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Partisan Politics and Welfare State Outcomes: A Comparative Study of Eighteen Advanced Industrial democracies, 1979-1997

James P. Allan

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- to facilitate its members' engagement in high-quality academic research, individually, collectively in the Unit and in collaboration with cognate research groups and individuals in the UK and abroad;
- to hold regular conferences, workshops, seminars and guest lectures on topics related to European political parties;
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Convenor KEPRU: Dr Kurt Richard Luther (r.luther@keele.ac.uk)

The author is a Doctoral Candidate in the Dept. of Political Science at the University of Connecticut

Abstract

In this paper I examine the relationship between political parties and welfare state outcomes in eighteen advanced industrial democracies during the years 1979 to 1997. While most comparative studies of partisanship and the welfare state have focused on aggregate indicators such as government expenditures and levels of public employment, in this paper I focus instead on the disaggregated outcomes of social policy in terms of, for instance, changes in benefit replacement rates and qualifying conditions, following closely with Esping–Andersen's work on programmatic welfare state outcomes. In particular I ask whether and how political parties enact real changes in social policy that can affect the living standards of individuals unable to provide for themselves via participation in the labour market. Does the partisan composition of government still "matter" or is it of diminishing importance in the face of historic "path dependence" or pressures brought on by demographic change and economic globalisation? Following a brief review of the existing literature on the impact of parties on governmental policy outcomes and, more specifically, on welfare state growth and retrenchment, I develop and test models that seek to explain the determinants of changes in three major areas of social policy: unemployment insurance, sickness insurance, and retirement pensions. In terms of overall trends in benefit changes since 1979, there is little evidence of *systematic* convergence or divergence among advanced industrial countries. There is, however, evidence that "parties matter" when it comes to explaining differences in outcomes, with parties of the right being strongly associated with benefit retrenchment. This relationship remains significant even when controlling for other economic and political factors that may impinge on a government's policy-making autonomy.

INTRODUCTION*

As governments in the advanced industrial democracies of Western Europe and elsewhere attempt to reform welfare state programmes for the 21st century, does it still matter which political parties's representatives are making the key decisions? Or, has the impact of globalisation meant that governments are converging around a common model, regardless of their partisan make-ups? In this paper I examine the relationship between political parties and welfare state outcomes in eighteen advanced industrial democracies during the years 1979 to 1997.[i] While most comparative studies of partisanship and the welfare state have focused on aggregate indicators such as government expenditures and levels of public employment, my research concentrates instead on the disaggregated outcomes of social policy in terms of, for instance, changes in benefit replacement rates and the bases for entitlements, following closely with Esping–Andersen's work on programmatic welfare state outcomes. In particular I ask whether political parties enact real changes in social policy that can affect the living standards of individuals unable to provide for themselves via participation in the labour market.

The paper proceeds as follows: First, I briefly review some of the existing literature on the welfare state, and discuss some of the most commonly identified pressures on the welfare states of advanced industrial democracies that have emerged in recent years. Although competing explanations of welfare state development (and retrenchment) pay considerable attention to the relative importance of political parties *vis-à-vis* other independent variables, the indicators used to measure the dependent variable—welfare state size—are problematic. Since these indicators of welfare state "effort" (typically social expenditure levels) can often obscure the extent to which "politics matters" in welfare policy, this paper instead examines partisan impacts on the *programmatic* aspects of three areas of social policy: pensions, sickness, and unemployment benefits. In doing so, my research draws upon preliminary data from a collaborative project that replicates and updates Esping-Andersen's 'index of de-commodification' developed in *The Three Worlds of Welfare Capitalism* (1990).[ii] I then review the literature pertaining to partisan theory and its alternatives, and discuss issues relating to the operationalisation of partisanship, and other variables that may independently affect welfare outcomes. In the third section of the paper I report some cross-national data on welfare state outcome trends, then test a number of hypotheses that seek to address the following questions: Is there a significant relationship between party strength and programmatic changes in national welfare states? Does the type of 'welfare regime' or other institutional arrangements in a country condition that relationship? The empirical data reported below indicate that political parties still matter in terms of explaining variance in welfare state outcomes. I then discuss the implications of my findings for the study of political parties and their relevance to the future of the welfare state.

THE WELFARE STATE AFTER THE "GOLDEN AGE"

In the period since the mid-1970s, a number of factors have been associated with the latest in the seemingly perennial "crises" of the welfare state (see, e.g., Scherman, 2000). Demographic change, globalisation, and the transition to a post-industrial economy have all been identified as factors that may impinge upon the continued viability of the welfare state. Since these factors are affecting all advanced industrial economies—albeit to varying degrees—we might expect to see a degree of convergence among welfare states as administrations seek to adapt them to changing economic and social realities. Moreover,

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these common challenges may in turn add to the variety of factors that already impinge on political parties' "room to manoeuvre" (Keman, 1997).

Demographic change has serious consequences for the welfare state. Ageing populations mean that retirees are now collecting pension benefits for longer periods than before, at a time when changing employment patterns are reducing the overall number of contributory years to social security programmes. Increases in life expectancy have also been accompanied by declining fertility rates (although there is considerable variation in fertility levels between the countries examined below). According to Magnus Ryner, the age-dependency ratio is expected to increase by fifty percent by 2020; in order to meet these increasing demands, the percentage of GDP spent on social programmes would have to increase by between five and seven percent (2000: 21). This creates considerable fiscal pressures on welfare state programmes (Esping-Andersen, 1999: 70), particularly ones that were designed with demographic and economic assumptions that do not conform to present reality.

The increasing pressures on national economic systems due to the globalisation of capital, trade and production is a second trend that is regarded as having considerable implications for the future of welfare states. The new imperatives of globalisation—real or perceived—have led to calls to reduce social expenditure to retain or attract inward investment (Stephens, Huber and Ray, 1999). The related phenomenon of regional integration may also have a future impact on the welfare state, as members of regional organisations such as the European Union face increasing pressure to co-ordinate in the area of social policy (Dudek and Omtzigt, 2001). Although the extent to which globalisation acts as a true constraint on national policy-making is often contested and the effect of such constraints for, for example, the magnitude of current programmes debatable (Garrett and Lange, 1991; Pierson, 1998; Rodrik, 1998; Schwartz, 2001), it remains crucial to understanding the demands for welfare state reforms during the 1980s and 1990s.

The third broad category of factors relevant to current developments within welfare states concerns the shift within advanced capitalist states from an industrial to a post-industrial economy. Most welfare states were designed around an economy characterised by high rates of growth and employment, a male-dominated labour force, and a "Fordist" mode of mass/assembly-line production. Programmes and institutions designed with such a context in mind may be less suited to current circumstances. The existing post-industrial economy is increasingly dominated by the service sector, which has comparatively slower rates of productivity growth, and exhibits a decline in the traditional low/middle-skilled male-breadwinner household (Baumol, 1967; Esping-Andersen, 1999; Ryner, 2000; Pierson, 2001). Such changes, many suggest, supposedly endanger the economic assumptions and social foundations of the prevailing welfare state models.

The interconnected phenomena of demographic changes, globalisation, and the shift to a post-industrial economy have all been presented as explanations or justifications for welfare reforms across the political spectrum. If these assumptions about the changing needs of the welfare state were translated into policy reforms throughout advanced capitalist states, we might expect a considerable degree of convergence around policy reforms that increasingly retrench welfare state provisions, regardless of the partisan complexion of government. The question of how any such change—growth or retrenchment—is best identified and measured is the subject to which I shall now turn.

MEASURING WELFARE STATE CHANGE

An important starting point for much of the research on welfare state development and retrenchment is the well-known typology of welfare regimes developed by Gøsta Esping-Andersen in *Three Worlds of Welfare Capitalism*. Esping-Andersen identified three distinctive logics of welfare state development, based upon factors such as the institutionalisation of programmes and the strength of class coalitions. Briefly stated, the three welfare regimes he identified were: 1) the *liberal* welfare regimes common to the Anglo-American countries and the Antipodes, where benefits were more likely to be residual and means-tested; 2) the *conservative* welfare regimes, which reflected a desire to maintain status differences and traditional family units, and were heavily influenced by strong religious institutions; and 3) the *social democratic* regimes where universal benefits were predominant, and extended into the middle-class strata of societies (1990: 26-9).[iii]

Critical to understanding the differences among the regime types was the varying extent to which (and for what reasons) countries of each regime "de-commodified" labour. De-commodification "refers to the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation" (Esping-Andersen, 1990: 37). The more generous a welfare state's benefits and conditions—in other words, the more it allows a worker to exit the labour market without a substantial drop in living standards—the more likely it is to be de-commodifying.

Esping-Andersen's study was path breaking in that it focused on the *programmatic outcomes* of government welfare state policy—that is, benefit replacement rates and entitlement conditions. In contrast, however, most studies of welfare state growth and retrenchment have tended to focus on aggregated indicators of welfare states, rather than on their impact on individual outcomes. Usually, they have concentrated their attentions on indicators of 'welfare effort,' such as levels of public social spending, or total transfer payments as a percentage of total GDP, in order to provide measures of welfare state development or size (e.g., Wilensky and Lebeaux, 1958; Cameron, 1978; Korpi, 1983; Pierson, 1996; Garrett, 1998; Stephens, Huber and Ray, 1999; Huber and Stephens, 2001a). Increasingly, however, such aggregated indicators have come to be viewed as problematic (see, e.g., Castles and Mitchell, 1992; Esping-Andersen, 1987, 1990; Goodin et al., 1999). Esping-Andersen has argued, "a focus on spending may be misleading. Expenditures are epihenomenal to the theoretical substance of welfare states"(1990: 19). Clayton and Pontusson note that measures based on expenditures "fail to take account of changes in societal welfare needs" (1998: 70), while Gilbert and Moon (1988) observe that a narrow focus on social expenditures neglects the impact that other forms of transfers, such as income tax expenditures, can have on welfare state outcomes (see also Howard, 1997). For instance, under the Conservative administrations of Mrs. Thatcher in the United Kingdom, public expenditure on unemployment benefits increased greatly. This did not indicate more generosity on the part of the government, however (see below); it simply reflected an increase in the numbers of people claiming unemployment benefits. As long as the growth of dependence exceeds the per-capita percentage reductions in benefits, spending will be higher.

Although it has been the subject of much debate, and some pointed criticism, few would take issue with Goodin et al. when they say that *The Three Worlds of Welfare Capitalism* not only remains "the firm focus of most on-going discussions in these areas, it has by now become a well-established landmark in relation to which any subsequent work … must situate itself" (1999: 12). Nevertheless, Esping-Andersen's classification of regime-types is based upon data for a single year (1980) and is now over twenty years old. As Francis Castles observes, "we do not know whether [the data] remained accurate at the time he wrote, much less now – almost two decades later" (1998: 149). The research project from which this paper is drawn is intended to serve as a corrective to the lack of more recent data on welfare state outcomes. As such, it is well placed to contribute to the ongoing debates surrounding the importance of partisan politics to recent rends in welfare policy.

EXPLAINING WELFARE STATE CHANGE: THE ROLE OF PARTISAN POLITICS

Just as scholars have devoted considerable attention to measuring trends in the growth and retrenchment of welfare states in recent years, a perhaps more pressing endeavour has been to explain *why* such changes have occurred. More specifically, a large volume of literature has accumulated in political science around the seemingly straightforward question: "*Do parties make a difference?*"

On one side of the debate, arguments against the "parties (or politics) matter" thesis emerge from a variety of origins. One approach turns to socio-economic factors to explain why differences between major parties might appear increasingly rare.[iv] The "end of ideology" thesis, perhaps most closely associated with Bell (1960) and Lipset (1963), attributes convergence among parties to the post-war period of economic growth and security (in part, of course, a product of the expansion of welfare states), which in turn minimised class tensions that existed previously, and had been reflected in the divergent policies of political parties.[v]

The "logic of industrialism" thesis, on the other hand, posits that it is the demands associated with economic growth and technological change that primarily influence government policy, creating convergence among advanced capitalist economies and rendering the partisan hue of governments largely irrelevant. In the words of John Kenneth Galbraith, one of the chief proponents of this argument, "The imperatives of technology and organisation, not the images of ideology, are what determine the shape of economic society" (1985: 7).

In a similar vein to the "logic of industrialism" approach (or perhaps, a logical extension of it), a number of scholars have emphasised the extent to which national governments are becoming increasingly constrained in their policy choices by the (perceived) imperatives of globalisation.[vi] As domestic economies have become increasingly interdependent in terms of trade, competition and heightened capital mobility (Keohane and Nye, 1977), national governments—particularly social democratic ones—may be increasingly reluctant to challenge the "privileged position" of capital (Lindblom, 1977; Block, 1977), by for example, raising labour costs or increasing corporation taxes.[vii]

Yet another factor that may impinge upon the policy choices of partisan governments is the role of institutions. There is a wide array of literature on the role of institutions in comparative politics and political economy, incorporating both historical and rational choice approaches (Thelen and Steinmo, 1992; Hall and Taylor, 1996; Tsebelis, 1990). The underlying assumption in these approaches is that institutional rules and structures will favour some policy strategies over others (and thus either constrain or facilitate the agency of political actors), which can explain, for example, variations in macroeconomic policies (Hall, 1986; Hall and Soskice, 1999), labour-market policies (Rothstein, 1992), or indeed welfare regimes (Esping-Andersen, 1987, 1990) among advanced capitalist economies. Moreover, the "path-dependent" nature of institutions can often mean that once a particular course of action is initiated, it can become increasingly difficult for subsequent administrations to undo or alter the course of the institutional path already in place (Pierson, 1994, 2000a; Esping-Andersen, 1999).[viii]

There is also, however, a considerable amount of evidence that supports the view that parties and politics matter in many aspects of national policy-making (see, e.g., Budge and Keman, 1990; Klingemann *et al.*, 1994). Cameron's (1978) seminal study of the factors that produce change in the levels of public expenditure noted that, *inter alia*, partisan effects remained strong. This conclusion was also supported by Castles' analysis (1982b). Similarly, Hibbs (1978) found that political parties of the Left and Right in advanced capitalist democracies produced significantly different outcomes in their macroeconomic policies relating to inflation and unemployment.[ix] Other cross-national longitudinal analyses highlight the importance of the partisan complexion of governments in the determination of the wages policies pursued by labour unions (Armingeon, 1982), and the distribution of incomes within capitalist societies (Hewitt, 1977; van Arnhem and Schotsman, 1982; Garrett and Lange, 1991).

As the focus of political economy has turned in recent years more toward the nature and impact of globalisation, it comes as no surprise to find that several scholars have examined the extent to which governments (particularly social democratic ones) have been able to retain their policy-making autonomy in the face of demands for convergence around deregulatory policies that benefit (and hence maintain the presence of) 'footloose' capital. Garrett (1998) rejects the widely held view that globalisation will necessarily produce convergence around neo-liberal policies, and shows that social democratic governments have pursued distinctive macroeconomic policies with a considerable degree of success. Examining the impact of international financial markets on government policy-making, Mosley found that parties retain considerable policy autonomy without risking 'punishment' in terms of, for example, higher interest rate premiums, since financial market participants find “the overall level of government spending to be inconsequential for asset allocation decisions” (2000: 749).[x]

Turning more specifically to the impact of political parties on welfare states, a number of studies have shown that political factors play an important role in determining gross levels of welfare effort. Castles and McKinlay (1979), Hicks and Swank (1984), Schmidt (1989, 1997), Hicks, Swank and Ambuhl (1989) and Budge and Keman (1990) all emphasise how partisanship has an effect on the nature of welfare state expansion. Many of these studies concentrate in particular on the role of social democratic parties and their allies in labour movements, while several recent studies also have focused in the major role played by Christian Democratic parties in the development of welfare states (see, e.g., Hicks 1999, Huber and Stephens, 2000, 2001a, Van Kersbergen, 1995).

Of course, partisan politics do not take place in a vacuum, and such conclusions need to be placed in a wider context alongside institutional and economic factors. This view is readily incorporated into most partisan theories of public policy-making. As Manfred Schmidt points out, “partisan theory is premised upon the assumption, that the structure, the process and the outcome of the [political] market are contingent upon institutional and cultural circumstances which vary from country to country” (1996: 155). In this vein, and in addition to other factors mentioned above, the structure of democratic decision-making institutions, electoral rules, and the relationship between national and sub-national units of government can all impinge upon political parties’ “room to manoeuvre” (Keman, 1997; Schmidt, 1996; Bonoli, 2001).

Moreover, while most of the studies just cited focus on welfare state expansion, one cannot say that retrenchment will simply produce a similar process in reverse (Pierson, 1996; Stephens, 1996; cf. Scarbrough, 2000). In his study of welfare state retrenchment efforts in Britain and the United States for example, Paul Pierson (1994) found that the Thatcher and Reagan administrations were often foiled in their attempts to “roll back” the welfare state by the development of institutional and organisational supports around key social security programmes. While they note the importance of partisan effects during the era of welfare state expansion, Huber and Stephens (2001a, 2001b) find that partisan differences appear less marked during periods of welfare state retrenchment, as electoral constraints inhibit the policy choices available to parties of the left and right alike.

The review of the literature above demonstrates that comparative studies relating to political parties and welfare states have often been inextricably linked, and are thus of equal interest to scholars of political parties and social policy alike. By situating this study at the nexus between these two important foci of comparative research this research project consequently has the potential to make a contribution to the extant literature in two ways.

While the comparative approach, as Boje (1996) rightly observes, has come to be regarded as the dominant approach to studying the welfare state in advanced industrial societies, there remains a tendency to focus on aggregate indicators of welfare effort or expenditures, rather than on their implications for those in need of social assistance. To this extent therefore, although Esping-Andersen’s *Three Worlds of Welfare Capitalism* was path breaking in its focus on regimes and outcomes, much of the subsequent literature has adopted his typology of welfare regimes at the expense of the focus on welfare state programme characteristics and their impact on de-commodification. This lacuna is in all likelihood a result of a lack of available data more than anything else. In this regard my research is intended to provide a corrective, which will contribute to the literature on comparative welfare states by re-emphasising a dimension of welfare state outcomes that is largely neglected at present.

In addition, the research project from which this paper is drawn seeks to contribute to the debate over the role played by political parties in the policy-making process. Can the choices made by political actors significantly change the nature of de-commodification within welfare states, or are they constrained to a large extent by historical and institutional factors? Are some benefits and entitlements more susceptible to partisan pressures than others?

Again, by focusing on a neglected dimension of policy-making, this research is well placed to add to the "do parties matter" debate.

DATA

Welfare State Data

As I indicated above, comparative cross-national data on welfare states are drawn from a larger project to replicate and update (for earlier and subsequent years) Esping-Andersen's "de-commodification index" for 1980.[xi] The data are based on three common types of social programmes: old-age pensions, unemployment insurance, and sickness benefits, and include the following indicators:

- the net wage replacement rate provided by each of the programmes for a "typical" production worker earning average wages[xii]
- the qualifying period for each programme (i.e., the amount of time required in work or making contributions in order to receive standard benefits)
- the number of "waiting days" before sickness and unemployment benefits are paid
- the duration of sickness and unemployment benefit payments.

Data have been collected for each of these indicators across eighteen OECD countries at three points in time: 1979, 1991, and 1997. Thus, by examining changes in each category between 1979-1991, and 1991-1997, one can ascertain the extent to which benefits and entitlement conditions have tightened or loosened, and whether there has been any convergence or divergence both within and between the original three welfare "regimes" developed by Esping-Andersen. Such an approach can provide a more nuanced picture of change than would be possible if aggregated expenditure data were used instead.

Parties Data

The operationalisation of governmental partisanship has been the subject of much debate in recent years. The most common approach has been to place parties along a left-right ideological spectrum, and then develop variables based upon the share of cabinet seats or governing parliamentary seats held by categories of parties. The categorisation of political parties in individual countries has most commonly been determined on the basis of "expert judgements" made by local scholars and country specialists (see, e.g., Castles and Mair, 1984; Huber and Inglehart, 1995).[xiii] At the most general level, distinctions have been made on a simple left/non-left dichotomy (e.g., Hewitt, 1977), but this approach has been criticised in recent years for failing to take into account differences between, for example, Christian Democratic and Conservative Parties. Both types of parties may be classified together using the simple left/non-left dichotomy, but this would obscure important differences in the policy orientations of each type of party, particularly in the area of social policy. For this reason, Schmidt (1996) cautions against relying exclusively on a unidimensional measure of government partisanship, and instead recommends a broader approach that incorporates other party categories. Bearing this in mind, this paper draws upon the Comparative Political Parties Data Set developed by Duane Swank.[xiv] These data provide indicators of cabinet, government, and parliamentary strength for leftist, rightist, centrist, and Christian Democratic parties for all countries in this study. As we shall see, the choice of party variable has important implications for identifying partisan effects on programmatic changes.

Finally, as was suggested above, one cannot examine partisan effects of policy outputs without placing them in a broader institutional and economic context. To this end variables relating to economic conditions, globalisation, and institutional structures shall also be introduced into the analysis. These will be discussed in more detail below.

OVERALL TRENDS IN BENEFIT REPLACEMENT RATES, 1979-1997

Before turning to the analysis of partisan effects on welfare state outcomes in advanced industrial welfare states, it is worthwhile to examine briefly the extent to which there has been change in terms of social policy outcomes. While many studies of welfare states still rely heavily on the regimes typology developed by Esping-Andersen, his classification is based on 1980 data. An examination of changes in policy outcomes between the three time periods discussed in this paper (1979, 1991, and 1997) can therefore shed light on the question of whether "three worlds" of welfare states still exist. Has there been convergence or divergence *within* the conservative, liberal, and social democratic regimes identified by Esping-Andersen? More pertinent, perhaps, in the context of debates over the impact of globalisation, is the question of whether there has been convergence or divergence *among* the three types of welfare regimes.

To gain greater purchase over these issues, in this section I report on changes in benefit replacement rates (post tax) for unemployment, sickness, and pension programmes between 1979 and 1997. For the purposes of comparison with his earlier work, countries are discussed together in their respective regimes as originally categorised by Esping-Andersen (1990). Only the Netherlands has been moved—based on the current (and, indeed, previous) data it would appear to fit more closely in the social democratic regime type rather than the conservative one.

Unemployment Benefit Replacement Rates

Strictly speaking, unemployment insurance is the most de-commodifying of all welfare benefits. While more often than not the decision to exit the labour market is not usually a voluntary one, unemployment insurance nonetheless allows individuals to receive income without labour market participation. For this reason it has often been criticised for providing a disincentive to find work, particularly in countries where benefit levels are high in relation to the level of income one might find in employment. Persistently high levels of unemployment, of course, impose greater costs on central governments while simultaneously reducing revenues through taxation and social security contributions. It may not be surprising, then, to find that unemployment insurance programmes are popular targets for retrenchment (OECD, 1994).

Overall, this is confirmed by an examination of programmatic change since 1979. Most countries in the analysis have tightened qualifying conditions—by, for example requiring recipients to demonstrate that they are actively seeking work—and duration periods have also been shortened in several countries. Taking all eighteen countries together, there was a steady decline in the mean replacement rate, from almost 64% of net earnings in 1979, to just over 60% in 1991, and just over 58% in 1997. The coefficient of variation increased between 1979 and 1991, indicating greater *divergence* overall, and, while there was some convergence between 1991 and 1997, data for 1997 still show greater overall dispersion compared to data for 1979.[xv] Much of this dispersion, however, is an artefact of dramatic change in a single country, the United Kingdom, where the replacement rate declined from 48% in 1979 to little over 20% in the 1990s. Indeed, when the United Kingdom is removed from the overall pool of countries, the summary statistics show a considerable decline in the average replacement rate, and almost no change in the coefficient of variation.

Looking at changes within regime categories, there is only slight evidence of divergence taking place within the social democratic group of countries, largely reflective of the significant retrenchment in Denmark and Finland. There is some evidence of convergence among the seven conservative regime countries, but no clear upward or downward trend is evident. Only among the liberal countries was there was considerable divergence over the entire period (especially between 1979 and 1991), as the UK and Ireland move closer to (and in the former case, below) the levels found in the Antipodes, while the North American countries remain more generous.[xvi]

Table 1: Net Replacement Rates (% APW Income) for Unemployment Benefits, 1979, 1991 and 1997

	1979	*1991*	*1997*
Denmark	76	65	62
Finland	72	66	60
Netherlands	79	75	72
Norway	67	65	66
Sweden	75	79	74
Average "Social Democratic"	***73.8***	***70***	***66.8***
Coefficient of variation (COV)	***0.06***	***0.09***	***0.09***
Austria	49	56	57
Belgium	65	60	64
France	92	65	71
Germany	73	63	60
Italy	68	83	80
Japan	69	71	59
Switzerland	72	74	73
Average "Conservative"	***69.7***	***67.4***	***66.3***
COV	***0.18***	***0.14***	***0.13***
Australia	34	34	39
Canada	61	68	63
Ireland	58	37	33
New Zealand	36	33	35
United Kingdom	48	21	22
United States	55	69	60
Average "Liberal"	***48.7***	***43.7***	***42***
COV	***0.24***	***0.46***	***0.38***
All groups			
Mean	**63.8**	**60.2**	**58.3**
COV	**0.23**	**0.29**	**0.27**
All groups less UK			
Mean	**64.8**	**62.5**	**60.5**
COV	**0.23**	**0.24**	**0.22**

Sickness Benefit Replacement Rates

In many of the countries covered in this study, spanning all three welfare regimes, sickness benefits are linked to unemployment benefits.[xvii] For this reason perhaps, we once again find that there is evidence of neither convergence nor divergence among the welfare states. When the countries are examined in more detail, however, more change is evident.

Social Democratic Welfare States. Sickness benefits decline in three of the social democratic countries; in Denmark and the Netherlands, where benefits are linked to unemployment benefits, the declines are substantial, while the decline in Sweden is less marked. In Norway, where sickness benefits replace *all* lost wages, the situation is unchanged, which is in stark contrast to Finland, which in 1979 had a relatively meagre replacement rate of 46%. By 1991, it had increased to 85%, before retreating again to 75% by 1997. Overall, the mean replacement rate for these countries changed very little; there is significant evidence of convergence, however, largely due to the Finnish transformation.

Table 2: Net Replacement Rates (% APW Income) for Sickness Benefits, 1979, 1991 and 1997

	1979	*1991*	*1997*
DEN	76	65	62
FIN	46	85	75
NLD	79	75	72
NOR	100	100	100
SWE	90	84	86
Average "Social Democratic"	***78.2***	***81.8***	***79***
Coefficient of variation (COV)	***0.26***	***0.16***	***0.18***
AUT	84	84	87
BEL	72	74	86
FRA	56	62	63
GER	88	87	80
ITA	65	65	68
JPN	69	71	71
SWI	72	75	82
Average "Conservative"	***72.3***	***74.0***	***76.7***
COV	***0.15***	***0.12***	***0.12***
AUS	34	39	37
CAN	61	68	63
IRE	58	37	33
NZL	31	34	31
UK	48	28	24
US*			
Average "Liberal"	***46.4***	***41.2***	***37.6***
COV	***0.29***	***0.38***	***0.40***
All groups			
Mean	***66.4***	***66.6***	***65.9***
COV	***0.29***	***0.31***	***0.34***
All groups less UK			
Mean	***67.6***	***69.1***	***68.5***
COV	***0.29***	***0.27***	***0.29***

* No national programme

Conservative Welfare States. Of the conservative welfare states, only Germany saw its replacement rates for sickness benefits decline, although at 80% it remained among the most generous countries in the analysis. All the other countries of continental Europe, plus Japan, saw replacement rates increase, with Belgium and Switzerland recording the most significant increases. Interestingly, in all countries except France and Italy, sickness insurance provided significantly more generous levels of replacement rates compared to unemployment insurance. This discrepancy is indicative of the "status-preserving" character of conservative welfare states: those who are sick but employed are treated more favourably than those who are healthy but without a job (Esping-Andersen, 1990). Overall, the summary statistics show evidence of upward convergence among these countries.

Liberal Welfare States. As with unemployment benefits, the pattern is mixed in these countries. Australia and New Zealand, where sickness benefits are means-tested, replacement rates increased between 1979 and 1991, but declined again in the 1990s, producing a slight increase in Australia and no change in New Zealand over the entire period. Canada's sickness insurance system, which appears considerably more generous than any other liberal country, also peaked in 1991 before dropping back toward 1979 levels by 1997. The most significant declines were to be found in the United Kingdom and Ireland. The United States is unique among this sample of advanced industrial countries in that it has no national sickness insurance programme.[xviii] The mean replacement rate for liberal welfare states dropped over the entire time period, and the coefficient of variation increased significantly, indicating a marked degree of divergence among these countries, attributable largely to the sharp declines in the UK and Ireland.

Retirement Pension Replacement Rates

Table 3: Net Replacement Rates (% APW Income) for Minimum and Standard Pensions, 1979, 1991 and 1997

	Minimum			*Standard*		
	1979	*1991*	*1997*	*1979*	*1991*	*1997*
DNK	51	50	62	52	55	61
FIN	56	43	58	66	67	71
NLD	50	47	45	50	47	45
NOR	44	43	49	76	62	64
SWE	41	41	39	73	77	72
Average "Social Democratic"	***48.4***	***44.8***	***48.4***	***63.4***	***61.6***	***62.6***
Coefficient of variation (COV)	***0.12***	***0.08***	***0.18***	***0.19***	***0.19***	***0.17***
AUT	40	37	42	81	86	89
BEL	31	40	36	66	72	80
FRA	18	19	18	58	66	62
GER	44	46	54	58	59	61
ITA	16	26	17	87	87	85
JAP	12	21	30	64	57	59
SWI	27	22	26	44	41	46
Average "Conservative"	***26.9***	***30.1***	***31.9***	***65.4***	***66.9***	***68.9***
COV	***0.46***	***0.35***	***0.42***	***0.22***	***0.25***	***0.23***
AUS	34	41	40	34	41	40
CAN	31	42	42	37	45	46
IRE	28	40	34	32	40	39
NZL	42	44	40	42	44	38
UK	29	28	30	37	44	46
US	24	28	27	57	58	58
Average "Liberal"	***31.3***	***37.2***	***35.5***	***39.8***	***45.3***	***44.5***
COV	***0.20***	***0.19***	***0.17***	***0.23***	***0.14***	***0.17***
All groups						
Mean	***34.3***	***36.6***	***37.7***	***56.3***	***58.2***	***59.0***
COV	***0.36***	***0.27***	***0.31***	***0.30***	***0.26***	***0.27***

Two types of public pension programmes are examined here. "Minimum pensions" are those applicable to retirees with little or no work history, making them ineligible for a standard pension. In most countries the minimum pensions are means-tested. "Standard pensions" assume that a retiree has made full contributions to a mandatory public pension programme, and earned average wages in each year of his or her working life. It is important to note that only mandatory public pension schemes (including occupational programmes) are included here; voluntary private pension programmes are not.[xix]

In contrast to unemployment (and to a lesser extent sickness) insurance replacement rates, average replacement rates for both minimum and standard pensions have actually *increased* slightly since 1979, and there is also some evidence of overall convergence. Minimum and standard replacement rates increased in twelve countries of the eighteen countries (thought not always the same ones). This may indicate that pension programmes are more resilient to welfare retrenchment, but while there is some evidence that this is the case (see, e.g., Pierson, 1994), two caveats must be added. First, the replacement rates as measured apply to new retirees in 1979, 1991, and 1997 respectively. Thus, they may not reflect contemporaneous *changes* to pension systems, since such reforms are almost without exception introduced gradually over an extended period of time. Second, relatively stable figures overall once again mask some significant variation both within and between the three welfare "regimes." During the 1990s, for instance, Scandinavian systems were reformed significantly, shifting away from universality of basic pensions towards some elements of means-testing. While minimum pensions in these countries remain relatively generous, over the longer term the effects may become more significant.

In summary, the discussion of trends in individual programme outcomes highlights the fact that welfare state reform is neither unidirectional, nor are all programmes affected in the same way. However, it is worth noting that the programmes where benefits appear to have been cut more systematically are unemployment and sickness—programmes that probably have the highest marginal "commodifying" impacts. This conclusion might be more difficult to discern from an examination of aggregate governmental expenditures alone. In the next section of the paper, we can now turn our attention to the impact of partisanship on these findings.

PARTISANSHIP AND WELFARE STATE CHANGES

Having examined the welfare state programmes separately it has been shown that differences exist among the programmes, as well as cross-nationally, and thus it is necessary to examine any partisan effects separately too. In the analysis below, I employ four dependent variables, which represent, respectively, replacement rate change in unemployment benefits, sickness benefits, minimum pensions, and standard pensions between points t and $t\text{-}1$ (where t=1991 or 1997, and $t\text{-}1$ =1979 or 1991). In order to account for initial differences in benefit levels, the replacement rate at point t is included in the analysis as an independent variable. This variable also serves as an indicator of conditional convergence: a negative coefficient indicating that above (below) average initial replacement rates are associated with more (less) cutbacks.

It was noted above that there has been some controversy among scholars of political parties as to how to operationalise partisanship. As Schmidt cautions, "the choice of a particular indicator of the party composition of government can make a very large difference to estimates of partisan influence on public policy" (1996: 162). Recall that a common measure, particularly in studies relating to government expenditure, is left party strength in government, often measured in terms of the share of cabinet seats in government. Given the traditional association between left parties and welfare state development, one might reasonably predict a positive relationship between left cabinet seats and an increase in replacement rates. However, Christian Democratic parties have also been traditionally associated with historical welfare development, and so a positive relationship would be expected, but such a relationship would not be apparent if a simple left party strength measure or scale was adopted. For this reason, following Castles (1982), there are strong theoretical reasons to believe that *right* party strength—measured here in terms of average cabinet seat shares over the two time periods in the data set (1979-1991 and 1991-1997)—is a more useful indicator than any based on left-party strength. Parties on the right in the conservative or neoliberal mould are more typically associated with efforts to "roll back" the welfare state, which sets them apart from both social democratic and Christian Democratic parties that are more supportive of welfare policies. Thus, the right party strength measure more neatly encapsulates the distinction between parties based on their ideological approach to social policy.

In addition to measures of party strength, three other substantive independent variables are included in the initial regression analyses, each of which reflect the fact that politics do not take place in a vacuum. The first measures annual growth rates in per capita Gross Domestic Product (GDP), averaged for each time period (1979-1990 and 1991-1997).[xx] It is predicted that there would be a positive relationship between economic growth and more generous benefits, as government revenues increase. Similarly, period of low or negative growth may force governments to engage in fiscal 'belt-tightening,' thus increasing the likelihood of benefit retrenchment. The second economic measure, trade openness, reflects the extent to which countries are exposed to the global economy.[xxi] If globalisation does impinge on the choices available to governments, we would expect a negative relationship between openness and benefit generosity. Finally, in order to assess the extent to which governments may find their "room to manoeuvre" constrained by constitutional factors and other "veto points," Schmidt's "Institutional constraints of central state government" measure is included, with the prediction being that more institutional constraints will limit the opportunities for government to change benefits significantly—in either direction.[xxii]

Unemployment and Sickness Benefits

Table 4 provides regression results for changes in unemployment benefits in the eighteen OECD countries, while Table 5 reports the same results for sickness benefits. The first models in each table include the variables discussed above. For unemployment benefit replacement rates, all are in the predicted direction, but of the political and economic variables—including the economic growth variable—only right party strength is statistically significant, at the 99% confidence interval.[xxiii] *Ceteris paribus*, higher initial replacement rates and the presence of right wing parties in government are both strongly associated with unemployment benefit retrenchment. Overall, the model explains around 15% of the variance in the dependent variable, and is significant at the 90% confidence interval.[xxiv]

For the corresponding model for sickness benefits, *all* the coefficients are in the predicted direction, and once again partisanship is a highly significant predictor of benefit change. Interestingly, while institutional constraints had a slightly positive—but not statistically significant—impact on unemployment benefit change, its effect is reversed, although again not significantly, for sickness benefits. Overall the model, which is statistically significant at the 95% confidence interval, explains almost 21% of variance in sickness benefit change.

The initial models for unemployment and sickness benefit would appear to provide preliminary support for the claim that partisanship remains significant even in the face of globalisation and institutional pressures. Do partisan effects remain strong, however, when the natures of the pre-existing welfare regimes are taken into account?

In order to test the historical institutionalist claim—which, indeed, underpins Esping-Andersen's original analysis—that pre-existing institutional arrangements can constrain current political incumbents, dummy welfare regime variables are introduced in both models (Model II).[xxv] As expected, the social democratic regime type is strongly and positively associated with more generous benefits in both models, while the conservative/Christian democratic regime type is strongly associated with improvements in sickness benefits (largely in line with the discussion above). More notable, however, is the finding that while the introduction of the welfare regime variables increases the total variance explained by each model, convergence and partisan effects, though diminished somewhat, remain strong and statistically significant. This finding runs contrary to recent research by Huber and Stephens (2001a), who argue that partisan effects on the welfare state declined considerably in the 1980s.

Table 4: Regression Analysis of Change in Unemployment Benefit Replacement Rates, t-(t-1)

Independent Variables	***Model I***	***Model II***	***Model III†***
Replacement Rate$_t$	-.225***	-.442!	-.442!
	(.099)	(.137)	(.138)
Right Party Cabinet Share	-.143!	-.105***	-.081*
	(.050)	(.050)	(.049)
Govt. Constraints	1.122	2.119**	1.721**
	(.912)	(1.049)	(.989)
Trade Openness	-.045	-.063	-.064*
	(.051)	(.049)	(.045)
GDP Growth	.457	.624	1.075
	(1.283)	(1.224)	(1.159)
Social Democratic Welfare		13.304***	11.586***
Regime		(5.891)	(5.618)
Conservative/Christian		7.800*	6.640*
Democratic Welfare Regime		(4.615)	(4.398)
Constant	17.785***	21.585***	22.600***
	(8.475)	(8.320)	(8.241)
Adjusted R^2	0.158	0.237	0.216
Prob > *F*	0.068	0.036	0.058
N	36	36	34

Standard errors shown in parentheses, *p < .2, ** p < .1, ***p < .05, !p < .01.
† United Kingdom excluded from analysis.

Table 5: Regression Analysis of Change in Sickness Benefit Replacement Rates, t-(t-1)

Independent Variables	***Model I***	***Model II***	***Model III†***
Replacement Rate$_t$	-.152**	-.379!	-.110
	(.086)	(.123)	(.104)
Right Party Cabinet Share	-.176!	-.134***	-.096**
	(.052)	(.050)	(.037)
Govt. Constraints	.258	.737	.203
	(1.044)	(1.270)	(0941)
Trade Openness	-.054	-.030	-.026
	(.055)	(.051)	(.037)
GDP Growth	1.382	1.113	-.975
	(1.298)	(1.198)	(.963)
Social Democratic Welfare		14.190***	2.53
Regime		(6.427)	(5.22)
Conservative/Christian		12.818***	6.97**
Democratic Welfare Regime		(4.903)	(3.73)
Constant	18.871***	20.375!	8.94*
	(7.763)	(7.176)	(5.69)
Adjusted R^2	0.193	0.317	0.280
Prob > *F*	0.049	0.014	0.031
N	34	34	32

Standard errors shown in parentheses, *p < .2, ** p < .1, ***p < .05., !p < .01
† Finland excluded from analysis.
The United States has no national programme, and is excluded from all three models.

A final modification to the original models is reported in the last columns of Tables 4 and 5. An examination of partial regression plots for these estimates show that some results are highly sensitive to outlying or extreme values. For unemployment benefits, the UK is somewhat of an outlier.[xxvi] If it is excluded from the regression (last column of Table 4), the impact of initial replacement rate and right party presence in government still remains, in both cases within (given the small number of observations) acceptable confidence intervals. For sickness programmes, Finland is an extremely influential case. If it is excluded (last column of Table 5), the partisan effect remains highly significant, but there is no longer any evidence of convergence in this area of welfare policy.

Table 6: Regression Analysis of Change in Pension Replacement Rates, t-(t-1)

Independent Variables	***Minimum Pension***	***Standard Pension***
Replacement Rate$_t$	-.220*	-.124*
	(.137)	(.082)
Right Party Cabinet Share	.052*	-.042
	(.037)	(.034)
Govt. Constraints	.964	-.251
	(.740)	(.635)
Trade Openness	.017	.014
	(.038)	(.031)
GDP Growth	.073	.208
	(.895)	(.736)
Social Democratic Regime	3.569	-2.429
	(3.424)	(2.803)
Conservative/Christian	-.149	1.152
Democratic Regime	(2.778)	(2.755)
Constant	2.929	9.896*
	(5.946)	(6.340)
Adjusted R^2	0.02	-0.038
Prob > F	0.389	0.581
N	36	36

Standard errors shown in parentheses, *p < .2, ** p < .1, ***p < .05.

Pensions

While there was clear evidence of partisan effects on variations in policy outcomes relating to unemployment and sickness benefits, the same cannot be said for public pension programmes. It was noted above that pension replacement rates exhibited a greater degree of overall stability over the eighteen-year period, and there was also evidence of convergence among countries. This is also reflected in the regression analyses for both types of pension programmes discussed previously. Hardly any variance at all in replacement rates was explained by the political, economic, and institutional variables included in the models, and the addition of regime variables, shown in Table 6, did little to shed any more light on the determinants of pension outcomes. With so few observations, at this preliminary stage it would be foolhardy to rule out partisan effects on any pension programme, but the very nature of pension reform makes it less suitable for analysis based on variables that fluctuate in the short term. Even if governments of different partisan hues did enact significant reforms to pension programmes during the period since 1979—and indeed in several countries this was the case—the effects of such reforms, in terms of real changes to benefit levels, may not be visible for years or even decades.

CONCLUSIONS

In this working paper I set out to examine the relationship between government partisanship and recent developments in welfare states in advanced industrial democracies. The debate over the importance of political parties in the policy-making process, both in the area of social policy and economic policy more generally, is now over two decades old. In recent years, however, the increased attention given to the impact of economic globalisation, demographic change and post-industrial change has once again raised important questions regarding the ability of national governments—and the parties that provide their ministers—to retain policy-making autonomy. In the context of such challenges, do political parties still matter?

The analyses reported above -yield some noteworthy conclusions that provide support to the idea that the partisan complexion of government matters when it comes to accounting for divergent approaches to welfare states outcomes. First, despite widespread fears that governments might be forced to make considerable cutbacks in the welfare state, the analysis of replacement rate changes for unemployment, sickness, and pensions benefits since 1979 shows little evidence of overall downward convergence among the eighteen countries in the study. This is not to say that that retrenchment has not taken place in some countries—clearly it has—but systematic retrenchment is not evident. Indeed, one advantage of looking at individual programme outcomes rather than aggregated welfare expenditures is the related finding that change, whether upward or downward, rarely have a uniform effect across all programmes, even in the same country. In this respect therefore, national governments have clearly not all followed similar paths.

Second, and more critically, I found that when it comes to explaining differences in programmatic changes among welfare states, partisanship does play a significant role. While social and Christian democratic parties have historically been at the forefront of welfare state development, the same could not be said of right wing parties. Similarly, in more recent years, parties of the right appear to have been associated more closely with cuts in benefits, although again it should be added that differences remain across programmes as well as countries. The finding that the importance of partisanship remains significant even when controlling for economic, historic, and institutional variables suggests that politics *does* still have an impact on policy outcomes, ensuring that political parties must continue to be a focus of attention to those interested in the policy-making process.

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[i] The eighteen 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.

[ii] The data collection project is being directed by Lyle Scruggs at the University of Connecticut. A grant to fund the collection of the data has been awarded by the National Science Foundation ("A Comparative Welfare State Data Set, 1960-2000," SES-0095367). Further details can be obtained from the author.

[iii] The prevalence of significant religious parties in conservative welfare regime states has led some scholars to refer to this type of regime as a "Christian Democratic" welfare regime (e.g., van Kersbergen, 1995; Huber and Stephens, 2001a).

[iv] Haniff (1976), for example, argues that levels of economic development are more important for predicting social policy expenditure levels than are political factors.

[v] Tellingly perhaps, Lipset's *Political Man* appeared not long after the SPD's famous *Bad Godesberg* declaration in which it renounced its Marxist ideology.

[vi] For a useful summary of the "globalization thesis," see Garrett, 1998: 1-6. For discussions of how economic ideas, perceptions and discourses can influence domestic and international economic policy-making, see Blyth, 1997; Hay 1998, 1999; and Hirst and Thompson, 1996.

[vii] For a novel approach to the question of globalization's impact on social policy in particular, see Iversen and Cusack (2000). Briefly stated, they argue that changes in welfare states come about neither as a result of globalization, *nor* as a result of partisan politics (see below). Instead, they attribute change to "technologically induced structural transformations inside national labor markets" (2000:313).

[viii] As Huber and Stephens (2001a) point out, however, institutions can vary in their degree of path dependence, with some being more malleable than others.

[ix] For more equivocal analyses of the relationship between party politics and macroeconomic policy-making, see Schmidt (1982) and Alesina *et al*. (1991, 1992). Schmidt finds, *pace* Hibbs, that partisan differences do not seem to have a significant effect on unemployment and inflation levels, although they do affect other public policies and expenditures. Alesina and his colleagues, on the other hand, find evidence of only temporary partisan differences on output and employment levels during electoral cycles, while at the same time noting a long-term partisan effect on inflation levels.

[x] Since asset allocation managers are more concerned with macroeconomic indicators such as inflation rates and deficit ratios than they are with government spending—or more importantly, *where* money is spent, Mosley concludes that a "good deal remains—for the Left, Center, or Right—in domestic politics" (2000: 752).

[xi] The larger project will also update Esping-Andersen's social stratification data. In response to some critics of Esping-Andersen's original study, three southern European countries—Greece, Portugal, and Spain—will be included in the new data set, but at present there is insufficient information to include them in the analysis contained in this paper.

[xii] For old age pensions, two categories of retirement benefits are examined: the benefits payable to someone who has qualified for a "full" pension, and the minimum pension benefits payable to a worker who does not qualify for a full pension (e.g., through a lack of sufficient years of employment/contributions).

[xiii] An alternative approach involves categorizing parties based upon the content analysis of party programmes and manifestos (Budge, Robertson and Hearl, 1987; Klingeman, Hofferbert and Budge, 1994; Budge, 1999; Gabel and Huber, 2000; cf. Mair, 1999). Although data based on this approach is not employed here, the relative merits of both approaches are considered more as this research project proceeds.

[xiv] The data set can be downloaded from Professor Swank's Web site: http://www.marquette.edu/polisci/Swank.htm

[xv] The coefficient of variation is obtained by dividing the standard deviation by the mean. A higher value indicates greater divergence from the mean.

[xvi] The increasing similarities between the countries of the British Isles and the Antipodes has led for Castles and Mitchell (1992) to argue that they belong in their own distinctive "radical" welfare regime.

[xvii] It should be pointed out that the tax treatment of the two programmes are not always identical, explaining why the net replacement rates for sickness benefits are not always the same as for unemployment benefits, even when the gross benefits are.

[xviii] While this has led to a relatively poor assessment of the United States *vis-à-vis* other countries, it should be pointed out that several U.S. states (including New York, New Jersey, and California, which

together account for around 25% of the working population of the country) do have sickness insurance programmes in place.

[xix] This explains the apparent anomaly in the Danish pension programme, where the minimum pension replacement rate in 1997 is slightly *higher* than the standard replacement rate. Retirees receiving the standard pension usually supplement this pension with earning-related private pensions, taking their total retirement income well above the minimum pension level.

[xx] Adapted from Huber, Ragin, and Stephens (1997)/ Penn World Tables, and national accounts data.

[xxi] Measured as (Imports + Exports)/GDP. Source: Huber, Ragin and Stephens (1997)/PWT.

[xxii] See Schmidt (1996:172-3). Higher scores are indicative of more constraints.

[xxiii] No directional relationship was predicted for the institutional constraints variable, since it can be seen as an indictor of institutional inertia that inhibits welfare state growth *or* retrenchment.

[xxiv] Since the number of observations in the analysis is relatively small, it is not expected that estimators will always be highly efficient. For this reason, the tables also indicate statistically significant coefficients at somewhat more relaxed confidence intervals of 80% and 90%. More efficient estimates will be expected as the number of observations in the data set increases.

[xxv] With only a maximum of 36 observations available, any attempt to divide the cases into three regime sub-groups would produce a rapid loss of degrees of freedom; hence the use of dummy variables instead.

[xxvi] This is the case particularly as the United Kingdom had a long uninterrupted period of right party dominance, and groups in the liberal welfare regime.