. On the other hand, as an open economy exposes labor to various social risks, internationalization and globalization generate higher demands for social protection against those risks (cf. Cameron 1978; Garrett 1998; Katzenstein 1985). Either way, these effects need to be controlled when assessing the effects of government partisanship on public spending.

Finally, due to obvious reasons, *Unemployment Rate* and *Real GDP Growth Rate* are added to the regression models. Recession brings about higher unemployment rates, and the latter creates the demand for ALMPs and early retirement programs. This study

also puts *Consumer Price Index* into regression models to control for the effects of inflation.

Table 2 presents the descriptive statistics of dependent and independent variables.

[Table 2 around here]

## 5. Method

Since the dataset comprises pooled time-series and cross-section (TSCS) data, this study uses a dynamic model with unit-fixed effects and panel-corrected standard errors in order to estimate the effects of independent variables on a dependent variable. Analyzing cross-national and temporal variations of government programs requires researchers to choose analytical methods with caution, because the selection of methods drastically changes the results. Since controlling for every possible country-specific factor is virtually impossible, a unit-fixed effect model is generally preferable to avoid omitted variable biases in comparative political economy.<sup>4</sup> A unit-fixed-effect model is a parameter-estimation method that puts unit dummy variables into regression, and then these unit dummies perfectly absorb unobservable country-specific effects.<sup>5</sup> Since this study's primary explanatory variables (government partisanship) have sufficient variations in each unit (i.e., each country), this paper uses a unit-fixed effect model.

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<sup>4</sup>However, a unit-fixed effect model is inappropriate when dependent and/or independent variables are less varied across time. See Plümer *et al.* (2005).

<sup>5</sup>This is because fixed-effect models can be transformed into the following equation (Plümer *et al.* 2005, 331):

$$y_{i,t} - \bar{y}_i = \beta_k (x_{k,i,t} - \bar{x}_{k,i}) + (e_{i,t} - \bar{e}_i),$$

where  $y$  denotes a dependent variable,  $x$  the vector of constant and  $k$  independent variables,  $e$  residuals,  $i$  a unit, and  $t$  a time period.

Although analyzing the level of government spending as a percentage of GDP with a lagged dependent variable is sometimes regarded as a conventional method, this approach also presents a problem. Because the level of public expenditures is slowly changing and tends to be expanding, using it as a dependent variable can violate the assumption of stationarity. To avoid the problems originating from non-stationary data, this paper uses first differences (annual changes) of Public Spending for ALMPs, Public Spending for Early Retirement Programs, and Strictness of EPL for Regular Employment as its dependent variables (cf. Kittel and Winner 2005). This choice of analytical method is also theoretically justifiable because the cabinet's policy positions are supposed to affect, not absolute levels, but changes in labor market programs.

To address contemporaneous heteroscedasticity across countries, this study uses panel-corrected standard errors (Beck 2001; Beck and Katz 1995, 1996). In addition, serial correlations of residuals are incorporated into the regression models with a lagged level dependent variable.<sup>6</sup> Finally, all independent variables are one-year lagged. This approach can avoid possible endogeneity between explanatory and explained variables, and also agree with the reasonable assumption that a typical budgeting process occurs in the

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<sup>6</sup>In sum, this study's models can be summarized in the following equation:

$$\Delta Y_t = \delta Y_{t-1} + \beta_1 Cent_{t-1} + \beta_2 Union_{t-1} + \beta_3 Service_{t-1} + \beta_4 Open_{t-1} + \beta_5 Cap\ Mobility_{t-1} + \beta_6 Unemp_{t-1} + \beta_7 Growth_{t-1} + \beta_9 CPI_{t-1} + \beta_{10} LeftRight_{t-1} + \beta_{11} LibAuth_{t-1} + \beta_{12} LeftRight_{t-1} \times LibAuth_{t-1} + \sum \alpha_i + \varepsilon_{it},$$

where  $Y$  indicates a dependent variable,  $\alpha$  country dummies,  $\varepsilon$  error terms,  $i$  unit, and  $t$  time period. See, e.g., Beck and Katz (1996), Iversen and Cusack (2000), and Kittel and Winner (2005).

year previous to the current fiscal year, and political factors influence the budgeting politics in the previous year.

## 6. Findings

This section reports the results of this study's multivariate regression models. First, it presents the effects of explanatory variables on ALMP spending. Second, this section compares the effects of partisan variables on early retirement spending and the strictness of EPL for regular employment for those on ALMPs. This study's central interest is the interaction effects between economic left-right policy positions and social-value libertarian-authoritarian policy positions.

[Table 3 around here]

Table 3 presents the estimates for the determinants of the annual changes in public spending for ALMPs. Among socioeconomic and economic institutional factors, the coefficients of real GDP growth rates clearly show their statistically significant effects. Economic downturns urge welfare states to expand ALMPs due to the increase in unemployment. The coefficients of the Consumer Price Index also indicate positive effects on the annual changes of ALMP spending with statistical significance. Although the coefficients of wage bargaining centralization indicate expected, positive signs, their significance levels do not reach the conventional threshold ( $p\text{-value} < 0.05$ ). On the contrary, the variable of international economic integration appears to have significant, negative effects on ALMPs in fixed-effect models (Models A1 to A4). The regression models suggest, for instance, that the increase of international trade by 10% of GDP

diminishes the annual increase of ALMPs by 0.02% of GDP.<sup>7</sup> However, when country dummies are excluded, the variable of trade openness loses its statistical significance (Model A5).

The interpretation of political variables requires cautious consideration. Mode A1 includes only Government Left–Right Policy Position in its equation with control variables, and, as conventional partisan models suggest, Model A1 demonstrates, with marginal statistical significance, that while rightist governments diminish ALMP efforts, leftist governments actually expand public spending for ALMPs. By contrast, Model A2 puts the Government Libertarian–Authoritarian Policy Position into the equation instead. The model suggests that libertarian governments have different effects on ALMPs than authoritarian governments, but these effects are not statistically significant.

Model A3 puts the Government Left–Right Policy Position, the Government Libertarian–Authoritarian Policy Position, and the interaction term between these two variables into its regression equation with control variables. On the one hand, the model indicates that the Government Left–Right Policy Position maintains its statistically significant, negative effects on public spending for ALMPs even after the effects of the government social-value position and the interaction effects between the government redistributive position and social-value position are put into the equation. On the other hand, the interaction term between the Government Left–Right Policy Position and Government Libertarian–Authoritarian Policy Position does not show its statistically significant effects. However, the interaction effects are unable to be interpreted solely

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<sup>7</sup>The coefficient of Trade Openness  $(-0.002) \times 10 = -0.02$ .



through the regression table (cf. Kam and Franzese 2007). Hence, this study calculates the marginal effects of a government's left–right policy position on ALMPs, contingent upon its libertarian–authoritarian policy position, using Model A3's variance-covariance matrix.<sup>8</sup>

[Figure 4 around here]

Figure 4 illuminates the effects of a government's left–right policy position on the ALMP efforts relying on its libertarian–authoritarian policy position. As long as a government's policy position is located on the libertarian side (i.e., negative on the horizontal axis), the coefficient of the Government Left–Right Policy Position remains negative, which implies that a left government increases public spending for ALMPs. However, the coefficient of the Government Left–Right Policy Position becomes statistically indistinguishable from zero when the Government Libertarian–Authoritarian Policy Position approaches 0.1. This result suggests that left-libertarian governments are in favor of the expansion of ALMPs, while left-authoritarians are not.

[Table 4 around here]

Table 4 shows the results of the regression models, replacing the dependent variable in Table 3 with the annual changes of public spending for early retirement programs and the strictness of EPL for regular employment. Models B1 and B2 estimate the effects of explanatory variables on Public Spending for Early Retirement Programs as a percentage of GDP. Although none of the government partisan variables and their interaction term become statistically significant, this study calculates the marginal effects of

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<sup>8</sup> Following the recommended methods of Kam and Franzese (2007).

a government's left–right policy position on early retirement programs, contingent upon its libertarian–authoritarian policy position, by using Model B2's variance-covariance matrix, because the simple regression table is incapable of demonstrating the interaction effects. Figure 5 suggests that, although the marginal effects never become statistically significant with the conventional threshold (95% confidence level), the estimated effects agree with this study's hypothesis with a 90% confidence level. While the marginal effects of a government's left–right policy position are statistically indistinguishable from zero when a government is located on the libertarian side (i.e., negative on the horizontal axis), the marginal effects become negative with 90% confidence when a government is located on the authoritarian side above 0.1 level. That is, while left-libertarian governments have no effects on early retirement programs, left-authoritarian governments do.

[Figure 5 around here]

Models B3 and B4 estimate the effects of explanatory variables on the strictness of EPL for regular employment. While the coefficient of the Government Left–Right Policy Position maintains its negative sign in Model B3, it becomes positive in Model B4. Instead, the coefficients of the Government Libertarian–Authoritarian Policy Position and the interaction term become negative with statistical significance there. This study also calculates the marginal effects of a government's left–right policy position on the strictness of EPL for regular employment, contingent upon its libertarian–authoritarian policy position, by using Model B4's variance-covariance matrix (see Figure 6). The results are hard to interpret. Figure 6 shows that left-authoritarian governments promote the strict EPL for regular workers, while left-libertarian governments diminish the strictness of EPL

for them. However, this figure also suggests that right-libertarian governments actually promote the strictness of EPL. These perplexing results might derive from the fact that the indicator of EPL, compiled by the OECD (2011), has large cross-national variation but scarce temporal variation (cf. Emmenegger 2010, 337). Nonetheless, it can be inferred from these results, at least, that the effects of government partisanship on the strictness of EPL for regular workers are not identical between left-libertarian and left-authoritarian governments.

[Figure 6 around here]

## **7. Conclusion**

This paper examined active labor market policy as a representative example of new social risk policies and explored whether partisan differences have had an impact on the changes in public spending for labor market programs. It argued that political parties contend with each other over unemployment problems and human capital formation policy in the social-value dimension as well as the redistributive dimension, and that each political party has different policy preferences and strategies with respect to labor market policy, according to its position in the two-dimensional party competition space. That is, a left-libertarian party prefers activation; a left-authoritarian party, dualism; a right-libertarian party, workfare; and a right-authoritarian party, dualism or workfare. Among these strategies, while activation is conducive to the expansion of ALMPs, dualism promotes labor market programs for labor market insiders. Assuming that different party policies have a distinct impact on labor market policy, this article hypothesized that a

government's policy position has contrasting effects on labor market programs—public expenditures for ALMPs, those for early retirement programs, and the strictness of EPL for regular employment—between left-libertarian and left-authoritarian governments. By using multivariate regression methods to analyze the pooled time-series and cross-section data from 18 OECD countries for the time period from 1985 to 2007, this paper revealed that a government's left-right policy position interacts with its libertarian-authoritarian policy position, and that a left-libertarian government raises its budget for ALMPs while a left-authoritarian government does not. In addition, this paper's empirical analysis suggested that a left-authoritarian government increases public spending for early retirement programs and contributes to strict job security legislation, while a left-libertarian government does not. The effects of government partisanship on labor market policy are in distinct contrast to left-libertarian and left-authoritarian governments.

This study has several implications for the literature of comparative politics. First, this paper revealed that the politics of new social risks is structured, not by a uni-dimensional left-right policy space, but by a two-dimensional party competition space in post-industrial democracies. This paper empirically measured a political party's policy position on the social-value dimension as well as the redistributive dimension, and assessed its effects on labor market programs for labor market outsiders and insiders. Although students of Western European party politics have already pointed out the emergence of the social-value cleavage—the so-called “new politics”—since Inglehart's seminal work (Betz and Immerfall 1998; Bornschieer 2010; Flanagan and Lee 2003; Inglehart 1977, 1984; Kitschelt 1994, 1997; Kriesi 1998; Kriesi et al. 2006, 2008), few comparative welfare state

scholars have explored whether the transformation of party systems has had any impact on the restructuring of welfare states in advanced democracies.<sup>9</sup> This paper empirically demonstrated that political competition over labor market policy is conducted in the two-dimensional policy space. This study's empirical approach and results defy the conventional "left–right" perspective in the literature on comparative political economy.

Second, this article exemplified that leftist parties need to be differentiated according to their policy position in the social-value dimension. Rueda (2005, 2006, 2008) argues that current social democratic parties are severely constrained by the interests of labor market insiders. In contrast, this study's empirical results suggest that whether a leftist party defends labor market outsiders depends on its policy position along the social-value dimension. This paper showed that although a government's "left" position does not necessarily help young precarious workers to enhance their employability and find a job in the labor market, a "left–libertarian" government tries to provide active measures for labor market outsiders. This study's multi-dimensional approach can deepen the understanding of the politics concerning the insider–outsider cleavage.

Finally, this paper illuminated how politics functions as an intervening factor between socioeconomic changes and public policy. Post-industrialization has transformed industrial structures and the profiles of labor force in each country. However, the transformation of a national economy and socio-demographic factors does not automatically translate to the restructuring of social policy. The socioeconomic changes

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<sup>9</sup>Häusermann's (2006, 2010a, 2010b) works are exceptional in this respect.

are converted into new social policies through political competition, which is reshaped under post-industrial party systems.

### **Appendix: Control Variables**

- *Union Density.* Net union membership as a proportion wage and salary earners in employment.  $\text{Union Density} = \text{Net Union Membership} * 100 / \text{Wage and Salary Earners in Employment}$ . Source: Visser (2009).
- *Wage Bargaining Centralization.* Index created by Visser. Summary measure of centralization and coordination of union wage bargaining, taking into account both union authority and union concentration at multiple levels. Source: Visser (2009).
- *Service Sector Employment.* Male and female employment in services as % of total civilian employment. Source: OECD (2000, 2009).
- *Trade Openness.* Trade openness of the economy, measured by the total trade (sum of import and export) as percentage of GDP. Source: *Penn World Table* (Heston et al. 2009).
- *Capital Mobility.* Foreign direct investment as a percentage of GDP, measured by the total of foreign direct investment inflow (% of GDP) and outflow (% of GDP). Source: UNCTAD (n.d.).
- *Real GDP Growth.* Real GDP growth rates. Source: IMF (n.d.).
- *GDP Per Capita.* This variable indicates the logarithm of real GDP per capita (Purchasing Power Parity) in current international dollars. Source: IMF (n.d.).
- *CPI.* Consumer price index, annual percent change. Source: IMF (n.d.).

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**Table 1. Subtractive Measures of Economic Left–Right and Social Libertarian–Authoritarian Policy Positions**

Economic categories		Social categories					
Left		Right	Libertarian	Authoritarian			
302	Centralization: pro	301	Decentralization	602	National way of life: con	601	National way of life: pro
403	Market regulation	401	Free enterprise	604	Traditional morality: con	603	Traditional morality: pro
404	Economic planning	407	Protectionism: con	607	Multiculturalism: pro	608	Multiculturalism: con
405	Corporatism	410	Productivity	705	Minority groups: pro	605	Law and order
406	Protectionism: pro	411	Infrastructure	706	Non-economic groups	606	Social harmony
409	Keynesian economics	414	Economic orthodoxy				
412	Controlled economy	505	Welfare: con				
413	Nationalization	507	Education: con				
415	Marxism	702	Labor groups: con				
503	Social justice						
504	Welfare: pro						
506	Education: pro						
701	Labor groups: pro						

Note: Numbering corresponds to CMP.

Source: McDonald and Mendes (2001, 108–111).

**Table 2. Descriptive Statistics of Dependent and Independent Variables**

<b>Variable</b>	<b>N</b>	<b>Min</b>	<b>Mean</b>	<b>Max</b>	<b>Overall S.D.</b>	<b>b/w S.D.</b>	<b>within S.D.</b>
<b>Dependent Variables</b>							
ΔPublic spending for ALMPs as % of GDP	371	-0.645	-0.004	0.619	0.115	0.021	0.114
ΔPublic spending for Early Retirement Programs as % of GDP	385	-0.187	-0.004	0.274	0.035	0.008	0.034
ΔStrictness of Employment Protection Legislation (EPL) for Regular Employment	391	-0.550	-0.000	0.500	0.052	0.013	0.051
<b>Independent Variables</b>							
Real GDP growth	414	-6.013	2.710	11.488	1.906	0.854	1.715
Consumer price index (CPI)	414	-1.000	2.684	15.762	2.049	0.891	1.856
Union density	409	7.991	40.159	87.427	21.033	20.894	5.118
Wage bargaining centralization	405	0.203	0.434	0.941	0.148	0.146	0.040
Service sector employment	414	52.900	67.742	78.800	6.045	4.945	3.659
Trade openness	414	16.106	69.832	184.308	35.224	34.402	10.968
Capital mobility	390	-8.616	5.686	48.935	6.813	5.481	5.659
Government left–right policy position	397	-0.380	-0.062	0.238	0.124	0.076	0.100
Government libertarian–authoritarian policy position	397	-0.268	0.029	0.276	0.070	0.032	0.063

Note: S.D. = Standard Deviation

Source: See *Data Section* and *Appendix*.

**Table 3. Regression of Annual Changes in Public Spending for ALMPs: 1985–2007**

	(A1)	(A2)	(A3)	(A4)	(A5)
Public Spending for ALMPs (% of GDP) (t–1)	–0.111 (0.056)*	–0.119 (0.058)*	–0.113 (0.055)*	- -	–0.044 (0.029)
Wage Bargaining Centralization (t–1)	0.110 (0.174)	0.107 (0.176)	0.103 (0.175)	0.226 (0.182)	0.034 (0.036)
Union Density (t–1)	–0.003 (0.002)	–0.002 (0.002)	–0.003 (0.002)	–0.006 (0.002)**	0.000 (0.000)
Service Sector Employment (t–1)	–0.002 (0.003)	0.000 (0.003)	–0.002 (0.003)	–0.005 (0.003)+	–0.001 (0.001)
Trade Openness (t–1)	–0.002 (0.001)*	–0.002 (0.001)*	–0.002 (0.001)*	–0.002 (0.001)*	0.000 (0.000)
Capital Mobility (t–1)	0.000 (0.002)	0.000 (0.002)	0.000 (0.002)	0.000 (0.002)	–0.001 (0.002)
Unemployment Rate (t–1)	0.003 (0.005)	0.001 (0.005)	0.003 (0.005)	0.002 (0.005)	0.001 (0.002)
Real GDP Growth Rate (t–1)	–0.014 (0.004)**	–0.014 (0.004)**	–0.014 (0.004)**	–0.014 (0.004)**	–0.016 (0.003)**
Consumer Price Index (t–1)	0.010 (0.005)*	0.009 (0.005)+	0.010 (0.005)+	0.010 (0.005)*	0.008 (0.003)*
Left–Right Policy Position (t–1)	–0.149 (0.076)+	- -	–0.171 (0.076)*	–0.195 (0.079)*	–0.162 (0.060)**
Libertarian–Authoritarian Policy Position (t–1)	- -	–0.148 (0.094)	0.015 (0.116)	–0.011 (0.116)	–0.010 (0.094)
Left–Right × Libertarian– Authoritarian (t–1)	- -	- -	1.173 (0.740)	1.026 (0.750)	1.071 (0.681)
Constant	0.211 (0.228)	0.124 (0.237)	0.183 (0.227)	0.397 (0.195)*	0.068 (0.087)
Observations	334	334	334	334	334
Number of countries	18	18	18	18	18
R2	0.232	0.224	0.240	0.210	0.163
Model	FE	FE	FE	FE	OLS

1. Panel-corrected standard errors in parentheses.
2. + significant at 10%; \* significant at 5%; \*\* significant at 1%.
3. FE = unit fixed-effect model; OLS = ordinary least square without unit dummies.

**Table 4. Regression of Annual Changes in Public Spending for Early Retirement**

**Programs and Strictness of EPL for Regular Employment: 1985–2007**

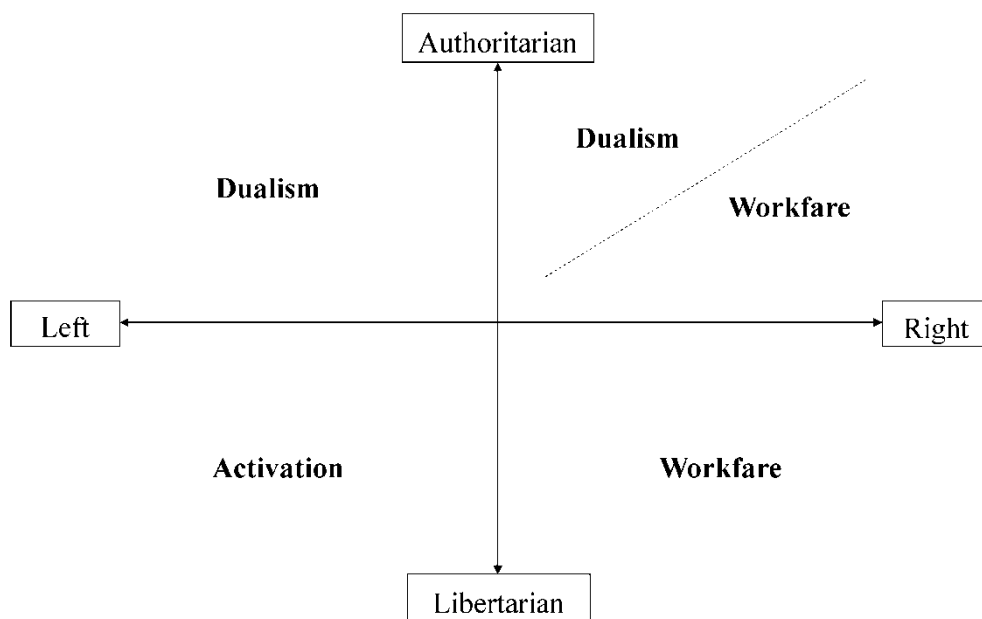
Dependent Variables	(B1) Early Retirement	(B2) Early Retirement	(B3) EPL	(B4) EPL
Public Spending for Early Retirement Programs (% of GDP) (t-1)	-0.165* (0.066)	-0.163* (0.067)	-	-
Strictness of EPL for Regular Employment (t-1)	-	-	-0.135** (0.051)	-0.114* (0.049)
Wage Bargaining Centralization (t-1)	-0.120* (0.058)	-0.117* (0.058)	0.209* (0.102)	0.217* (0.099)
Union Density (t-1)	0.000 (0.001)	0.000 (0.001)	-0.004* (0.002)	-0.003* (0.002)
Service Sector Employment (t-1)	-0.001 (0.001)	-0.001 (0.001)	-0.002 (0.001)	-0.001 (0.001)
Trade Openness (t-1)	0.000 (0.000)	0.000 (0.000)	-0.001* (0.000)	-0.001* (0.000)
Capital Mobility (t-1)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Unemployment Rate (t-1)	-0.001 (0.001)	-0.001 (0.001)	0.001 (0.002)	0.001 (0.002)
Real GDP Growth Rate (t-1)	0.002+ (0.001)	0.002* (0.001)	0.001 (0.002)	0.001 (0.002)
Consumer Price Index (t-1)	0.001 (0.001)	0.001 (0.001)	-0.003 (0.003)	-0.003 (0.003)
Left-Right Policy Position (t-1)	-0.008 (0.020)	0.001 (0.021)	-0.004 (0.029)	0.045 (0.032)
Libertarian-Authoritarian Policy Position (t-1)	-	-0.024 (0.047)	-	-0.184* (0.077)
Left-Right × Libertarian-Authoritarian (t-1)	-	-0.303 (0.223)	-	-1.387** (0.384)
Constant	0.073 (0.053)	0.074 (0.051)	0.178 (0.125)	0.150 (0.125)
Observations	346	346	352	352
Number of countries	18	18	18	18
R <sup>2</sup>	0.144	0.148	0.136	0.173
Model	FE	FE	FE	FE

1. Panel-corrected standard errors in parentheses.

2. + significant at 10%; \* significant at 5%; \*\* significant at 1%.

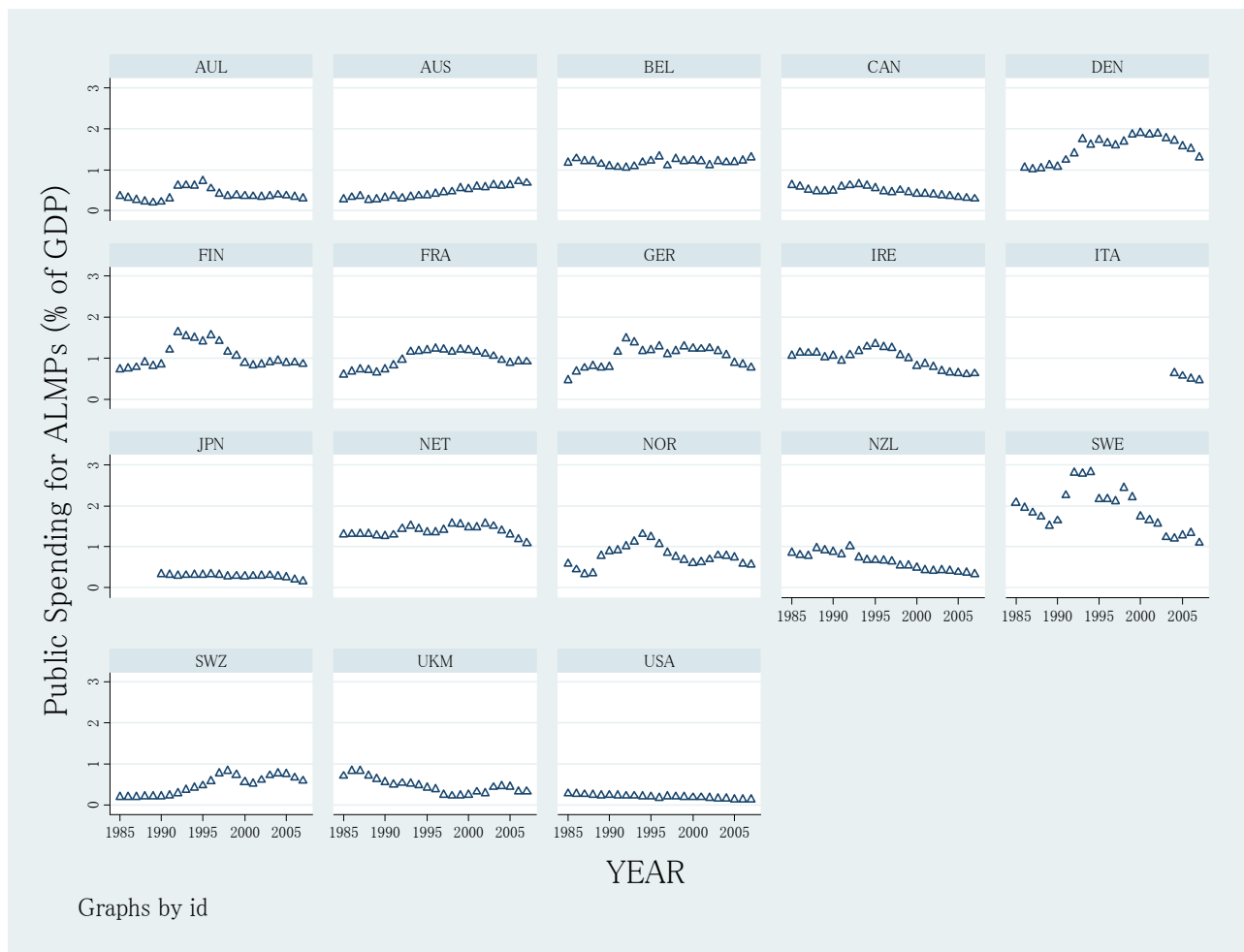
3. FE = unit fixed-effect model.

**Figure 1. Partisan Differences on the Two-dimensional Party Competition Space**



Source: Created by the author.

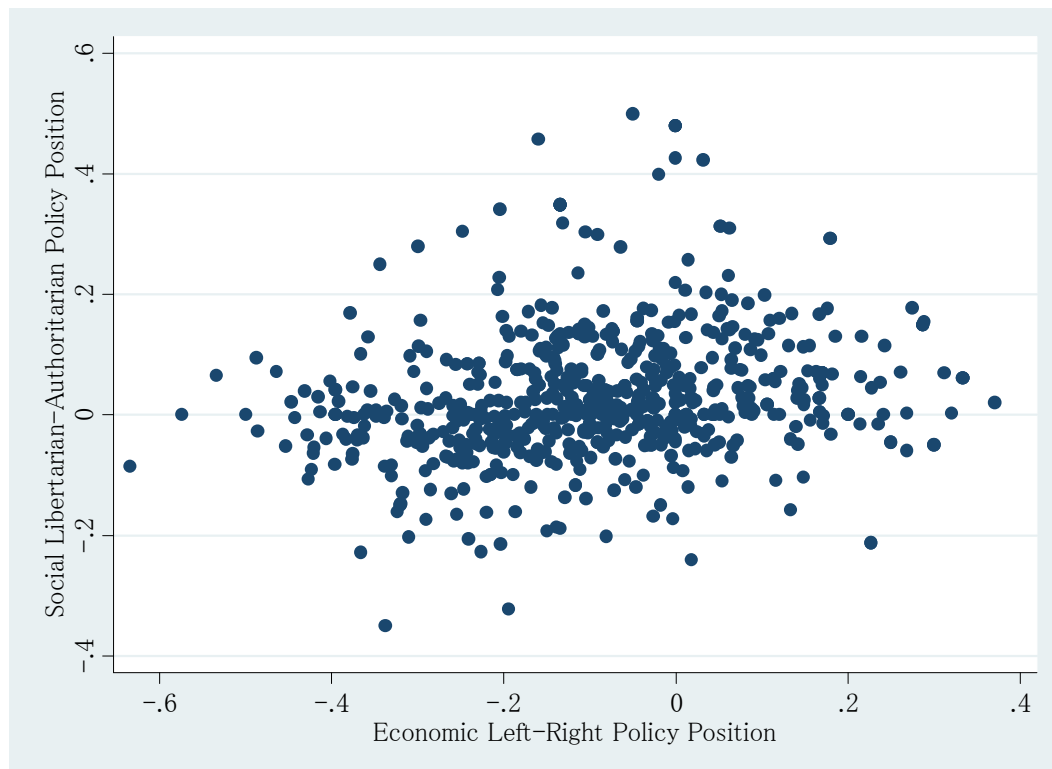
**Figure 2. Time Trend of Public Expenditures for Active Labor Market Programs (ALMPs) by Country: 1985–2007**



Note: AUL = Australia, AUS = Austria, BEL = Belgium, CAN = Canada, DEN = Denmark, FIN = Finland, FRA = France, GER = Germany, IRE = Ireland, ITA = Italy, JPN = Japan, NET = The Netherlands, NOR = Norway, NZL = New Zealand, SWE = Sweden, SWZ = Switzerland, UKM = United Kingdom, and USA = The United States of America.

Source: (OECD 2010a).

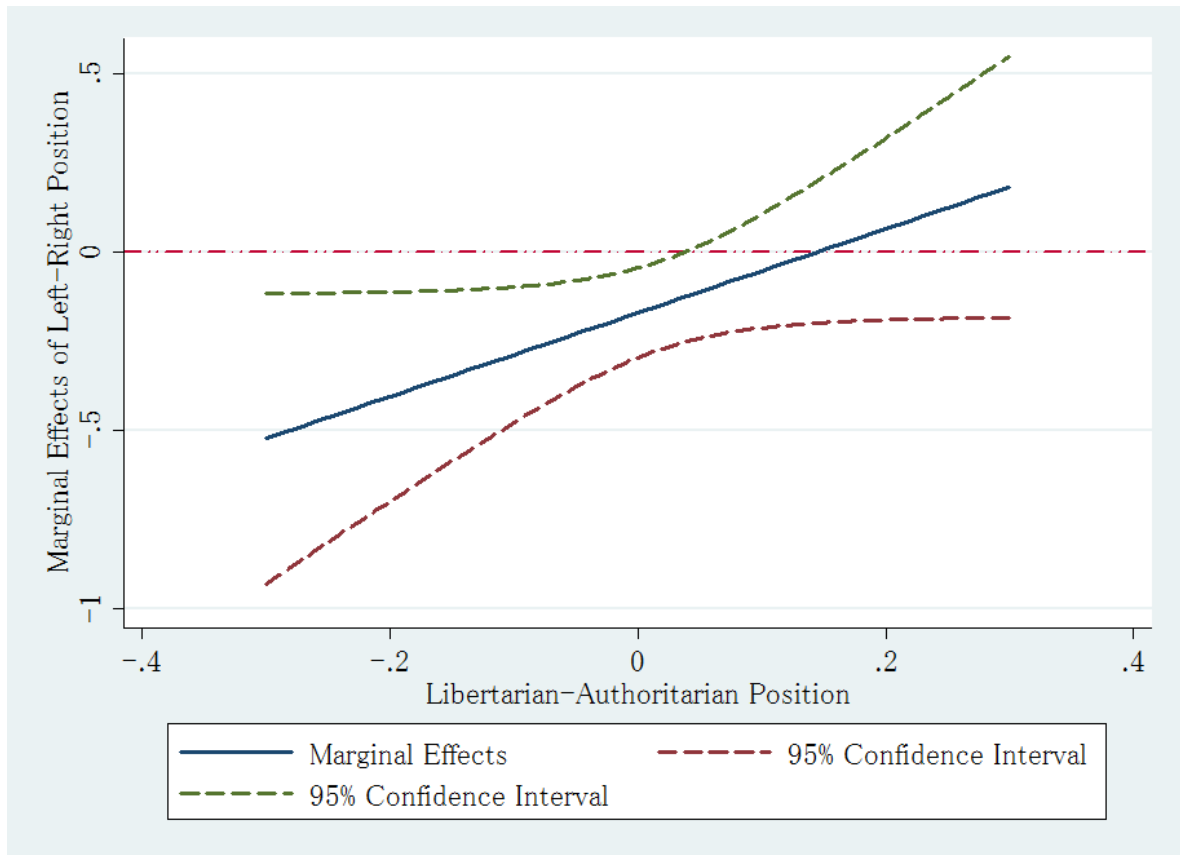
**Figure 3. Scatter Plot between Economic Policy Position and Social-value Policy Position for All Parties in 18 Countries: 1985–2010**



Note: Data for party policy position in the latter 2000s are missing for most countries.

Source: See *Data Section*.

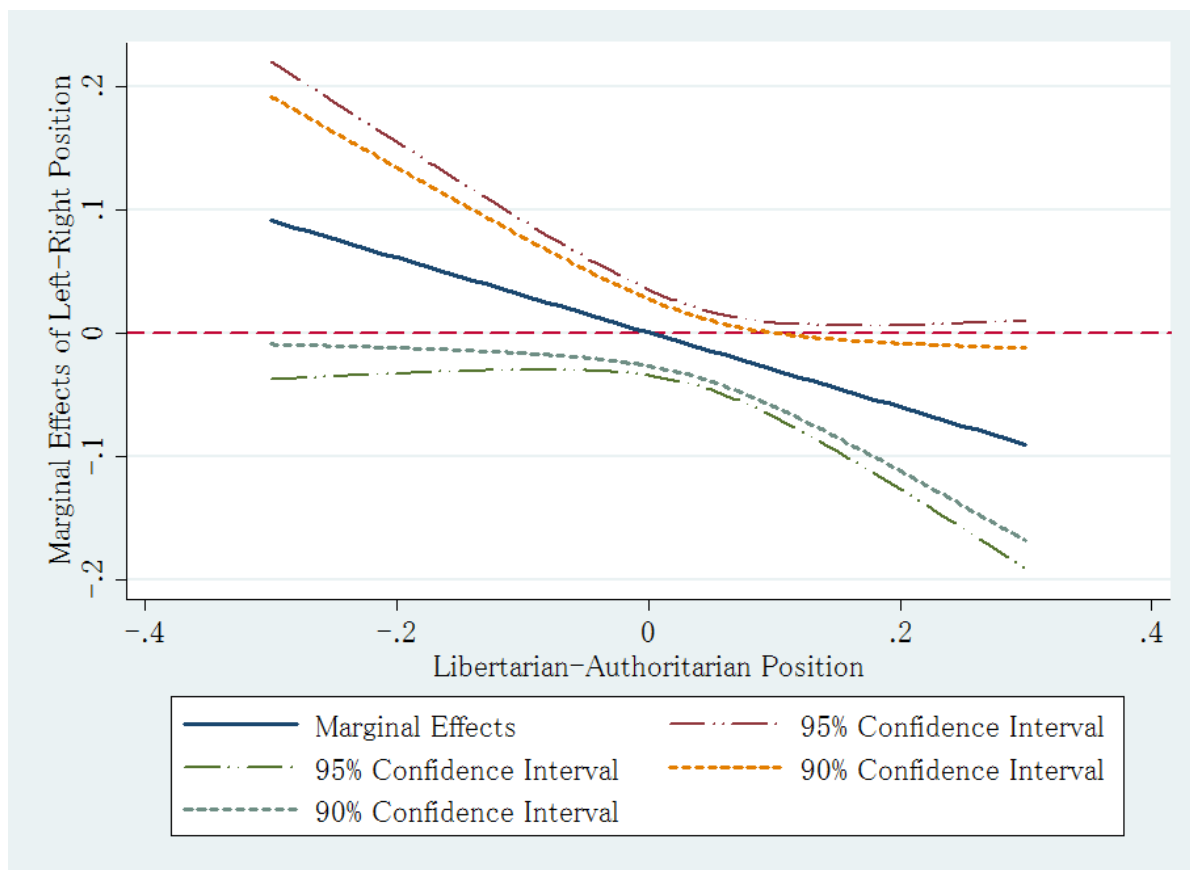
**Figure 4. Estimated Interaction Effects between Government Left–Right Policy Position and Government Libertarian–Authoritarian Policy Position on ALMPs in Model A4**



Source: Created by the author.

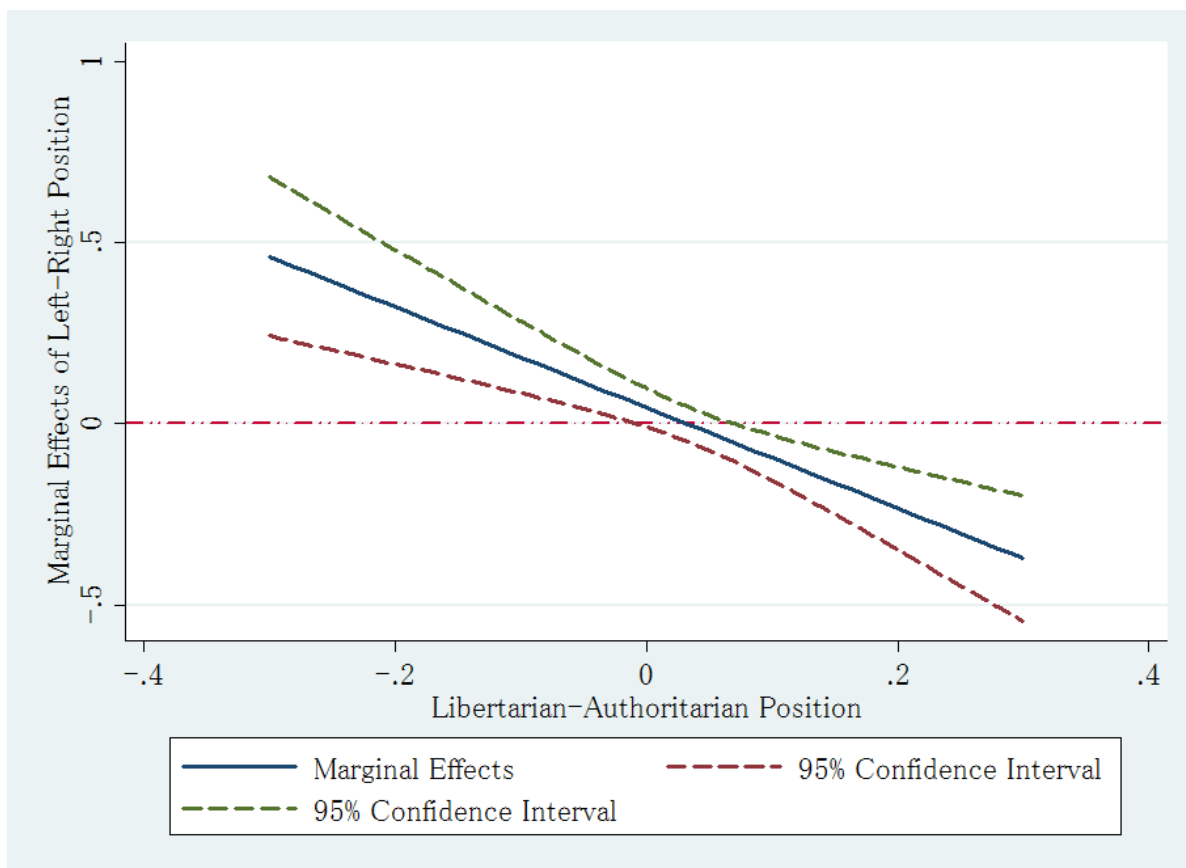


**Figure 5. Estimated Interaction Effects Between Government Left–Right Policy Position and Government Libertarian–Authoritarian Policy Position on Public Spending for Early Retirement Programs in Model B2**



Source: Created by the author.

**Figure 6. Estimated Interaction Effects between Government Left–Right Policy Position and Government Libertarian–Authoritarian Policy Position on the Strictness of EPL for Regular Employment in Model B4**



Source: Created by the author.