

CHANGING WELFARE STATES



Alexander Horn

Government Ideology, Economic Pressure, and Risk Privatization

How Economic Worldviews
Shape Social Policy Choices
in Times of Crisis

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Changing Welfare States

For quite some time, a key finding and theoretical puzzle in comparative welfare state research was welfare states' remarkable stability. In the last decade, however, it has become clear that advanced welfare states were (far) less immovable than they seemed at first. In fact, speaking of *changing welfare states* captures much better the actual reforms that were taking place. This series is about the trajectories of those changes. Have there been path-breaking welfare innovations or are the changes incremental instead? Are welfare states moving in a similar or even convergent direction, or are they embarking on divergent trajectories of change? What new policies have been added, by which kind of political actors, how, and with what consequences for competitiveness, employment, income equality and poverty, gender relations, human capital formation, or fiscal sustainability? What is the role of the European Union in shaping national welfare state reform?

This series answers these and related questions by studying the socioeconomic, institutional and political conditions for welfare state change, its governance, and its outcomes across a diverse set of policy areas. The policy areas can address traditional "old" social risks like old age, unemployment, sickness (including the health care system), disability and poverty and inequality in general, or "new" social risks that have arisen mainly due to post-industrialization, such as reconciling work and family life, non-standard employment, and low and inadequate skills. In addition to focusing on the welfare state more narrowly defined, the series also welcomes publication on related areas, such as the housing market. The overriding objective of the series is tracing and explaining the full trajectories of contemporary welfare state change and its outcomes.

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in Times of Crisis*

Alexander Horn

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1 Risk Privatization, Economic Crisis, and the Primacy of Politics

1.1 Context, Research Problem, and Research Question

Historically, the postwar decades in much of Western Europe and the Anglo-Saxon democracies have been characterized as a period of unmatched prosperity. The rapid catch-up growth, particularly strong in Europe, facilitated the comprehensive socialization of life- and labor-related risks via social programs. Against the backdrop of the Cold War rivalry, this extension of social security systems can be regarded as an important legitimizing factor for an economic system that continuously generates inequality (capitalism) while at the same time operating under conditions of political equality (democracy). However, the “golden age” of industrial capitalism (Hobsbawm 1996: part 2), with double-digit growth rates and de facto full employment in many industrial democracies, ground to a sudden halt in the early 1970s. While the reasons for the flattening of the growth curve remain disputed, its consequences for contemporary welfare states and their material foundations are extensive. Sluggish growth in increasingly deindustrialized and tertiarized economies and a growing number of welfare recipients have contributed to a climate of “permanent austerity”; governments across the Organisation for Economic Co-operation and Development (OECD) face an enduring fiscal crisis, as public provision has expanded faster than the economy while the discretionary share of national budgets has decreased (Pierson 1994, 2001; Streeck and Mertens 2010). The end of the hitherto unmatched prosperity gains also marked the end of the “golden age” of the welfare state. Since the 1980s, the OECD states have undergone an observable reprivatization of labor market-related risks. This trend is particularly pronounced in the case of unemployment insurance programs, where eligibility rules have become increasingly restrictive and once generous income replacement has been curtailed substantially (see Allan and Scruggs 2004; 2006; Amable et al. 2006; Korpi and Palme 2003; Nelson 2010 for quantitative assessments, critical of this view: Pierson 1996).

These curtailments are of particular significance from a scientific, political, and societal perspective. The support for those persons unable to extract an income from the market marks the core of the postwar welfare state (Bonoli 2007: 495), and the configuration of unemployment insurance remains the central battlefield for the countervailing interests of capital and

labor (Korpi and Palme 2003). Regarding its direct social policy effects, the rollback of programs counteracts efforts to fight poverty and inequality and has even been shown to have negative repercussions on life satisfaction. But the broad implications stretch far beyond the narrow confines of beneficiaries, as benefits constitute a reservation wage and exert downward or upward pressure in wage-setting negotiations.¹ Compared to other programs, the implications of cuts to unemployment insurance generosity are particularly politically divisive (Jensen 2014; Wolf et al. 2014), as they disproportionately affect those with weak labor market positions. While the redistributive effect of pension schemes and sickness insurance is largely horizontal (i.e., redistribution occurs mainly over the course of life), cuts to unemployment programs have severe implications for vertical redistribution because of the skewed distribution of risk (i.e., redistribution between social groups). On a related note, unemployment insurance and the right balance between compensation and incentivization of the unemployed are also highly ideologically charged (wedge issues). They serve as a focal point not only for competing interests between groups but also for antagonistic ideologemes regarding the workings of the micro- and macroeconomy, normative conceptions of fairness and justice, and even different images of humanity.

Whether this consequential retreat of the state, often referred to using the buzzword *retrenchment*, is due to economic constraints or ideological preferences is a contested issue for the general public as well as the scientific community. It is also the guiding question of this book: Are decisions to cut unemployment insurance genuinely political or are they born out of economic necessity? Put differently, can social policy choices still be conceived of as manifestations of distinct ideological complexions of government or are contemporary democracies on autopilot, following the parameters set by recurring fiscal and economic crises? These questions point to thorny issues regarding the nature of problem pressure in general and economic pressure more specifically and how the latter interacts with the interpretative frameworks of politicians and parties. Do economic crises exert similar policy effects irrespective of problem interpretation, causal beliefs, norms, and values? Or are the economic circumstances instead regarded through the prism of different ideological lenses? Then again, the importance of this differentiation hinges on the question whether there is (still) sufficient

1 These economic effects feed back into the social policy nexus. One example concerns the sustainability of pension schemes, which – against the background of aging populations – depends not on productivity gains per se but rather the extent to which they are translated into wage increases (OECD 1988).

variation between parties and governments regarding these ideological lenses. If the voter has to choose from an increasingly undistinguishable programmatic mishmash (as the stereotypical barroom slogans and some famous social scientists suggest), it is not very reassuring that he got what he “ordered.” At least if you care about representative democracy. In other – and more scientific – words, the convergence of policy and ideology threaten the primacy of politics because they undermine the foundations of the so-called mandate theory according to which different programmatic profiles lead to different policies (Hofferbert and Budge 1992; Klingemann et al. 2006).

Before I start to decipher how to address said questions, let us begin by looking at some of the answers we find in the political and the academic discourse regarding the autonomy of parties and politicians for genuinely “political” decisions. The idea in the political discourse that the state retreat from social provision is without alternative was popularized by British prime minister Margaret Thatcher and US president Ronald Reagan at the end of the 1970s and in the early 1980s. This occurred under the (intellectual) auspices of the teachings and writings of Milton Friedman, Ludwig von Mises, and Friedrich von Hayek (Backhouse 2010; Hall 1993). What these representatives of the Chicago and Austrian Schools had in common was a preference for small(er) government and, in particular, a lean(er) welfare state. Milton Friedman popularized the new economic doctrine of monetarism. He rejected the old Keynesian consensus among scholars such as Samuelson or Phillips that there is a permanent tradeoff between unemployment and inflation. Monetarists such as Friedman basically adhere to the equilibrium view of the market as stable but on the condition that the money supply is stable. To bring inflation to a hold, the state must therefore limit the money supply and cut spending. The renaissance of the work of von Hayek complemented these new causal beliefs with a normative and philosophical basis. Encompassing (welfare) states, so the argument went, create behavioral disincentives that transcend the purely economic dimension. The “nanny state” does not just undermine self-help and self-reliance; it eventually creates servants rather than citizens. For the dissemination of these new causal beliefs and norms and their translation into policy proposals, think tanks such as the Heritage Foundation became increasingly important from the 1970s on. This is most obvious with regard to the ideational background of the policies and programmatic platforms suggested by the “conservative revolutionaries” of the late 1970s and early 1980s (Thatcher in the United Kingdom, Reagan in the United States, and – to a lesser extent – Helmut Kohl in Germany). What these conservatives had in common was the conviction that scaling back the welfare state was

both morally fair and just, and economically necessary “because there really is no alternative.” This dictum widely came to be known as the TINA (There Is No Alternative) principle.²

Yet other governments, left *and* right, faced similar if not greater economic pressure without reaching the conclusion that there is no alternative to retrenchment and implemented very different or no policy responses. Debates about the terrain of political action and the possibility of genuinely political decisions vis-à-vis economic constraints remain a cornerstone of political debates to this day. Most recently, the TINA argument returned to the center of debate on economic and social policy in the aftermath of the global financial crisis in 2008. This US-induced financial crisis further heated debates between those who think that austerity, commonly understood as economic and fiscal policies that focus strongly on budget consolidation, is the only viable policy option, the necessary pain after the party, and those who deem austerity a “dangerous idea” and think that “the hangover of austerity is not going to be felt the same across the income distribution” (Blyth 2010, 2013) but that the weak income groups keep bearing the brunt.

There is no shortage of voices in politics (and, as I will show, in academia) that reduce different positions on such fundamental questions to the different interests and groups that are associated with different political parties or factions of parties. However, what if ideology in its most basic sense, the causal beliefs and norms of actors – rather than pressure per se or group representation – shapes the perception of problems and challenges? What if different interpretative frameworks function as a prism that renders certain alternatives viable reactions to pressures but others not? And what is the relative importance of problem pressure, group representation, and ideology?

Clearly, considerable skepticism concerning the autonomy of democratic elites in representative democracies can be found among social scientists, though it would be fallacious to simply consider all those scientific skeptics ardent advocates of Margaret Thatcher’s belief that “There Is No Alternative” to retrenchment policies. According to Paul Pierson, the *spiritus rector* of the academic retrenchment debate, governments are caught between a rock and a hard place. On the one hand, they are faced with fiscal calamity and persistently low growth; on the other hand, they must fear electoral retribution when they cut popular programs (Pierson 1994, 1996). This malaise constitutes the basic dilemma underlying what Pierson refers to as *The New Politics of the Welfare State*, which stands in sharp contrast to the logic of *credit claiming*

2 In a press conference for American correspondents held in London on 25 June 1980, defending monetarist policy.

for the redistribution of an ever-growing (economic) pie that dominated the politics of welfare expansion. An even more gloomy perspective on the autonomy of governments can be found among the proponents of the so-called *Globalization Hypothesis*, or *International Hypothesis*. They posit that the pressure of international competition between countries over locational advantages rules out the possibility of generous and unconditional social policies, as companies could make use of the “exit option” if encumbered with contributions deemed too costly (Mishra 1998; Moses 1994; Scharpf 2000).

Then there is a group of scholars who, in the tradition of the *Power Resources Approach* and the *Partisan Hypothesis*, argue that the partisan composition of government exerts a persistent influence on social policy and that the politics of retrenchment can be understood as a mirror image of expansion politics. While parties of the Left have – in close association with, and as part of, the labor movement – been a driving force behind the welfare state expansion in the “golden age,” they claim that retrenchment is primarily an endeavor of right parties, and the economic and fiscal crisis may be just a “smoke screen for a new right agenda” (Allan and Scruggs 2004; Korpi and Palme 2003; Stephens 2008: 193).

Both perspectives, the skeptical view of party politics marginalized by internal and external economic and electoral pressures, as well as the adherence to the group-based ideas of a political Left that wants to defend the welfare state and a political Right that wants to curtail it, are questioned by a third fraction, according to which parties have moved “beyond left and right” and increasingly transcend traditional frontiers of social policy. The underlying rationale is that parties have changed their agendas – in particular those with left historical roots are perceived as trying to disassociate themselves from their “big government/tax-and-spend” reputations by becoming increasingly market conformist (Bonoli and Powell 2004; Giddens 1994, 2000; Ross 2000: 163–164), and/or that (once) left-of-center parties are in a privileged strategic position to implement unpopular cut-backs because they are perceived as the “credible protector” of the welfare state and the “owners” of welfare state issues (Kitschelt 2001; Ross 2000). These are the three competing perspectives on the impact of government ideology on social policy retrenchment. None is clearly supported by the (thus far) inconclusive empirical evidence on the social policy impact of ideology, although many authors agree that a “sharp narrowing of political differences” occurred in the 1980s and that effects broke down in the 1990s (e.g., Huber and Stephens 2001: 221; Kittel and Obinger 2003; Potrafke 2009).

A striking feature concerning the retrenchment discourse at this relatively early stage is not, however, the lack of consensus about the role of party

politics, but rather the readiness with which presumed dead functionalist explanations, which have enjoyed great popularity in the formative period of the expansion discourse when gross domestic product (GDP) per capita as a proxy for modernization was used to explain welfare spending (only then to be superseded by political and institutional factors more instructive for countries at similar levels of economic development³), have found their way back into the mainstream, albeit in more subtle iterations. Particularly in the literature on the *New Politics Approach* and the *Globalization Hypothesis*, endogenous and exogenous economic pressures are considered pivotal causal triggers. In terms of this renaissance of socio-economic explanations, Francis Castles, the doyen of quantitative comparative welfare analysis, can be considered the most incisive example, claiming that “domestic economic performance has been the main factor” causing “welfare containment” (Castles 2000: 313).

On the face of it and against the background of this renaissance of economic explanations, this book departs from a puzzle that lies before us in plain sight: Although governments face very similar external and internal pressures and challenges, they respond to them in very distinct ways in terms of their social policies. As will be shown, some have implemented sharp cuts; others have refrained from status quo change, while others yet have even increased the generosity of programs. However, the actual bone of contention in this examination is how this puzzle has been investigated so far: Corroborations and confutations of partisan influence as the filler of this explanatory gap have been based on problematic understandings of (government) ideology and its relevance, a circumstance that will hereafter be referred to as the “Independent Variable Problem.”

1.2 The Independent Variable Problem

This Independent Variable Problem is both a problem of measurement and theorization. Let me roughly outline both aspects. First, I will shed light on how the common measurement of the composition of government via

3 This investigation of the economic determinants of growing “welfare effort” was pioneered by Wilensky (1975). While the approach yielded the positive linear relationship between development and welfare effort predicted by the modernization thesis if countries varied broadly in terms of economic development, no such relationship can be found for the more homogenous group of advanced countries when subdivided into low-, medium-, and high-affluence countries. Here the relationship is curvilinear – meaning that the positive relationship at some point becomes negative – as the nations occupying the mid-range of affluence exhibit the highest share of social spending (Castles 2000: 317).

traditional party labels obstructs a valid test of the aforementioned three competing perspectives on partisan effects. I will then problematize the theoretical justification(s) provided for linking the traditional ascriptions to retrenchment.

Virtually all comparative welfare researchers in post-2000 studies on partisan effects have measured the composition of government via party labels; categorizations resulting from static expert judgments of parties or historical affiliations to party families (discussed in-depth in sections 3.2 and 4.1; the most prominent examples include Allan and Scruggs 2004; Huber and Stephens 2001; Kittel and Obinger 2003; Korpi and Palme 2003; Vis 2009; Zohlnhöfer et al. 2012). The classic reference point for such expert judgments on party ideology is a Castles and Mair study entitled “Left-Right Political Scales: Some ‘Expert’ Judgments” (1984) in which country experts were asked via postal surveys to locate parties on a ten-point scale between “extreme left” and “extreme right.” The number of gradations is generally reduced when the partisan effect is investigated and government parties are tagged with the labels “left,” “center,” and “right.” The traditional approach in the research on the determinants of welfare state expansion was to focus on the share of left parties, usually measured via the percentage of cabinet positions for coalition governments and occasionally complemented with the cabinet share of Christian Democratic parties. In retrenchment research, partisanship is primarily measured via the share of left and/or the share of right parties in government (and less frequently with the share of centrist parties). While these are the “traditional rough indicators for the ideological position of the government” (Kittel and De Deken 2007: 92), this operationalization of government ideology via party labels, meritorious and intuitive as such labels are, suffers from inherent problems and limitations that keep us from better understanding how the interplay between ideological positions and economic conditions shapes government social policy reactions.

One such problem is the inability to capture ideological change due to the static nature of the categorizations. This is problematic because the gap between categorizations of governments as left, center, and right based on expert judgments versus dynamic left-right positions, as measured via the content analysis of party manifestos, is indeed ever-increasing. The latter can be witnessed among parties in general and for OECD governments in particular since the 1970s. Similar programmatic displacements over time will be documented regarding the support of left, center, and right cabinets for the welfare state and state intervention as well as for market allocation and anti-interventionism. This growing discrepancy between

actual positions and static ascriptions suggests that the rejection of the hypothesis that the ideological complexion of government systematically affects social policy decisions based on party labels might be an operational artifact owing to the reduced validity of labels as proxies for government ideology.

A related complication concerning the substantial meaning of the left-center-right categorization of governments arises from the assessment of multiple policy dimensions to generate the estimates. Positions assigned by experts vary strongly depending on the respective policy area and the criteria used for left-right assessment (Budge 2000; Laver and Hunt 1992). Countervailing indications apply depending on whether the socio-economic or cultural dimension is considered, both being consensual in the theoretical and empirical literatures on the dimensionality of party positions (Benoit and Laver 2007; Kitschelt and McGann 1997; Marks and Steenbergen 2004). I will demonstrate that this classic distinction is also valid for the programmatic stances of governments in the last four decades. This question of (multi)dimensionality is crucial, because scholars who use labels in their research “impute” substantive policy content(s) (Budge 2000: 108). In the classic formulation of Hibbs’ influential Partisan Theory (1977), for example, distinct preferences regarding the (alleged) tradeoff between employment and inflation are assumed. The assumption was that the Left is more concerned with employment, while the Right prioritizes monetary stability. In the current research on retrenchment, the substantive programmatic characteristics that are imputed are welfare state affinity and the readiness to intervene in the economy for the parties with left labels, and welfare-skeptical – if not outright welfare-antagonistic – and noninterventionist preferences for parties with right labels. Few studies are explicit about this “preference imputation” strategy (Allan and Scruggs 2004; Zohlnhöfer et al. 2012). I will demonstrate how this imputation of social policy-relevant preferences into broadly defined Left and Right measures, whether based on static party labels or dynamic positions inferred from party manifestos, is theoretically unconvincing and, above all, scarcely justifiable on empirical grounds.

A third fundamental problem with using party labels to investigate the Partisanship Hypothesis is a lack of empirical discrimination: If the null hypothesis – according to which the complexion of government does not matter – cannot be rejected, it remains unclear whether the ideological indifference of the governments or their political impotence to implement preferences is the reason for this (non)result. In other words: We have no indication as to why we find no partisan effect. Conversely, being able to

reject the null hypothesis does not automatically imply substantive partisan effects on social policies. Only if some relevant ideological differences between governments persist, and it is thus ensured that diagnosed effects are not the effects of miniscule ideological differences between cabinets that have converged, should the policy effects resulting from this variation be regarded as substantively meaningful. In order to do justice to all three competing theoretical perspectives and in order to distinguish between ideological indifference or ambivalence (e.g., in the form of countervailing norms and causal beliefs) and marginalization (e.g., by economic problem pressure), it is necessary to first consider whether the assumption of persistent ideological differences between cabinets is indeed accurate.

Another concern with the application of expert judgments is that they do not measure preferences; rather, they reflect retrospective evaluations of observed political behavior or merely comprise a party's reputation as being left or right (Bräuninger 2005; Budge 2000: 109-10; Klingemann et al. 2006: 6, 83). If studies detect a relationship between party labels and past social policy outputs and/or outcomes, while the ascription of these labels by experts is based on past policies rather than declared preferences, this would constitute a circular argument. The classic studies on expert judgments were conducted in the era of welfare expansion (e.g., Castles and Mair 1984). Seen from this perspective, more than the ideological changes among parties it is the decline of their tautological (i.e., policy) content that could be behind the erosion of the consensus regarding the impact of partisanship on social policy subsequent to the politics of welfare state expansion. At the very least, this potential contamination of party preferences with party reputation and past policies raises questions concerning the risk of using expert judgments as standalone indicators for the ideological complexion of government when studying the political determinants of social policy retrenchment. However, a focus on party labels alone is typical for studies of the partisan effects on retrenchment.

But the Independent Variable Problem is equally a problem of the theorization of the "why question": Why should we expect the ideological composition of government to have an impact on retrenchment? As will become clear in the review of the competing theories, according to Power Resources and Partisan Theory, two bundles of assumptions are constitutive for the causal chain. First, there is the assumption of a causal nexus between socio-economic group membership, social and economic policy preferences, and party preference. Preferences are thought to be group-specific: Persons with lower-middle-class and working-class backgrounds – more specifically, those with limited income and high risk exposure and therefore a weaker

labor market position – disproportionately support generous and relatively unconditional social insurance. Conversely, higher status groups – people with higher income and lower risk exposure, i.e., a strong labor market position – are disproportionately in favor of modest and conditional social insurance. The second bundle of assumptions includes parties' willingness and ability to cater distinctive social policies to the socially stratified expectations, preferences, and needs of their respective core groups. The alignments are conceived of as corresponding to the (historical) affiliation between parties with status, income, and risk groups; variables that can be subsumed under the heading "(labor-)market position." In that which Korpi (1983) famously labeled the "democratic class struggle," the left parties allegedly represent groups with weak market positions by means of modified market outcomes and the allocation process itself, whereas the Right is regarded as the protégé of the more resourceful beneficiaries of market distribution and, thus, as more redistribution-averse.

Overall, the theoretical justifications provided for linking ascriptions such as left and right or historical affiliation to party families with welfare state change are based on group or class affiliations. "Partisan effects" on social policy are conceived of as the result of agency for material group interests. How these party labels relate to shifting ideological preferences is hardly considered, just as the role of government ideology understood as system of beliefs, "body of normative and factual assumptions about the world" (Budge 1994: 445), or "worldview" (Vincent 2010) is seldom reflected upon. This theoretical constriction is a serious shortcoming, equally surprising and objectionable from the perspective of three adjacent streams of research: The research on the erosion of alignments between socio-economic groups and parties, the body of literature on political ideology, and the research on cognitive frames and ideas and their impact on decision-making in public policy, often referred to as an "ideational" approach.

Politicians operate in a context of "permanent austerity" but are also faced with the erosion of ties between social groups and parties – a process commonly referred to as dealignment (Bürklin and Klein 1998; Dalton and Wattenberg 2002; Weßels 2000; Thomassen 2005). As the core groups of parties shrink, fray, and develop ever more heterogeneous preferences and as the relevance of class voting decreases, the first assumption in the causal chain (of social stratification of preferences and party support) is undermined, creating a context of increased uncertainty regarding the electoral payoffs of different policies. In turn, this raises questions as to which group or class interests parties are thought to represent. Parties have yet to be able to react to this formidable strategic challenge with coherent

and electorally successful realignment strategies (Bardi 2004; Knapp 2004; Mair et al. 2004; Scarrow 2004; Webb 2004). It is thus questionable whether the second assumption (that parties implement social policies with regard to their respective core groups) underlying the causal chain remains applicable in the new context of dealignment-induced uncertainty about the electoral payoffs from different social policy choices.

Against this background of changes in the parties' strategic habitats, one might expect the interest- and identity-based understanding of government ideology and its effects (or lack thereof) on welfare policies to be complemented with a more literal interpretation of ideology as belief system or worldview, as the politicians who make (non)decisions under strategic uncertainty may use ideology as a "cognitive anchor" when allocating or reallocating resources (e.g., Budge 1994: 445-447). Unfortunately, such an understanding of government ideology as a belief system, cognitive heuristic, or frame that shapes social policy decisions has not been considered in the quantitative retrenchment literature. This omission stands in stark contrast to the elaborated political science literature on political ideology, where ideology is broadly conceived of as a system or set of beliefs (Converse 2006), "ideational framework" (Merelman 1969), or "worldview" (Vincent 2010), usually qualified further as political or addressed more specifically as the views on the role of government and the proper order of society. Moreover, as a distinctly political subtype of belief systems, political ideology is subdivided into a normative or value dimension versus an ontological, causal, or evaluative dimension. The importance of ideology as a heuristic under conditions of uncertainty is another recurring theme, whereas views of ideology as superstructure that merely serves underlying material (group) interests are rare (see Budge 1994; Erikson and Tedin 2001; Gerring 1997; Jost et al. 2009; Knight 2006; Sartori 1969).

Likewise, the common theorization of partisan effects neglects the idea-based or "ideational" public policy literature. The approaches with the most lasting repercussions are the work on "policy paradigms" (Hall 1993), "economic ideas" (Blyth 2002), and the "advocacy coalition" framework (Sabatier 1998). The lowest common denominator of these influential approaches and the more recent ideational work is the view that policy makers are guided by "interpretative frameworks" consisting of causal beliefs and normative convictions, which serve as cognitive frames that filter the perception of the situation, problems, and even self-interest, while notions that ideas are epiphenomenal to interests are commonly rejected (Béland 2005, 2009; Béland and Cox 2010; Campbell 2002; Hay 2010; Olive et al. 2012; Steinmo 2003). As Béland and Cox (2010: 16-17) correctly lament in their summary of

state of the art of ideational literature, however, empirical validations are restricted to qualitative studies, whereas complementary attempts to test ideational hypotheses based on cognitive framing arguments in a large-n context and a quantitative framework, to lend external validity to this line of thought, remain missing.

1.3 Addressing the Independent Variable Problem in the Study of Partisan Effects

The contribution I make with this book extends far beyond systematic criticism of the existing operationalization and theorization concerning the ideological complexion of governments and its relevance in terms of social policy. Rather, this critique guides the theoretical and operational choices of a study that builds on the profound insights of the predominantly conceptual and case-oriented research addressing the impact of economic ideas and on political ideology to develop and test a (cognitive) framing argument for the enduring social policy relevance of government ideology, especially in times of economic crisis. In this manner, the book complements group-based policy-explanations and provides a more comprehensive test of the impact of government ideology than allowed by the commonly used static party labels (based on expert judgments). In doing so, the study also addresses the aforementioned desideratum that hypotheses based on cognitive framing arguments have yet to be tested beyond case-specific studies.

First, I draw on the definitional intersections in the works on political ideology and ideas and synthesize the constitutive elements to distill what it means to understand government ideology as a cognitive frame rather than predominantly as a proxy for (group) interest representation. In short, ideology can be regarded as a cognitive frame or interpretative framework that provides actors or, more specifically, governments with two closely intertwined sets of beliefs: causal beliefs about the interplay between government, the economy, and society (the *ontological* dimension) and beliefs about the norms and values that are to be maximized and which constitute the background against which the status quo is assessed (the *normative* dimension).

This definition is then applied to two “solutions” to the Independent Variable Problem: the use of time-variant, left-right scales and the use of “welfare ideology” and “market ideology.” In order to have a meaningful criterion for the discussion of these solutions, however, it is necessary to determine

the substantial (ontological and normative) differences underlying left and right belief systems as the (by far) most commonly referred to ideological continuum and the one structuring the “politics matter” discourse in current retrenchment research. Based on a discussion of inductive as opposed to deductive views on the left-right dyad, I extract those ideologemes that constitute the abstract core of left and right ideas, norms, and causal beliefs. I take the historically grounded view that left and right are divided by the different core values equality and freedom, a widely shared conception among intellectuals, political philosophers, and historians of ideas (see, e.g., Bobbio 1996, 2006; Giddens 1994: 251; Kymlicka 1997; Vincent 2010). I argue that this normative divide corresponds to an institutional preference for either state or market solutions: Egalitarian norms find their expression in a stronger focus on the (welfare) state, whereas norms pertaining to negative freedom and the acceptance of inequality are more compatible with market allocation.

It is this nexus of norms and ontological beliefs that provides the theoretical anchor for the selection and evaluation of the two alternative ways to account for government ideology. More precisely, in addition to the consideration of the operational concerns outlined earlier, the goal is to capture empirically 1) the normative divide between the competing core values of equality and (negative) freedom and 2) the ontological divide between market allocation versus state intervention and redistribution; a distinction that may also be regarded as the institutional manifestation of the fundamentally different norms underlying the left-right dyad.

The first approach is to use time-variant left-right scales that capture the change of party positions based on the content analysis of party manifestos conducted by the Manifesto Research Group (Budge et al. 2001; Klingemann et al. 2006), of which the Right-Left index “RILE” is the most prominent example. I argue that while its usage has many advantages over labels regarding the reviewed operational problems, it causes conceptual confusion due to its inclusion of a number of items not related to the normative (equality versus freedom) and ontological divide (state intervention versus market allocation). As shown via correlations, factor analyses, and the exemplary discussion of British, German, and Swedish parties, positions regarding social and economic policy are relatively unrelated to moral, cultural, and foreign policy convictions. This is why the RILE is associated with a considerable measurement mistake and a validity gap in retrenchment research – because parties with the same RILE score can (and often do) hold opposing views on relevant questions regarding the welfare state and the redistribution of market-generated results. Thus, in order to

investigate whether a causal link between an incumbent's political ideology and the privatization of unemployment insurance exists, in a second step, I focus on elements of party ideology that are theoretically relevant for the question of retrenchment. I construct two indices for welfare-specific cognitive frames: market and welfare ideology. Each consists of a normative and an ontological subdimension. While the normative dimension of welfare ideology combines items that are related to egalitarian values, the ontological dimension of welfare ideology can be regarded as a measure for state intervention and market skepticism. By contrast, the normative dimension of market ideology captures an emphasis on meritocratic and antiegalitarian attitudes, and its ontological dimension covers neoclassical economic and laissez-faire positions as well as the approval of free entrepreneurship. Building on the previously discussed examples, I point out the informational gains associated with the complementary use of the market and welfare ideology scale with the Right-Left index and conventional party labels.

I depart from the general ideational argument that governments are not simply reacting to structurally given interests in self-apparent crises but perceive the economic situation through the lens of their ideology. Based on the application of this general framing argument to the question of unemployment insurance retrenchment, I hypothesize that if market intrusion is deemed desirable in order to promote equality and social security, this will, *ceteris paribus*, go along with less risk privatization. By contrast, if a government emphasizes market mechanisms, it will, *ceteris paribus*, restrain welfare generosity and tighten conditionality. The underlying rationale is that governments with pronounced market and welfare ideology take opposing views on a range of causal and value-laden questions evolving around and connected to the question of whether to implement cutbacks: On the ontological dimension, these opposing views concern, for instance, the nature of the market *per se*, the role of the (welfare) state in the economy, the prioritization of macroeconomic goals, and most importantly, the assessment of the reasons for economic crises and unemployment. On the normative dimension, views differ, for example, regarding the extent to which the privatization of labor-market risks aligns with conceptions of fairness, social justice, and moral perceptions about the workless. These divergent views are expected to lead to countervailing inferences regarding the necessity and appropriateness of unemployment insurance retrenchment.

But the cognitive framing argument allows for more specific postdictions regarding the social policies applied by governments in hard times.

If welfare and market ideology serve as interpretative frameworks that “frame” the perception of economic problems and shape policy reactions, the effects stemming from socio-economic pressures, such as low economic growth, should depend on the ideological complexion of government in terms of welfare and market ideology. Welfare ideology is expected to buffer or level and market ideology to amplify the effects of pressures. The framing argument in this specific sense implies that the negative impact of economic pressure(s) on risk privatization should be conditional on (high) market ideology as well as (low) welfare ideology.

The conceptual section is concluded with an overview of the five derived hypotheses: Right Retrenchment, No Partisan Effect, Left Retrenchment, Market-Ideology hypothesis, and Welfare Ideology hypothesis). In addition, three “metaexpectations” are formulated to sum up the arguments on the problems associated with using party labels, the problem of multidimensional ideology, and the (specific) cognitive framing argument.

1.4 Way of Preceding and Outline of the Results

An integral part of the empirical analysis which precedes the engagement with the theoretical and analytical framework is chapter 2, in which I clarify what is meant by the term retrenchment and the extent to which it is justified to speak of retrenchment or resilience with regard to the development of unemployment insurance across OECD countries between 1971 and 2009. I define retrenchment as a retreat of the state involving the privatization of labor market risks in general and the risk of unemployment in particular. More precisely, and in line with other conceptions of programmatic retrenchment, I speak of instances of retrenchment where programs become less attractive because the generosity of entitlements is reduced (generosity dimension) and/or the respective eligibility rules are tightened (conditionality dimension). Based on existing and newly gathered data, I argue that the documented curtailments, particularly regarding the generosity of unemployment insurance benefits, constitute significant retrenchment; especially when taking the severe political, social, and economic consequences of these cutbacks into consideration.

Chapter 3 locates the Independent Variable Problem in the context of previous research on the effect of the partisan composition of the government on social policy in general and retrenchment in particular. It starts from a critical elucidation of the three contending perspectives on the role of parties in the politics of retrenchment. Three hypotheses are derived.

Subsequently, the inconclusive empirical evidence regarding partisan effects and the problems that plague the accumulation of evidence are discussed. In chapter 4, I single out and describe the Independent Variable Problem – the insufficient conceptualization of ideology – as the most important lacuna. On this basis, the framing argument and the two “solutions” are introduced to address the problem.

Before proceeding to the causal analysis, it is demonstrated in chapter 5 that governments have by no means struck their ideological sails in the whirlwinds of the economic pressures they are facing (by becoming uniform). Despite the lengthy list of prominent augurs that foresaw ideological convergence, for the 223 OECD governments under study in the last four decades, one can at best speak of “partial” convergence. The ideological climate from the era of expansion to the era of retrenchment became slightly more right, slightly more market-affine, and slightly less welfare-friendly. However, the dispersion of the programmatic positions decreased only modestly, these trends are limited to European OECD countries, and in part attributable to the occurrence of some particularly high values in welfare and market ideology in the 1970s and 1980s. Overall, the funnel-shaped compression of the programmatic positions over time that would indeed constitute a threat to representative democracy has fortunately not yet materialized.

Chapter 6 is devoted to the Gretchen question as to whether this meaningful ideological variation leads to systematically different patterns of change in unemployment insurance generosity and conditionality. The chapter proceeds in five steps. First, in section 6.1, I discuss the research design and the model. I opt for the relatively homogenous country group of established democracies which are highly affluent OECD countries and advanced welfare states, resulting in eighteen countries with 223 cabinets between 1971 and 2009. I then discuss the choice of “ideologically consistent quasi cabinets” instead of annualized observations as the unit of observation. This cabinet approach is well suited to account for the (net) social policy balance of governments and is also more robust than annual data when policy changes follow political (non)decisions with a delay. Subsequently, the hypothesized effects and the operationalization of the variables are discussed. To get at the effects of partisanship, I use the share of left, center, and right parties in government, the Right-Left index, and welfare and market ideology in country fixed-effects regression models. These models rest on the variation between cabinets within countries, thus allowing for inferences about the impact of ideology in a given setting, controlling for the idiosyncrasies of individual countries.

Section 6.2 presents the analysis of the main effects of the various indicators for government ideology. If explanations of partisan effects are grounded in the representation of group interests, we should expect the party labels to turn out to be postdictors of retrenchment. Effects of welfare and market ideology in the hypothesized direction would indicate support for the (cognitive) framing argument. If the skeptics are correct, the null hypothesis should hold irrespective of ideology indicators. This would mean that the composition of government indeed does not matter.

First, results regarding the generosity of benefits are reported and discussed. The share of left, center, or right parties proves inconsequential. A cabinet is more inclined to retrenchment the more rightist its positions in its manifesto according to the time variant RILE. Welfare ideology exerts a positive effect. Together with normative and ontological subindices, market ideology is the most important ideological determinant of retrenchment, both in terms of effect magnitude and significance. However, the functionalist zeitgeist also receives unequivocal confirmation, as results across all models indicate that a problematic economic context translates into cutbacks.

The results are not quite as clear-cut regarding the second dimension of changes in benefit conditionality. While the ideological complexion of governments again appears inconsequential when assessed via party labels, cabinets are primarily motivated to tighten the conditionality by pronounced welfare ideology. Overall, the results for both dimensions correspond to the expectation that the share of left-, center-, and right-labeled parties in government is inconsequential, whereas welfare-specific cognitive frames such as market and welfare ideology systematically find their expression in social policy decisions; with the multidimensional measure RILE being of intermediate explanatory relevance. Subsequently, I assess the context-sensitivity of the documented partisan effects (noted, e.g., by Kittel and Obinger 2003: 36). More specifically, I test the robustness of the results by using alternative dependent variables for the generosity and conditionality dimension and by delimiting the leverage effects exerted by individual countries.

Section 6.3 is then devoted to the investigation of competing and complementary explanations: welfare regime type, unionization, “growth to limits,” and the fragmentation of the government. In particular, the impact of the opposition ideology on governmental social policy decisions is investigated. This variable has received scant attention despite the long-standing prominence of theoretical arguments on how opposition ideology serves as a strategic constraint on government choices (see Amable et al. 2006: 441; Duverger 1954: xxvii; Hicks and Swank 1992; Kitschelt 2001).

Section 6.4 is devoted to the specific framing argument, according to which the negative effect of economic pressure depends on the ideological lens through which cabinets perceive the economic situation. Only via interaction analyses is it possible to investigate whether the (negative) effects exerted by economic pressure are, as claimed, dependent on low welfare ideology and high market ideology. To show that no such conditioning effect exists for government ideology when conceived of in terms of left and right party shares in government (measured via party labels), I visualize the interactions for all indicators for the ideological complexion of government used in the previous regression analyses. No mediating effect is found for left and right partisanship, but the strong negative effects of economic pressure are indeed buffered by welfare ideology and nullified in the absence of pronounced market ideology. This lends further credence to the framing argument.

In section 6.5, the findings are complemented with and discussed against the background of illustrative case evidence of different governments in hard economic times. I focus on Germany under Helmut Kohl, the United Kingdom under Margaret Thatcher, and Sweden under Ingvar Carlsson. These governments cover the whole ideological spectrum: From the British Tories as a classic conservative party, over the centrist Christian Democratic Union in combination with the liberal Free Democratic Party (FDP) in Germany, to the archetypical Swedish Social Democrats (SAP). Following the idea of nested analysis (Liebermann 2005), this section has three aims: to validate the face validity of the measures developed and used in the quantitative part; to substantiate and complement the statistical results; and to reduce the risk that omitted variables and idiosyncratic factors lead to erroneous inferences. While I also decipher the political and economic context and describe the changes in unemployment insurance, the focus is on a close reading of party manifestos, position papers, and the discourse within the parties. Despite the considerable variation in party families and welfare state contexts, the evidence is reassuring for the cognitive framing argument. First, the shifts in the welfare and market ideology indices reflect the changing economic ideas and beliefs within parties. Second, these ideas and beliefs add up to problem diagnoses with clear policy implications regarding the welfare state in general and unemployment insurance in particular. Third, these shifts covary with the retrenchment measures in the field of unemployment insurance. Section 6.6 sums up the findings with regard to the hypotheses. Finally, I recapitulate the contributions of the book, elicit potential omissions and avenues for future research on partisan effects, and discuss the implications of the results regarding representative democracy and the welfare state debate.

Overall, the book shows that the primacy of politics is not marginalized by economic parameters but that the ideological complexion of government does indeed bear momentous social policy consequences, even – and in particular – in times of deep economic crises; that is, if ideology is not merely understood as the representation of (static) group interests, but – at least complementary – as a system of political beliefs or ideologemes that “frame” parties’ perceptions of the status quo.

2 Much Ado about Nothing?

Retrenchment versus Resilience

Before turning to different perspectives on the link between government ideology and retrenchment policies, it is necessary to address a question that must logically be addressed before any assessment of causal relationships and is still regarded as the most pressing question in welfare research by some scholars: *How much change is there to explain* (e.g., Pierson 2011: 12)? This intricate question, in turn, prompts a range of four more concrete questions that this chapter answers one by one: What is to be understood as retrenchment? How can we operationalize retrenchment? Which empirical patterns exist? And what are the criteria to assess the significance of the changes we find?

2.1 What Is Retrenchment? Searching for a Definition

Scholars have emphasized the need for a clear specification of what we can precisely understand by the term retrenchment (Clasen 2005; Sainsbury 2001); and yet, no consensus has been reached so far. Those attempting to pin down the term readily concede its “relativity” (Wintermann 2005: 43), and even in literature reviews on retrenchment, the term is only implicitly defined (Green-Pedersen and Haverland 2002; Starke 2006; Wintermann 2005). Its etymological roots can be traced to the word *retrancher* from sixteenth-century French – a combination of *re* (expressing reversal) and *trancher* (to cut, to slice).⁴ Lexically, retrenchment simply means cutting expenses or (cost) curtailment. While political scientists use the term in a broadly similar manner to refer to nonexpansionary changes in the welfare state, the precise meanings may vary considerably. The remainder of this section reviews, discusses, and balances the pros and cons of different conceptualizations in order to extract a working definition that is applicable in a large number of countries across the course of four decades.

2.1.1 Systemic versus Programmatic Retrenchment

The obvious starting point for such a discussion is Paul Pierson’s seminal book *Dismantling the Welfare State* – certainly the focal point of the

4 According to the *Oxford English Dictionary*.

retrenchment debate – in which Pierson builds on Titmuss’ distinction of “institutional” and “residual” welfare states, viewing retrenchment as (ideologically motivated) residualization of the welfare state (Pierson 1994: 14-15). While institutional welfare states limit the impact of market forces on individual life chances and have a stronger tendency to intervene in the market, a shift to the residual pole is characterized by a) a reduced social expenditure, b) cuts to programs, or c) the modification of the political context in a manner that increases the probability for future cuts (ibid.: 17). Expenditure decreases and program cuts are referred to as *programmatic retrenchment* (a+b), while the modification of the political context is labeled *systemic retrenchment* (c). According to Pierson, four (incremental) strategies may be employed by governments in order to modify the context in a welfare-antagonistic way: *defunding* or the conscious withdrawal of resources from future governments, *policy-induced change in public opinion against public social provision*, *modifications in political institutions*, and the *weakening of pro-welfare state interest groups* (ibid.: 15-17).⁵

This “thick” notion of retrenchment has only gained modest traction among comparativists. More recent comparative studies have replaced Pierson’s encompassing understanding of retrenchment with more narrow conceptualizations, which largely focus on programmatic retrenchment. Although scholars acknowledge that contemporary welfare state change should not be reduced to a continuum of more or less change, they choose deliberately parsimonious conceptualizations of retrenchment. For instance, in his study on retrenchment in the Netherlands and Denmark, Green-Pedersen defines retrenchment as a change in a (social security) scheme, which is “making it less attractive to the (potential) claimants” (Green-Pedersen 2002: 58). By attractiveness he means the value of benefits, their duration, and applicable eligibility rules. In a similar vein, Clasen distinguishes between two dimensions of welfare state transition: Whereas the “policy direction” can either be characterized by retrenchment or expansion, “policy profiles” can be restructured or not (Clasen 2005: 22). Likewise, in an influential study of radical retrenchment, Starke defines welfare state retrenchment as “a political decision to reduce the level of social protection guaranteed by the state” (Starke 2008: 13). In order

5 In Pierson’s more recent work, he complicates the search for a definition of retrenchment by suggesting that radical retrenchment is synonymous with the radical restructuring of the welfare state (Pierson 2001: 419). Restructuring, in turn, may come in the form of decommmodification, cost-containment, and/or recalibration.

to measure policy change, he focuses on “reduction in benefit levels and duration, tightening of eligibility, and restrictions in benefit coverage” (ibid.: 19).

Unsurprisingly, the propensity to integrate systemic retrenchment does not increase with the number of cases under scrutiny. Quantitative studies conceive of retrenchment in terms of “welfare state regress” and a “decline” of social rights (Korpi and Palme 2003: 425), “efforts to scale down the welfare state” (Kittel and Obinger 2003: 22), “cuts in entitlements” (Huber and Stephens 2001: 1), and a “decrease in welfare state efforts” (Armingeon and Giger 2008: 567). In many cases, this tendency to equate retrenchment with state retreat and the opposite of welfare state expansion is rather implicit (see, e.g., Allan and Scruggs 2004; Amable et al. 2006). The intricate measurement problems and validity discussions in the quantitative literature will be addressed in the following chapter. For now, it is important to keep in mind that the pragmatic conceptualizations of retrenchment outlined above are only a part of Pierson’s broader conceptualization of retrenchment and resemble what he calls programmatic retrenchment. He later also speaks of recommodification – the “dismantling [of] those aspects of the welfare state that shelter workers from market pressures” (Pierson 2001: 422). Compared to broader (i.e., systemic) conceptualizations of retrenchment, more pragmatic (i.e., programmatic) definitions of retrenchment are of greater use for the research question at the heart of this book because of three disadvantages associated with systemic conceptualizations: First, one problem inherent to the usage of systematic retrenchment is that it “eludes explanans and explanandum” and is based on “ambiguous judgment of likely future cuts” (Starke 2008: 20). This means that, even with the advantage of hindsight, it is difficult to say if and to what extent certain political decisions have contributed to (further) retrenchment. A second aspect is that a concept must travel across time and space in order to be applicable in a large-*n* context; that is, functional equivalence must be ensured in order to avoid the production of artifacts. Given the variation in political configurations, institutional contexts, and welfare institutions across OECD countries, this criterion also speaks in favor of a focus on programmatic retrenchment. Third, a focus on programmatic retrenchment makes it easier to relate the analysis results to existing research based on established concepts such as residualization, de/recommodification, or social rights; as all of them are built on the notion of concrete individual entitlement(s) and/or the shielding of individuals from market forces.

2.1.2 Working Definition: Retrenchment as State Retreat and Risk Privatization

Against the background of these criticisms, retrenchment in the context of this study is understood as a retreat of the state that involves the privatization of labor market risks in general and the risk of unemployment in particular. More precisely, and in line with previously mentioned conceptions, I speak of instances of retrenchment when programs become less attractive because the generosity of entitlements is reduced and/or the respective eligibility rules are tightened. This understanding of retrenchment as state retreat that leads to risk privatization – one might also speak of marketization – implies that the applicability of the term retrenchment must not be restricted to discrete political decisions that are necessarily associated with concrete legislative acts. Such a focus on active reductions and an event perspective rather than an evolutionary perspective has been advocated by Starke (2008: 19). By contrast, I follow Hacker and Korpi and Palme, who argue that the forbearance of legislative action can be both the result of institutional gridlock or conscious political (non)decisions, which are most likely not randomly distributed across governments of different ideological stripes (Hacker 2004; Korpi and Palme 2003). For instance, a cursory view of the developments in unemployment insurance and other social protection schemes suggests that aspects such as the (partial) suspension of the adaptation of benefit ceilings or daily allowances to increasing prices and wages as well as changing rules for taxation and social security contributions are important drivers behind retrenchment and should therefore not be neglected. Governments are either directly responsible for such changes (as in the case of higher taxes and social security contributions) or can react to them (as in the case of changes in wages, inflation, and purchasing power). In that sense, a nondecision can be a highly political decision. Finally, taking into account nonadjustment and drift in studies on the determinants of retrenchment is all the more important if Pierson is right and blame avoidance is the categorical imperative of the politics of retrenchment, as risk privatization via legislative inactivity and nonadjustment of benefits are an option to avoid the electoral fallout associated with direct cutbacks.

2.2 How to Measure Retrenchment?

Beginning with a discussion of the problems and advantages associated with different ways of measuring retrenchment, this section converts

the conceptualization of retrenchment outlined above into measurable components.

2.2.1 The “Dependent Variable Problem” in Comparative Welfare Research

The question of how to measure welfare state change has received considerable scholarly attention in recent years; and rightly so, given the significant implications for the test of the Resilience Hypothesis and the Partisanship Hypothesis, not to mention the boundless discussion of welfare state typologies. Basically, two approaches can be distinguished regarding the set of indicators used to assess changes: One is based on social expenditures, the other on social rights.

According to the first approach, (social) spending as a percentage of GDP provides a proxy for “welfare efforts.” This strategy has long traditions, which can be traced back to the seminal work of Wilensky (1975).⁶ It proved particularly useful as part of a functionalist perspective that emphasized the effects of socio-economic modernization on welfare state expansion, but it remained en vogue when the quest to explain variations in welfare outcomes despite similar levels of socio-economic development triggered research that increasingly focused on party politics (influential early examples include Castles 1982; Schmidt 1982) and later on institutions.⁷

Until very recently, spending as a percentage of GDP was “by far the most widely used measure in empirical literature for gauging trends in welfare states” (Olaskoaga-Larrauri et al. 2010: 115). This is also true for the literature on the (political) determinants of these trends post-2000. Roughly half of the studies assessed in the literature review in this project utilize spending data (see table 3.1 in chapter 3). According to the expenditure approach, retrenchment is defined as a decrease in the spending ratio. As an important refinement, the use of disaggregated, program-specific spending data from the OECD Social Expenditure Database (SOCX) pointed to the necessity to investigate both descriptive and causal questions at the disaggregated level of specific programs (Castles 2004, 2009). However, the remaining validity problems with spending data fill entire volumes (see, e.g., Clasen and Siegel 2007). As it is not feasible to spell out all of the aspects discussed under the rubric “Dependent Variable Problem” in detail here, I will limit

6 The term was introduced by Wilensky and Lebeaux (1958: 156).

7 For a complete outline of the cycles in welfare research during the era of welfare expansion, see Schmidt et al. (2007).

myself to the most crucial problems with direct implications for the study of partisan effects on social policy.

First, spending depends on the size of the population in need. For example, if an economic downturn leads to both cuts to the generosity of programs and an increase in the number of unemployment insurance beneficiaries, the latter might outweigh the former with regard to the impact on spending, as was the case in the United Kingdom under Thatcher. Expenses for unemployed persons almost doubled between 1980 and 1985, from 1.2 to 2.1% of GDP, according to the OECD SOCX. Simultaneously, the market income net replacement rate was cut from 45.8 to 25.2% for singles, and from 63.3 to 44.5% for families, according to the Comparative Welfare Entitlement Dataset (CWED), introduced in Scruggs (2006).

Second, the spending/GDP ratio might change dramatically due to changes in the GDP, even when the level of social protection does not change. For instance, according to expenditure statistics, Ireland is among the few countries to downsize its welfare state during the 1990s, as the spending/GDP ratio dropped from 14.9 to 13.6%, compared to an average increase from 18.1 to 19.3% in the OECD. The simple explanation for this development, however, was the enormous economic growth in Ireland in the 1990s (6.6 p.a. as opposed to 2.7% in the OECD as a whole).

Third, differences in gross social expenditure can be offset by the taxation of benefits. This “tax clawback” has significant consequences. Neglecting the direct and indirect taxation of benefits results in the overestimation of the countries where such aspects are pronounced, such as Denmark and the Netherlands. On the contrary, countries with low direct taxes and contributions on transfers and tax reliefs motivated by social policy considerations, like Germany or Belgium, are underestimated.⁸

Kittel and De Deken point out another serious problem with the use of the popular Social Expenditure Database of the OECD (SOCX) by showing that the categorization of expenses as (1) “public,” (2) “mandatory private” and (3) “voluntary private” is inconsistent, with far-reaching consequences for the composition of spending within and across countries (Kittel and De Deken 2007: 86). One case in point is the classification of neocorporatist forms of social insurance; for instance, whereas the German *Lohnfortzahlung im Krankheitsfall* counts as mandatory private sick pay, a similar Dutch scheme is classified as voluntary private.

8 For details on the taxation of benefits, see Kangas and Palme (2007), Kittel and De Deken (2007), Korpi and Palme (2003), or access the spreadsheet from Van Vliet and Caminada (2012).

To be sure, some of the aforementioned aspects concern seemingly mundane technicalities which can be remedied via technical fixes, such as the consideration of the size of the target population or a country's economic performance, despite the loss of information (i.e., variance) associated with such strategies (Green-Pedersen 2007: 19-20). In sum, however, these problems undermine the social, political, and theoretical significance of changes in spending patterns.

Regarding the social and political relevance, Esping-Andersen, whose influential decommodification index rests on entitlement data from the Swedish Institute for Social Research (SOFI), claimed that "[i]t is difficult to imagine that anyone struggled for spending per se" (1990: 21). This remains valid insofar as expenditure changes are the outcome of a multitude of influences either on the denominator or the numerator of the spending/GDP ratio, and it is therefore difficult to relate them to the behavior of political actors or the well-being of the beneficiaries of the welfare state. Still, it is important to note that in the era of permanent austerity, there are actually politicians who advocate cuts in spending per se, either because they want to reduce "big government" (e.g., Anglo-Saxon conservatives) or they have no choice but to do so (e.g., because of debt limits in national constitutions and/or the European Union Stability and Growth Pact).

According to the question of theoretical substance, one might also start with Esping-Andersen, who stated that "[e]xpenditures are epiphenomenal to the theoretical substance of welfare states" (1990: 21). Again, due to the fiscalization of social policy, this point of view is certainly more controversial today than 20 years ago, as chronic deficits and increasing debt have become determining factors of welfare policies (Streeck and Mertens 2010: 3). Post-Pierson, the distinct theoretical relevance of the financial context can hardly be denied, and there are theoretical questions focusing on *welfare effort* per se. However, the proximity of expenditure data to important theoretical concepts of welfare research in general (e.g., Marshall's conception of social rights, Marx's (de)commodification, Titmus' residualization) and retrenchment understood as risk privatization in particular is modest at best. These considerations are all the more relevant when comparing *welfare effort* to its main alternative: a *social rights* or *entitlement approach*, which uses data on the generosity and eligibility of benefits in different social programs (e.g., the extent of income replacement, duration of payment).

This approach was pioneered by researchers at the Swedish Institute for Social Research (SOFI) in Stockholm with the Social Citizenship Indicators Program (SCIP). SCIP includes observation points at five-year intervals on five social security programs for eighteen OECD countries between 1930 and 2005.

Referring to Marshall's social rights concept as a "universal right to real income which is not proportionate to the market value of the claimant" (Marshall 2005: 39), the idea of SCIP is to capture "how welfare states secure the livelihood of citizens in periods of work incapacity" (Ferrarini et al. 2013: 1252). Unfortunately, this long-standing database on rights and duties was only made available to the entire scientific community in 2008. Previously, Lyle Scruggs published his Comparative Welfare Entitlements Dataset (CWED 1), which comprises annual data on legislated social rights for eighteen OECD countries from the 1970s until 2002 (Scruggs 2006). He states that one common idea behind both the CWED and the SCIP project is that "as benefits approach average earnings, the less individual incomes are a simple function of current market participation; they are social rights in Marshall's (1950) conception" (Scruggs 2013: 1269).⁹

Entitlement data in general and income replacement rates in particular are widely regarded as more appropriate measures of policy change and retrenchment because they are more directly linked to the social policy decisions of political elites (i.e., legislative action or inaction) and better reflect changes in social protection schemes and their generosity (Clasen and Siegel 2007; Green-Pedersen 2007; Kangas and Palme 2007; Knill et al. 2010).

However, the use of entitlement data is not without problem. Although both projects stress that they also assess aspects such as waiting days, the length of the qualification period, coverage ratios, and the duration of benefits, most descriptive and inferential studies focus on income replacement as measured via replacement rates as a proxy for the generosity of the welfare state.¹⁰ Thus, discussions of entitlement data are for the most part about income replacement and its measurement in different policy fields. Here, three lines of criticism can be identified.

First, adjusted for purchasing power, the same replacement rates may allow for very different living standards. This is why Whiteford argues that replacement rates do not provide "consistent relative measures of the

9 Whether the recourse to Marshall is fully justified is open to debate. Even if the benefits measured by SCIP and CWED provide a modicum of decommodification understood as decoupling from the market, such benefits are largely dependent on prior income in the market and are often temporary (e.g., most unemployment insurance benefits). Some authors closely related to SCIP have emphasized that only SCIP is based on the idea of (institutionalized) social rights, while CWED would rather reflect an income-packaging approach. The substantial differences are in fact subtle and the transparent calculation of CWED allows anyone to unpack the formulas. The correlations between both data sets are strong – approaching 0.9 for unemployment insurance (Wenzelburger et al. 2013; Danforth and Stephens 2013).

10 A recent example of this focus on income replacement can be found in a symposium in the *Journal of European Public Policy* on data set choice in comparative welfare state research (vol. 20, no. 9, 2013).

generosity of benefit systems" (Whiteford 1995: 5). This point of criticism therefore has stronger implications for cross-country comparisons than for assessments of within-country developments and their causal drivers.

Second, it must be kept in mind that calculations of replacement rates are based on specific scenarios. For instance, Scruggs' calculations are based on an Average Production Worker (APW) as defined by the OECD. This is significant, as the Average Production Worker Wage (APWW) marks a slightly different position in income distributions across countries. Moreover, the Average Production Worker has become less representative for the working population in recent decades, although the OECD partly adjusted the definition to the changes in tertiarized labor markets in 1995/1996 (Whiteford 1995: 10, 18). Such an adjustment of the production worker concept, however, undermines the consistency of the time series as the new earnings levels and thus the denominator in replacement rate calculation is higher according to the adjusted measures (Ferrarini et al. 2013: 1257). Concerning this matter, it must be emphasized that the focus on certain scenarios is not an inherent limitation of the entitlement approach. In principle, entitlements over time can be calculated for all kinds of income groups in a cross-country manner, if researchers expose themselves to the "plight and dust of [data] archives," as postulated by Kittel and De Deken (2007: 102). Attempts at solving the specific data problems and disentangling the trends for different income groups already exist and are likely to spread with the next generation of data sets.¹¹

Third, the main criticism brought forward is that not only legislation and thus political decisions, but also changes in the real wages and the tax system have an impact on replacement rates (Green-Pedersen 2004: 7; Jensen 2011b: 337; Schmitt and Starke 2011: 127). While governments do indeed have very limited capacity to influence wage developments, it is questionable whether it is helpful to speak of "confounding factors" (Green-Pedersen 2004: 7) and thus evoke an analogy to the potential decoupling between changes in the spending ratio due to social need or economic performance and concrete programmatic retrenchment(s). Either income replacement is calculated as a percentage rate of the last income, and thus a direct result of legislation, or, in countries where this is not the case, it is essentially a political decision whether flat-rate benefits and ceilings are adjusted to the (generally incremental) change of wages or inflation. In principle, the same logic of choice applies to the impact of taxation rules on benefits.

There are a number of other aspects to be considered when working with social rights data in addition to these three lines of criticism. However, the

11 For an attempt to model different income groups for pensions, see Kvist and Hansen (2008).

more detailed problems associated with the main challenge for any large-scale data project – ensuring the functional equivalence of measurement across time and space – should not be discussed abstractly, but rather as an integral part of the presentation and justification of the measurement and data-collection strategy, as will be done in the next section.

2.2.2 Measuring Retrenchment via Generosity and Conditionality

In section 2.1, I conceptualized retrenchment as a retreat of the state involving the privatization of labor market risks in general and the risk of unemployment in particular. More precisely, I speak of instances of retrenchment whereby programs become less attractive because the generosity of entitlements is reduced and/or the respective eligibility rules are tightened. To account for both of these dimensions, hereafter referred to as generosity and conditionality, I complement the data from the Comparative Welfare Entitlement Dataset (CWED) (Scruggs 2006) with data that I have collected and calculated for the years 2002 through 2009. With regard to generosity, I also rely heavily on the Unemployment Replacement Rates Dataset from Van Vliet and Caminada (2012), while correcting the few, yet significant, inconsistencies in their updates to Scruggs’ calculations. I will first address the measurement of the generosity dimension and then proceed to conditionality.

As indicated earlier, income replacement, the extent to which the standard of living out of work equals the standard of living in previous employment, is the single most important indicator in the discussion on social rights and entitlements and their determinants. In line with the practices established by CWED 1, this dimension is measured in terms of annualized net replacement rates, both for a single Average Production Worker (APW) and an Average Production Worker with a dependent spouse and two children. Net unemployment replacement rates are calculated as:

$$\text{Generosity dimension} = \frac{\text{net benefits out of work}}{\text{prior net wage}} = \frac{\text{cash benefits} - \text{income tax} - \text{social contributions}}{\text{wages} - \text{income taxes} - \text{social contributions}}$$

More precisely, a four-step procedure underlies the calculation. First, the total gross benefits received during the first six months of unemployment are calculated. Second, this amount is doubled in order to annualize it. Third, income tax and social contributions, if payable for unemployment insurance, are subtracted. Fourth, this net benefit is then divided by the net income in

work for the respective year (Scruggs 2006, 2013). While this sounds rather straightforward, to avoid false inferences, it is important to be keenly aware of a number of aspects regarding the calculations and its interpretation.

First, CWED provides a conservative estimate of retrenchment because its benefits are stacked, which implies that cuts in flat-rate and earnings-related benefits or the lowering of ceilings are partly compensated by the rise in (universal) child benefits and income-tested child tax credits, which hold income stable despite job loss (Ferrarini et al. 2012). This is one reason why CWED indicates fewer cutbacks than SCIP.

Another difference worth mentioning when considering the trends in the next section (2.3) is the slightly different handling of means-tested systems. SCIP excludes elements of programs if they are means-tested because in this case they do not constitute (unconditional) social rights. This is why, in these cases, CWED replacement rates are somewhat higher than those in SCIP.

Third, the US social insurance system is decentralized: While the federal government is equipped with competences over the taxation of unemployment insurance and provides the funding, most of the legislation on generosity varies by state.¹² Here, according to Scruggs' codebook, measures can be understood as state averages, while the tax data comes from the state of Michigan.

One important consequence of the OECD-inspired practice of annualization is that those countries where the duration of full benefits amounts to less than one year are rated favorably. It would thus be more appropriate to speak of annualized initial replacement rates. The countries where this applies are Austria, Canada, Italy, Japan, Switzerland, the United Kingdom, and the United States.

Again, the aforementioned features regarding the replacement rate calculation are more problematic for cross-sectional investigations than for assessments of within-country changes and their determinants. However, another lesson which can be drawn, especially considering the last comment, is that a multimeasure approach seems preferable. Although replacement rates are widely used as a proxy for program generosity, only

12 It would, however, be wrong to conclude that the federal government is not a major driving force behind the retrenchment of unemployment insurance. Pierson points out two features of the system that explain the influence of the federal government under Reagan: "First, for once the administration occupied the institutional high ground. The unemployment-insurance program had always been expanded during recessions in an ad hoc manner that required positive federal action. To diminish the UI's role Reagan needed only to prevent the traditional policy response. Second, the program's decentralized structure allowed Reagan to shift much of the burden for austerity to the states. By restricting federal support for state trust funds, the administration was able to pressure states to curtail their UI systems" (Pierson 1994: 128).

the consideration of the conditionality and eligibility tied to the provision of entitlements allows for a comprehensive evaluation of the reprivatization of unemployment risks. Two elements are crucial for this conditionality dimension. The duration is the period for which a person is entitled to a benefit given a certain qualification period. More precisely, duration is defined as the number of weeks before an unemployed person goes from receiving unemployment insurance to social assistance. Qualification refers to the number of weeks of paid employment necessary to be eligible for benefits. Thus, the indicator for the conditionality dimension is the ratio of the duration and qualification periods:

$$\text{Conditionality dimension} = \frac{\text{number of weeks entitled for benefit}}{\text{number of weeks of paid employment necessary to be eligible for benefits}}$$

As in the case of the generosity dimension, a reduction of the quotient indicates retrenchment. To the best of my knowledge, the ratio of the duration and qualification periods has never been used before, although this stands to reason as both indicators usually depend on one another in social legislation. Another important deviation from Scruggs' work is that I do not consider the coverage, defined as the percentage of the labor force insured for unemployment. The within-country variation across time is low and the validity of the cross-country differences is questionable; the coverage values for some countries exceed 100% (Ireland); some have a constant coverage rate of 100% (means-tested New Zealand and Australia); while no values are available for others (Italy). Furthermore, an attempt at replicating the coverage rates for Germany based on Scruggs' sparse coding instructions failed, despite close inspection of the *Statistische Jahrbücher*. It cannot be emphasized enough, however, that this problem marks an exception, as the CWED contains otherwise transparent and replicable calculations. In order to ensure the compatibility of the data, I used the same sources as Scruggs to complement the CWED for the years 2002 through 2009 whenever possible: Social Security Programs throughout the World (SSPTW, from the US-Social Security Administration SSA), Mutual Information System on Social Protection (MISSOC, from the EU), Benefits and Wages and Taxing Wages (both from OECD), the International Social Security Association (ISSA), and (in complicated cases) national statistics agencies and ministries provided the necessary information. Now that it is clear what retrenchment means and how it is measured, it is possible to assess the changes from 1971 to 2009.

2.3 Developments and Patterns in OECD Countries

Starting with a brief outline of the contours of the retrenchment-versus-resilience debate, this section analyzes the ascertained data on generosity and conditionality in two steps. First, I argue that it is justified to speak of a partial downward convergence as a cross-country trend. Second, however, I draw on country-specific developments to show how the more puzzling variation can be found within countries over time; or in other words: between cabinets.

2.3.1 Contours of the Retrenchment-Resilience Debate

Regarding the question whether retrenchment is actually taking place, Paul Pierson stated that “if one turns from abstract discussions of social transformation to an examination of actual policy, it becomes difficult to sustain the proposition that these strains have generated fundamental shifts” (1996: 173) and that “[c]ompared with reforms engineered in other arenas [...] the welfare state stands out as an island of relative stability” (1994: 5). The idea that continuity – not significant change – characterizes recent decades is known as the Resilience Hypothesis and continues to mark the basis for assessments of welfare state changes. This hypothesis has evoked broad approval and fierce criticism. Some authors agree that there is no such thing as “sweeping retrenchment” (Green-Pedersen and Haverland 2002: 44), while other studies find incidences of significant retrenchment, sometimes even qualified as “radical” (Starke 2008) or “path-breaking” (Ross 2008).

To be sure, whether retrenchment or resilience is the appropriate characterization varies strongly between programs, and even within a contracting policy field, instances of expansion can be found. While benefits for families and children have become more generous in many cases and pension politics have proven relatively resilient, unemployment insurance seems to be one of the main targets of retrenchment advocates. Pierson concedes that there have been cases of “substantial residualization” of programs for unemployed (1994: 107) but warns that even changes in unemployment insurance should not be overstated (Pierson 1996: 175).¹³

In addition to the policy field under consideration, the results of the quantitative assessment of the Resilience Hypothesis depend strongly on

13 The theoretical reasons for policy field-specific developments in general and the deficiencies of the New Politics Approach in the field of unemployment insurance in particular will be discussed in chapter 3.

the time frame chosen and the kind of data used. Pierson himself seeks to prove the generalizability of the Resilience Hypothesis based on spending ratios for the United Kingdom, the United States, Germany, and Sweden as well as gross replacement rates for the OECD (Pierson 1996: 175). Large-n studies using expenditure data largely confirm Pierson's assumption (Castles 2004; Starke et al. 2008). Unfortunately, both the gross replacement rates and social expenditure as a percentage of the GDP underestimate the level of change because they do not consider the impact of taxes and social contributions (tax clawback). Not even half of the "major cuts" (at least 10 percentage points) in unemployment insurance, sickness, and work accident schemes between 1975 and 1995 identified by Korpi and Palme reflect direct benefit cuts; the rest are mainly caused by tax clawbacks and partly by the freezing or reduction of benefit ceilings (2003: 435, 444). Changes in social security contributions and taxation seem to be crucial for governments that try to avoid the political fallout of unpopular direct cuts. As this notion of "blame avoidance" is exactly one of Pierson's central points (1994: chapter 1), his reliance on gross replacement rates and aggregated spending data must be attributed to the lack of better data during the mid-1990s. Another problem with Pierson's Resilience Hypothesis and its empirical basis is the time frame. As he unavoidably compares values in the early 1970s with values in the early 1990s, one might object that the welfare state was still growing in the early 1970s, whereas retrenchment had only just begun in the early 1990s. This suspicion is confirmed in the analysis and charts presented in the following. The aim is to show the picture that emerges when the most recent developments are included and the conceptualization and operationalization follow the "entitlement" or "social rights" approach.

2.3.2 Developments and Patterns: Generosity

Table 2.1 summarizes the developments regarding the generosity and conditionality of unemployment insurance over the last four decades (1971–2009). Generosity is measured as the degree of net income replacement taking tax and social contributions into consideration for an Average Production Worker as defined by the OECD. Here, the values of the type-case scenario for a single worker and a head of family with a dependent spouse and two children are averaged in order to increase the robustness of the measure. Conditionality is measured by the coefficient of the time necessary to qualify for the benefit and the benefit duration (both in weeks). In accordance with earlier studies based on the so-called "social rights" or "entitlement" approach, the developments

in eighteen OECD countries suggest that a reprivatization of labor market-related risks has taken place (Allan and Scruggs 2004, 2006; Amable et al. 2006; Korpi and Palme 2003; Nelson 2010) and that it is therefore justified to speak of retrenchment (or, in Pierson's terms, programmatic retrenchment). As regards generosity, this holds true even for the conservative estimation including the few countries that do not exhibit a pattern of marked cuts (Switzerland, Norway, France, and the "welfare laggard" Italy). On average, generosity cuts amount to 13.6 percentage points, meaning that generosity is now 18.7% below the generosity peaks of the early 1980s and mid-1980s. Excluding those countries, average cuts amount to 16.9 percentage points (23.5%).

Table 2.1 Generosity and Conditionality of Unemployment Insurance in Eighteen OECD Countries

Country	Dimension 1: Generosity						Dimension 2: Conditionality			
	1973	1990	2009	Max.	Year Max.	2009- Max.	Max.	Year Max.	2009	2009- Max.
Australia	41.16	47.80	38.00	50.65	1992	-12.65	39.00	–	39.00	0.00
Austria	44.92	64.87	61.28	67.00	1978	-5.72	0.19	–	0.19	0.00
Belgium	57.51	62.16	59.30	68.65	1985	-9.34	13.32	1980	12.81	-0.51
Canada	76.15	67.90	65.06	77.14	1974	-12.08	0.87	1977	0.96	0.09
Denmark	79.73	70.20	58.62	88.48	1971	-29.86	38.42	1977	4.00	-34.42
Finland	56.79	67.98	58.21	70.00	1991	-11.79	3.85	1996	2.33	-1.52
France	39.85	66.66	69.66	70.88	1987	-1.22	4.00	1996	1.00	-3.00
Germany	69.02	66.39	65.84	70.20	1971	-4.36	0.50	1982	0.50	0.00
Ireland	34.57	49.32	50.36	73.87	1982	-23.51	1.67	2008	1.33	-0.33
Italy	12.66	24.33	75.58	76.75	2008	-1.16	0.34	2009	0.34	0.00
Japan	66.66	55.43	58.41	68.62	1971	-10.21	1.15	2002	0.48	-0.67
Netherlands	88.80	75.99	69.99	92.31	1981	-22.32	1.00	1989	0.28	-0.72
New Zealand	47.40	53.20	35.51	56.55	1987	-21.04	39.00	–	39.00	0.00
Norway	58.54	70.36	69.40	72.75	1980	-3.35	39.00	2009	26.00	-13.00
Sweden	75.46	82.94	62.02	94.34	1974	-32.32	1.15	2009	1.15	0.00
Switzerland	31.86	77.17	76.85	79.19	1995	-2.34	1.54	2009	1.54	0.00
UK	59.77	27.91	34.82	63.79	1977	-28.96	5.20	1995	2.60	-2.60
US	63.34	58.89	54.84	67.57	1983	-12.73	1.30	–	1.30	0.00
Mean	55.79	60.53	59.10	72.71	1983	-13.61	10.64	1996	7.49	-3.15
Std. Dev.	19.38	15.64	12.61							
C.o.V.	0.34	0.26	0.21							

Notes: Main source until 2001/2002 was the Comparative Welfare Entitlement Dataset (Scruggs 2006) and from then on the Unemployment Replacement Rates Dataset (Van Vliet and Caminada 2012), combined with own calculations (in particular for conditionality). For details, see notes for figures 2.1 and 2.3 and annex C. Std. Dev. = standard deviation; C.o.V. = coefficient of variation.

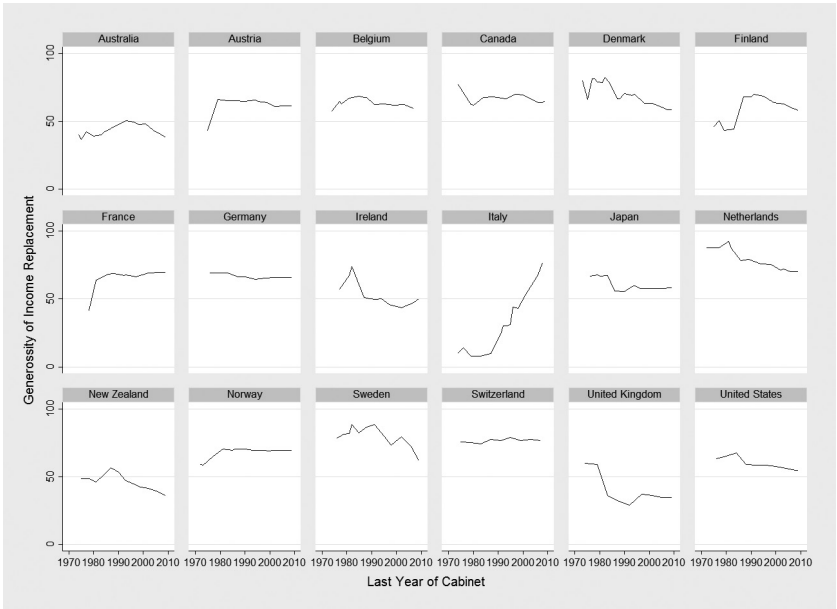
The coefficient of variation (standard deviation divided by the mean) has steadily declined, from 0.34 in 1973 to 0.26 in 1990 to 0.21 in 2009, which indicates sigma-convergence (Holzinger et al. 2007: 18–19). Notably, the evidence for downward convergence is not simply a net effect of reverse tendencies within the Continental, Nordic, and Anglo-Saxon country cluster. The Nordics (Denmark, Finland, Norway, and Sweden) form an unsurprisingly homogenous and generous group. The coefficient of variation has declined from an already low 0.15 in 1973 to 0.07 in 2009 and cuts – despite the inclusion of oil-rich Norway – add up to 19.33 percentage points on average. In the Anglo-Saxon countries, which have been and remain the least generous welfare states according to the data, the average cuts have occurred on a similar scale (18.5 percentage points), although the cuts in Ireland, New Zealand, and the United Kingdom have been much more severe than in Australia, Canada, and the United States. The coefficient of variation decreased from 0.29 to 0.27 between 1973 and 2009. Cuts are more modest (7.1 percentage points) for the Continental European cluster (including Japan), a group often labeled as conservative welfare states because of their status-preserving features. The puzzling reduction of the coefficient of variation from 0.47 in 1973 to 0.11 in 2009 is partly a result of the Italian catch-up growth from very low levels of income replacement. Even without Italy, however, the dispersion according to the coefficient of variation was reduced from 0.35 in 1973 to 0.1 in 2009. It is also noteworthy that the Netherlands, which is often categorized as a social democratic case and thus included in the Nordic group, stands out both because of its very high generosity in the early 1980s (92% income replacement) and the extent of subsequent cuts. In sum, albeit to varying degrees, all three groups have experienced (at least partial) downward convergence.

There is, however, another problem of aggregation with the data presented in table 2.1. Net changes between two widely separated points in time conceal interesting instances of retrenchment and expansion. Indeed, for the eighteen countries under investigation, the average difference in generosity between the start and end of a cabinet is 3.5 percentage points.¹⁴ The country line plots in figure 2.1 link these start and end points of cabinets,

14 Changes per cabinet have been greater before generosity peaked (5.6 percentage points as compared to 2.6 percentage points). This does not necessarily reflect reduced legislative action but might simply confirm that expansion was a more consensual political project than retrenchment (i.e., even within the same legislative period, measures with countervailing effects on social policy generosity may be adopted by the same cabinet; e.g., because different political risks and opportunity structures are attached to them).

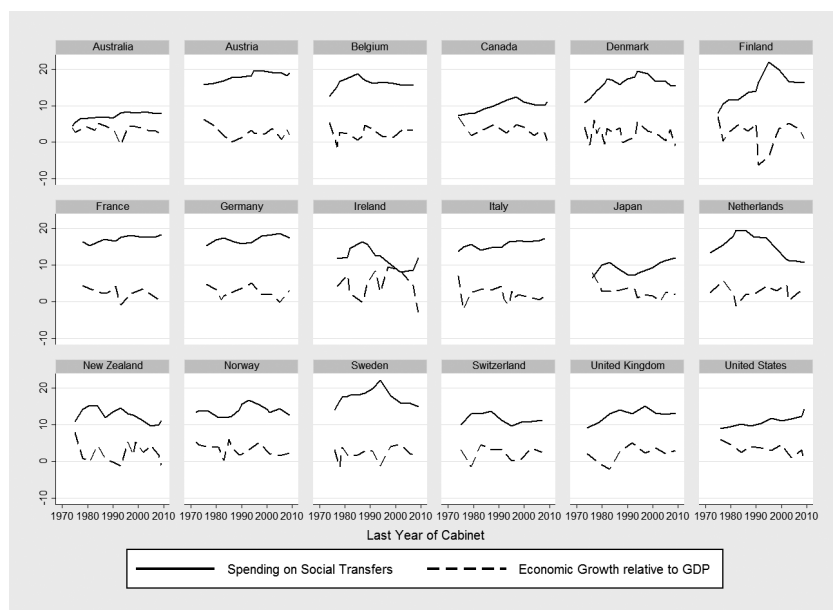
very clearly illustrating the dangers of “aggregating out” important changes by focusing on the net changes in recent decades. Two types of scenarios exist. For one, in some countries where the mere inspection of long-term net changes gives the impression of a secular trend toward retrenchment, generosity is actually zigzagging. For instance, the Social Democrats in Sweden have repeatedly taken expansionary countermeasures after cutbacks by former cabinets, including social democratic cabinets. Other countries indicate that interesting fluctuation exists underneath high average curtailments over time. This is the case in Denmark, Ireland, Japan, the Netherlands, and the United Kingdom. On the contrary, even if the current generosity is not far below a country’s peak, dramatic changes may have been implemented between these points of comparison. The radical rollback and subsequent incremental reexpansion under Pierre Trudeau in Canada in the 1970s offers a case in point. Overall, unbroken trends

Figure 2.1 Generosity of Income Replacement (in percent) in Eighteen OECD Countries



Notes: For 1971-2001/2002, based on *CWED 1* (Scruggs 2006), thereafter on the *Unemployment Replacement Rates Dataset* (van Vliet and Caminada 2012). Checked via own calculations based on *Social Security Programs throughout the World* (from the US-SSA), *Mutual Information System on Social Protection* (EU), *Benefits and Wages* and *Taxing Wages* (both from OECD), and country-specific inquiries. A deviation from van Vliet and Caminada exists only with regard to New Zealand 2001-09 and Italy 2005-09, where they have made coding decisions that are inconsistent with Scruggs’ Replacement Rate time series (a commented excel spreadsheet is available from the author).

Figure 2.2 Social Transfer Spending as Share of GDP and Growth Relative to GDP in Eighteen OECD Countries



Notes: Social security transfers as a percentage of the GDP and economic growth relative to GDP based on OECD-data (Armingeon et al. 2011).

toward retrenchment (as in New Zealand) and expansion (as in the case of Italy's catch-up growth) as well as the stability of generosity over time (as in Norway) are the exceptions to the rule. Despite clear indications of substantial downward convergence within the OECD over time, it may therefore be an exaggeration and an oversimplification to speak of a *secular* trend. Rather, figure 2.1 suggests that interesting variation exists between cabinets in the same country.

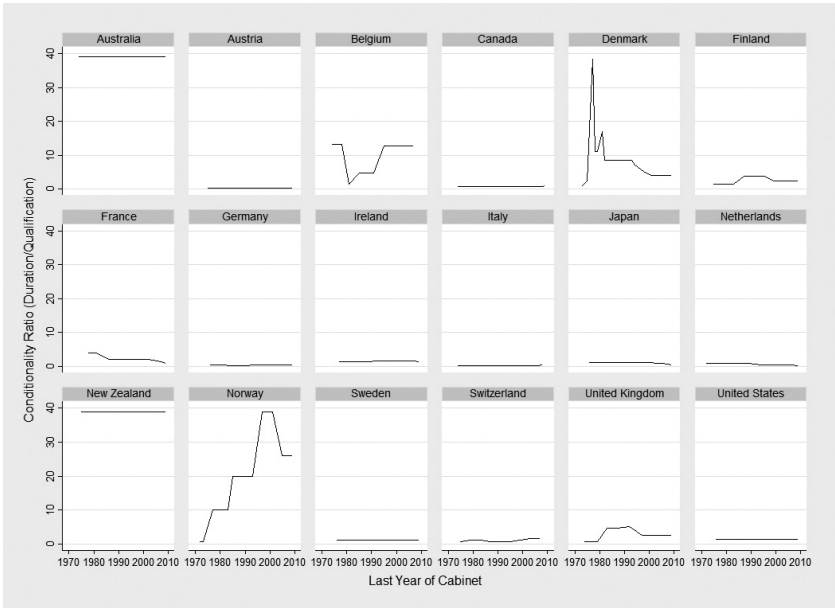
As a final note on generosity, it is also useful to compare the income replacement data with data on transfer spending relative to GDP, as visualized in figure 2.2. A decoupling of both indicators has taken place since the generosity peaked, while expenditure stagnated or grew even further (Pearson's correlation coefficient of 0.43 pre-peak versus 0.12 post-peak). This decoupling is in part a result of the – rather modest – inverse relationship of transfer spending and growth (-0.3 , whereas the correlation between growth and income replacement is a marginal -0.08). As figure 2.2 shows, economic slumps or outright recessions are usually reflected in steep transfer spending increases.

2.3.3 Developments and Patterns: Conditionality

Developments in the conditionality of social insurance are less uniform than those in generosity. As summarized in table 2.1, in nine of the eighteen countries under investigation, the ratio of benefit period to qualification period has worsened since conditionality reached its all-time high, on average in the mid-1990s. The other countries exhibit either no changes or have first peaked in recent years (meaning that we do not know with certainty whether they have peaked already).

Again, it is useful to examine the country-specific developments reported in figure 2.3, although this time the interpretation proves more complicated. For one, the scale is slightly skewed because Norway and Denmark offered extremely favorable terms until governments curtailed duration while largely leaving the qualification conditions intact. Moreover, the constantly high values on the y-axis for Australia and New Zealand reflect that the benefit duration is unlimited and no qualification period is necessary,

Figure 2.3 Conditionality Ratio (Duration in Weeks/Qualification in Weeks) in Eighteen OECD Countries



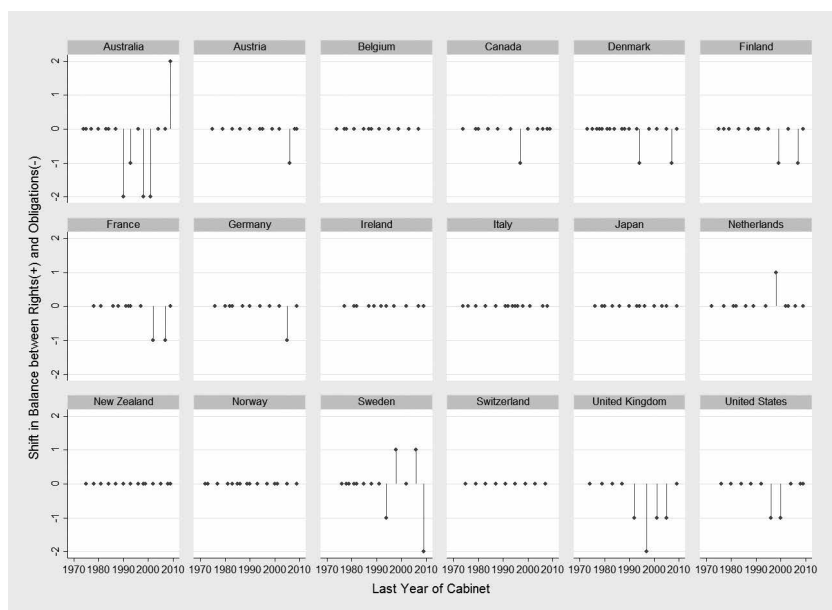
Notes: Data until 2001/2002 largely based on *CWED 1* (Scruggs 2006), thereafter data from *Social Security Programs throughout the World (SSA)*, *Mutual Information System on Social Protection (EU)*, *Benefits and Wages* and *Taxing Wages* (both from OECD), and country-specific inquiries. The duration/qualification data is available as a commented excel spreadsheet from the author.

but conceal that benefits in the Antipodes are means-tested. Likewise, the dramatic development of Belgium from unlimited benefit duration to only one year and back to indefinite duration for those who fulfill the demanding qualification criteria (78 weeks employment) must be put into perspective, since while benefits actually decrease after one year, they are still more generous than most countries' unemployment assistance schemes. The high scores for the aforementioned countries graphically dwarf important developments in Finland, France, the United Kingdom, Japan, and the Netherlands.

Only the changes in Ireland are actually modest. What seems like a minor drop in the Finish xtlne in 1997 is the result of an increased qualification period (from 26 to 43 weeks), which practically excludes seasonal workers and people in precarious employment from insurance. Likewise, the barely noticeable drop at the end of the time series for Japan reflects a reversal of the ratio between the weeks of duration and weeks of qualification from 26/30 to 52/25 (meaning that the coefficient decreased from 1.15 to 0.48). The decline of the coefficient from 1 to 0.3 in the Netherlands mainly reflects a continuous accentuation of qualification requirements from 1989 on (from 26 weeks to 312 weeks). Because of the reduction of duration from one to two years in the United Kingdom in 1996, the conditionality coefficient fell from 5.2 to 2.6. In France, the repeated and drastic increase of the qualification period since 1983 and a cut in duration in 2003 are part of restructuring efforts.

The modest number of cases and the complex interpretation of the duration/qualification ratio make it interesting to consider a complementary indicator of conditionality. Thus, I have developed a workfare-balance indicator based on the social policy legislation database of the International Social Security Association (ISSA), which seeks to account for changes in the balance of social rights and obligations and duties (i.e., work-based welfare/workfare reforms). Going through the entries for unemployment insurance of the ISSA year by year, I coded -1 if new duties for the unemployed have been introduced and -2 if this was done either very comprehensively or repeatedly in a single legislative term. Typically, the laws coded strengthen the quid pro quo character of benefits via the introduction of "action plans," "agreements," "activation plans," and "incentives to work." For instance, the German Hartz Reforms in the second Red-Green coalition (2002-2005) have introduced stricter eligibility rules and a workfare program (the so-called One-Euro-Jobs) and can thus be regarded as workfare reforms (-1), and the Jobseekers Agreement (1995) as well as the introduction of Project Work (1996) in the last cabinet of John

Figure 2.4 Workfare Reforms/Shifts in Balance between Rights and Obligations in Eighteen OECD Countries



Notes: Workfare reforms coded according to the descriptions of the monitoring systems of the ISSA (International Social Security Association), when necessary complemented with country-specific information (as found in Cook 2008). -1 if new duties for the unemployed have been introduced and -2 if this was done either very comprehensively or repeatedly in one legislative term. Typically, the laws coded strengthen the quid pro quo character of benefits via the introduction of "action plans," "agreements," "activation plans," and "incentives to work." I coded +1 and +2 if policy reversals occurred and requirements have been lowered and/or the emphasis of legislation is clearly on the qualification and enablement of jobseekers. The coded laws are: Australia 1991: New Newstart, Social Security (Job Search and Newstart) Amendment Act (-1), Australia 1997: Work for Benefit Scheme (-2), Australia 1999: Work for the Dole Expansion (-2), Australia 2008: Relaxation of Work for the Dole (+2), Austria 2005: Betreuungsplan/Activation Plan (-1), Canada 1996: New Employment Insurance Plan (-1), Denmark 1993: Introduction of Individual Action Plans (-1), Denmark 2006: Welfare Reform Bill (-1), Finland 1996: Tighter Rules on Unemployment Benefits (-1), Finland 2006: Increased Conditionality (-1), France 1998: New Start Program in National Action Plan for Employment (-1), France 2005: Employment Starter Contracts (*Contrat d'avenir*) (-1), Germany 2004: Hartz Reforms (stricter eligibility rules and 1Euro-Jobs) (-1), Netherlands 1996: Melkert Jobs (+1), Norway 1991: Social Services Act empowered local authorities to introduce workfare (-1), Norway 1993: KAJA 'Competence training for work and job creation for unemployed people' (+1), Sweden 1993: ALU (and later also APU) almost entirely replace Work Relief (-1), Sweden 1998: Resource Jobs Program (+1), Sweden 2006: Plusjobb Wage Subsidies (+1), Sweden 2007: Unemployment Insurance reform includes drastic changes regarding eligibility rules (-2), UK 1990: Back to Work Plan (-1), UK 1995: Jobseekers Agreement (-1), UK 1996: Project Work (-1), UK 1997: New Deal, NDPD and ND25+ (-1), UK 2004: New Strategy to improve New Deal Programs (-1), USA 1996: Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) (-1), USA 1998: Job Opportunities and Basic Skills (JOBS) welfare-to-work program (-1).

Major mark decisive shifts from a social rights to a conditional support paradigm in the United Kingdom (-2). I coded the programs +1 and +2 if policy reversals occurred and requirements were lowered and/or the emphasis of legislation is clearly on the qualification and enablement of jobseekers. For instance, in 2008 Australian Labor under Kevin Rudd doubled the number of months available before people have to meet the obligations of Activity Agreements (renamed Employment Pathway Plans) and relaxed the requirements. One intended consequence of this coding procedure is, of course, that countervailing reforms enacted by the same government lead to a workfare balance score of 0. The complete list of legislative acts that have been coded are listed below in figure 2.4. In ten of eighteen countries, governments, mostly from the 1990s on, have shifted the balance toward duties and responsibilities. Repeated reforms have been undertaken in Australia, Denmark, Finland, France, Sweden, the United Kingdom, and the United States, whereas only isolated instances can be identified via the ISSA database for Austria, Canada, and Germany. The workfare-balance indicator is a first step in the direction of a comprehensive quantification of workfare reforms. Apart from its descriptive value, it allows for interesting robustness tests of relationships between cabinet ideology and the duration/qualification ratio.

In sum, taking the long-term net changes per country into consideration together with the more short-term, within-country/between-cabinet changes regarding the generosity and conditionality of unemployment insurance, the notion that there is “often relatively little variation to explain” (Pierson 2011: 3) seems problematic. Clear empirical evidence for the retrenchment perspective exists with regard to generosity; regarding conditionality, the picture is more disparate. The puzzle, however, with respect to both dimensions seems to be not so much why OECD countries move toward risk privatization and less attractive schemes but rather why some governments retrench, some even radically, while others do not retrench or have even (re)expanded.

2.4 When Is Change Significant? Retrenchment and Its Consequences

This section discusses the criteria for the assessment of the societal, economic, and political relevance of retrenchment from a consequentialist perspective and ends with a conclusion for chapter 2.

2.4.1 Relevance and Consequences of Unemployment Insurance Retrenchment

As it is by no means self-evident whether the changes documented above are “significant” or even “radical,” the question of the criterion for the assessment of retrenchment measures emerges. Another way of asking this question would be: When do quantitative changes imply qualitative changes?

While Pierson is not explicit about what precisely qualifies change as “significant” or “radical,” the reference point for him seems to be the announcements of radical retrenchment made by Thatcher and Reagan before they came to office rather than the mere degree of programmatic and systemic retrenchment – a development also noted by Alber (1996: 13–14). To use the “agenda” of “radical retrenchment” (Pierson 1994: 49), the “promises” (ibid.: 128) and the “vigor” with which Thatcher and Reagan turned to the “goal of producing retrenchment” (ibid.: 110) as a benchmark for policy change is not far to seek in a party democracy. It is also highly interesting. On the downside, to start with the expectation of broad correspondence of rhetoric and policy, particularly in the case of the conservative revolutionaries Reagan and Thatcher, sets the bar very high for the falsification of the null hypothesis underlying the Retrenchment Hypothesis (i.e., no change). It is questionable to what extent this expectation heuristic allows us to qualify the actual extent of retrenchment understood as the “process of shifting social provision in a more residualist direction” (ibid.: 15).

An alternative approach to the Gretchen question about the significance of changes without recourse to strong and thus contested normative assumptions (like a libertarian prior to self-ownership or an egalitarian yearning for equality of the highest standards) is to attempt to separate the important variation from the less important variation from a consequentialist perspective. Cuts are important if they have relevant societal, economic, or political implications and consequences.¹⁵ The consequences of cuts cannot be conclusively dealt with in the context of this study, but – based on the literature – it is possible to distinguish between three important dimensions.

The first can be conceived of as the social policy dimension and concerns the direct effects of cuts on living standards and (subjective) well-being and

15 Clearly, this strategy has its limits: The significance of the consequences could also be questioned in each case, which – assuming the absence of an uncontested and measurable criterion – may result in an infinite regress. I leave it to the epistemologists to solve this conundrum and presume a modicum of common sense.

the respective feedback effects on the welfare state. We know from empirical studies that redistributive welfare programs reduce market inequalities (Kenworthy and Pontusson 2005), poverty (Brady 2005; Kenworthy 1999), and the volatility of disposable household income over time (Barr 2001; Bartels and Boenke 2013). Other studies even find a considerable, positive effect of the degree of decommodification as measured via CWED 1 on life satisfaction/subjective well-being within a country fixed-effects design (Pacek and Radcliff 2008).¹⁶ The United Kingdom provides a particularly ostensive example of the social deprivation that comes along with dramatic cuts in the less encompassing welfare states. While Pierson claims that the British welfare state remained “intact” (Pierson 1994: 161), the level of income replacement after Thatcher was only half as high when compared to her 1979 inauguration. With 28% (as compared to 59% in 1979) of income replacement in 1990, social insurance became so modest that an average earner who lost his or her job not only immediately drops out of the middle class but also falls below most relative poverty thresholds (which are usually defined as 50 or 60% of the median income). And even where the welfare state remains relatively encompassing despite curtailments, cuts and tighter eligibility rules have bearing on the moral economy of the welfare state as they threaten to undermine the normative foundations and the (cross-class) alliances upon which comprehensive welfare states were built. For instance, one might agree that the 10 percentage point cut in replacement rates implemented by the bourgeois coalition during the Swedish economic downturn in the early 1990s does not necessarily in itself constitute “radical” change. However, such cuts represent a normative deprivation for part of the middle class and are at odds with the notion of the “equality of the highest standards” (Esping-Andersen 1990: 27), which figures very prominently in Nordic welfare states in general and the Swedish *Volkhemmet*, in particular. If the universal provision of those highest standards is questioned, if income maintenance schemes lose their character as a means of status-preservation and only allow for the coverage of basic needs, this reduces middle-class solidarity with lower strata and leads to welfare backlash and stronger preferences for market solutions (see also Alber 1988: 453; Esping-Andersen 1990: 69; Rothstein 1998: 153-157; Wintermann 2005: 83).

16 To use maximum and minimum of decommodification as measured by the CWED to illustrate the impact of such measures is not a conservative choice. Based on this scenario, however, decommodification accounts for a predicted difference of three-quarters of a standard deviation in life satisfaction (Pacek and Radcliff 2008).

Second, changes in generosity and eligibility have sweeping labor market implications, some of which feed back into the social policy nexus. On the one hand, cuts in unemployment insurance exert downward pressure on wages for market insiders, as replacement rates constitute the de facto reservation wage and tightened eligibility rules undermine the bargaining power of the jobless. Modest wages, in combination with the direct effects of curtailed or abolished pension contributions as part of unemployment insurance benefits or outright lack of eligibility for those benefits (especially for people with patchy employment records) will in turn aggravate old-age poverty in the future.¹⁷ On the other hand, it must not be concealed that a number of economic studies claim that reducing the attractiveness of programs increases the incentive to work (and thus eventually also productivity). According to this research, moral hazard is the reason why unemployment spells increase with the duration of benefits, and the probability of leaving unemployment is negatively affected by generosity.¹⁸ But the role of incentives remains a highly contested subject because of inadequate data (both regarding labor market institutions and unemployment spells), the failure to consider reverse causality, and the prevalence of prior beliefs regarding the interpretation of results (Heckman 2007). The dissenters challenge the “orthodox disincentives view” on theoretical and empirical grounds. They argue that those who speak of *voluntary unemployment* as a product of generous unemployment insurance neglect the psychological, health-related, and social disutility as well as the so-called *scarring effects* (wage penalties after reemployment) accompanying joblessness. They also emphasize that more generous terms and high duration lead to better matches between jobseekers and employers, thereby lowering transaction costs, finding a positive relationship between comprehensive unemployment insurance and

17 These long-term consequences of unemployment retrenchment are particularly important against a background of lower notional pension replacement rates, the introduction of taxes on (future) pension benefits, the curtailment of occupational firm-based schemes, and the current ultra-low interest rate policy which undermines the calculation of pension funds and insurance companies because they now receive lower-than-expected premiums for bonds. In sum, those factors may further undermine the self-financing capacity of pension systems and contribute to the resurgence of old-age pauperization, especially under unfavorable demographic conditions. The number of people age 65 or older as a share of the total population exhibits a clear positive trend in all of the eighteen countries in the sample except Ireland and Norway; rises in Switzerland, the United Kingdom, and the United States are modest; Germany, Italy, and Japan exhibit the highest growth rates and are already at 20% (OECD 2010 Labour Force Statistics in Armingeon et al. 2011).

18 Oft-cited examples include Meyer (1990) for the United States; Layard et al. (1991, 1994) for an OECD cross-section; and Lalive et al. (2006) for Austria.

employment on the macrolevel (Howell and Azizoglu 2011; Howell and Rehm 2009; Howell et al. 2007; Korpi 2002).¹⁹ We shall return to the polarizing question of the relationship between unemployment and unemployment benefits when I outline how such scientific disagreements have been echoed in the (party) political arena in chapter 3.

Finally, unemployment insurance retrenchment is relevant because of its implications regarding attitudes toward democracy, democratic participation, and democratic stability. In short, economic inequality leads to democratic inequalities, as the practice of political rights depends on the endowment of social rights. Of course, the welfare state and social insurance provide no magic bullet against the higher propensity of jobless citizens to perceive of current conditions as unfair and to assess democracy more critically (Faas 2010: 467, 473). But generous welfare states can foster the integration and political incorporation of social groups (Alber and Kohler 2008), and – to the extent that they are redistributive and cushion inequalities – they can bolster political interest and different forms of political participation (see, e.g., Shore 2014; Solt 2008).

2.5 Conclusion

This chapter opened with four questions: What is to be understood as retrenchment? How should we operationalize retrenchment? Which empirical patterns exist in unemployment insurance schemes? And what are the criteria with which to assess the significance of these findings?

Against the background of a discussion of systemic versus programmatic retrenchment, I argued that only the latter is applicable in a large-*n* context. Thus, retrenchment in the context of this study is understood as a retreat by the state that involves the privatization of labor market risks in general and the risk of unemployment in particular. More precisely, and in line with other comparative studies, I speak of retrenchment when programs become less attractive because the generosity of entitlements is reduced and/or the respective eligibility rules are tightened.

19 As the analyses usually rest on (national) microdata or gross-replacement rates, I conducted a multivariate test (country-fixed-effects-regression) with my own net replacement rate data as described above and found a modest positive relationship between changes in the generosity of unemployment insurance and changes in unemployment with a time lag of one cabinet period. This can be seen as tentative confirmation of the neoclassical view that high generosity generates work disincentives, leading to higher unemployment.

What followed was an attempt to convert this conceptualization into measurable components. Based on a detailed discussion of expenditure, social rights approaches, and their strengths and weaknesses, it became apparent that only the latter is compatible with the conceptualization of retrenchment as risk privatization and the political decision to reduce the attractiveness of programs. More specifically, reflecting the conceptual discussions, I opted for a two-dimensional approach. Generosity is measured as the annualized net replacement rate of the Average Production Worker, averaged over two household types. Conditionality is accounted for using a coefficient comprised of the ratio of duration of benefits to the qualification period.

According to the developments in income replacement, there has been downward convergence in recent decades throughout the OECD countries regarding generosity. Developments concerning conditionality are more heterogeneous, half of the countries having witnessed cutbacks and workfare reforms having been implemented in nearly all countries. The subsequent analysis of within-country trends over time pointed to interesting variance in risk-privatization policies: Defying the TINA principle, some governments opted for retrenchment and others for expansion. Overall, however, the attractiveness of unemployment insurance programs has receded; in that sense, we must speak of (programmatic) retrenchment rather than resilience.

Whether the accumulated changes and between-government variation documented here should be qualified as significant is something of a “half-empty/half-full question,” as Pierson farsightedly remarked (Pierson 1994: 5). I have thus attempted to shed light on some of the serious implications of unemployment insurance retrenchment for individuals, the welfare state, the labor market, the political system, and political behavior – all of which indicate that, from a consequentialist perspective, cuts to unemployment insurance schemes do indeed matter.

Now that the definitional core of retrenchment, its operationalization, the empirical developments, and their significance have been outlined, the central questions of this book reassert themselves in an even more pressing manner: How can we explain the considerable variation between governments, especially in light of the convergence across countries over the long run? And, more specifically, how do government ideology and economic pressure shape these different responses?

3 **Theoretical and Analytical Framework: What We (Do Not) Know**

While the descriptive account in the previous chapter on the developments in eighteen OECD countries regarding the generosity and conditionality of unemployment insurance may be interesting in its own right for political observers and scholars alike, it first and foremost prompts and bolsters the causal question raised in the introduction: What is the relative explanatory weight to be assigned to political actors' structural forces and institutions, if any? Asked more skeptically: Is there a discernible impact of genuinely political characteristics on social policy legislation at all, or are the OECD democracies simply on autopilot, merely following economic exigencies?

As for the institutions, we know that they provide an important context for politics and that institutional variation is often vital for understanding the incidence – and particularly the absence – of reforms. But we also know that the institutions of the welfare state and the political system alike are among the more stationary macrovariables, and thus only of limited help if we are interested in the determinants of changes within countries, whether they be abrupt or incremental. As for the impact of structural forces, understood as external and internal pressures on actors, the retrenchment era has witnessed a renaissance of the functional approaches that loomed large in the early days of research on welfare state expansion as epitomized by Wilensky (1975), though its modern revenants build on more sophisticated arguments. And then, of course, there are those scholars who defend the role of political actors – particularly as advocates for distinct socio-economic groups – as engines of change and/or sources of resilience.

In the next two chapters I disentangle, elicit, and criticize the theoretical vantage points from which the role of politics has been questioned and defended. I identify related problems of conceptualization (understood as definition and operationalization) and causation and, on this basis, introduce a cognitive framing argument that clarifies why the proponents of the enduring relevance of the partisan complexion of government may be right, but for the wrong (theoretical) reasons. The more specific aim of this chapter is twofold: First, I discuss the three competing approaches and the respective hypothesized effects of party ideology in the era of retrenchment: the persistence of partisan effects, the marginalization of party politics, and the inversion of traditional ideological frontiers. Second, I proceed with a description of the accumulated knowledge regarding the research on these

three contending perspectives and point to crucial deficiencies in how the influence of party ideology on social policies has been researched.

3.1 Three Perspectives on Government Ideology and Retrenchment

Three main strains of theory can be identified in the literature. While Power Resources and Partisan Theory scholars posit a persistent influence of the political complexion of government on resulting legislation and policy results, the proponents of the New Politics Approach and the Globalization Hypothesis deny the existence of such an effect, albeit for very different theoretical reasons. A third faction emphasizes the importance of strategic considerations and ideological transformation(s). According to this latter point of view, the fact that politics has moved beyond the confines of left and right may even lead to a reversed partisan effect, implying retrenchment mainly by parties which are, at least nominally, right parties. The subsequent discussion focuses on the leading exponents of each line of thought. From every strain, a hypothesis concerning the relationship of partisanship and retrenchment is derived. The focus is on the theoretical positions (in the sense of positive empirical theory) and the underlying assumptions as well as potential objections to them. The empirical appropriateness of these assumptions is discussed in the following chapters on the state of research (3.2) and the Independent Variable Problem (4.1).

3.1.1 The Persistence of Partisan Influence: Power Resources and Partisan Theory

3.1.1.1 Power Resources Theory

During the debate about the expansion of the postwar welfare state and the explanation of between-country differences, the class-centered sociological version of the so-called Power Resources Theory has proven particularly influential, as even its most ardent critics concede (Pierson 1994: 28; 2000: 793). Typical proponents of this approach, such as Korpi (1983), Stephens (1979), and Esping-Andersen (1985, 1990), regard the welfare state as the result of – and an arena for – conflicts between socio-economic interest groups (Korpi and Palme 2003: 425). According to such scholars, the decisive factor for the outcomes of societal conflicts is the distribution of power resources among societal groups or classes. Power resources are “characteristics which provide actors – individuals or collectivities – with the possibility to punish or

reward other actors” (Korpi 1983: 15).²⁰ The basic power resources of the labor movement in democratic societies are unionization and political organization in parties. By contrast, the most important power resource of capital is the control of the means of production (Esping-Andersen 1990: 16; Korpi 1983: 26). This implies that the distribution of power resources in the market favors the employees, as “it is capital which hires labour, not labour which hires capital” (Korpi 1983: 17). But wagedworkers can offset this disadvantage and use their political power resources to limit the scope of the market (*ibid.*: 21). If the labor unions are not divided and their degree of organization is high, if social democratic parties have gained high shares of votes and seats in elections, and if the social democrats and unions cooperate, the labor movement can be characterized as possessing a high degree of power resources (*ibid.*: 39-41). Korpi claims that under such conditions the development of redistributive and egalitarian policies and institutions becomes more likely (*ibid.*: 18-20, 197).

Esping-Andersen (1990) makes a similar argument about how the strength of the labor movement, (political) Catholicism, and liberalism comprise the major determinants for the evolution of three types of social security systems. In his view, the type of welfare regime depends on the dominant ideological principle, which in turn reflects the societal balance of power. Residual welfare systems develop in countries with liberal welfare regimes. Typical features include the strong position of liberal parties and the reverberation of ideas of classical liberalism. Social stratification and commodification (the commodity status of labor or the market-dependence of workers) are thus comparatively pronounced. In contrast, social democratic regimes are characterized by encompassing protection because the labor movement succeeded in shaping a highly egalitarian and decommodifying welfare system. Conservative welfare states take a middle position. In these states (political), Catholicism and corporatism have resulted in the strong segmentation of social rights, meaning that the degree of decommodification depends highly on the respective income and status group (Esping-Andersen 1990: chapters 1-3).²¹

The reason it is necessary to set forth the explanations of power resources scholars for the expansion of the welfare state in a study that seeks to shed light on its retreat is straightforward: According to the determinants of

20 Likewise, Korpi and Palme speak of “capabilities of actors to reward or to punish actors” (2003: 427).

21 In the previous chapter, I have already hinted at the paradoxical semantic nature of the term decommodification, in particular when used as a summary measure for the generosity of insurance benefits – which is primarily a result of the social insurance contributions and thus a function of the market position.

retrenchment, power resources scholars hold that the factors that once shaped the evolution of the welfare state throughout its “golden age” are also crucial for the decline of social protection schemes in the era of austerity. The politics of retrenchment is conceived of as a mirror image of the politics of expansion. Esping-Andersen claims that “a theory that seeks to explain welfare state growth should also be able to understand its retrenchment or decline” (1990: 32). According to this view, the retreat of the role of the state in matters of social provision and risk insurance can be explained by the shift in the distribution of power resources. As socialist or social democratic parties have been responsible for the expansion of the welfare state, it is the political weakness of organized labor or the strength of capital owners and their political representatives that is driving retrenchment. The following two quotes, one from 1983 and the other from 2003, illustrate how power resources scholars have stuck to the micrologic of the expansion phase even in times of cutbacks:

The relationship between social position and party preference is generated by the fact that the social structure gives various groups in society partially divergent interests, which the political parties then may attempt to promote and safeguard. (Korpi 1983: 107)

Actors relying primarily on economic resources can be expected to favor market distribution, while especially categories of citizens relatively disadvantaged in terms of economic resources and relying primarily on their labor power are likely to combine in the sphere of politics to modify outcomes of, and conditions for, distributive processes on markets. To a substantial degree welfare states [...] can be seen as outcomes of such efforts. (Korpi and Palme 2003: 427)

Many similar passages could be cited, some of which are meant to defend against the criticisms of the varieties of capitalism (VoC) literature, whose proponents emphasize the expansionist impetus of employers in coordinated market economies (CMEs) such as Sweden or Germany, unwilling to subscribe to the view that capital is characterized by welfare state aversion. When Korpi and Palme claim that “since their power is based primarily on control over economic resources rather than on votes, employers are likely to tend to oppose the encroachment of democratic politics on markets” (2003: 428), they are suggesting that first-order preferences in favor of the expansion of welfare programs must not be confused with publicly voiced strategic preferences. Korpi later advanced this point in his forceful defense of the historical validity of Power Resources arguments on expansion

policies (2006). In his *World Politics* article, he not only sheds light on the theoretical problems of VoC arguments in CMEs, but also deconstructs much of the historical VoC arguments in favor of allegedly expansionist employers as a crucial force driving welfare state expansion; focusing primarily on historical evidence from the paradigmatic Swedish case.

But there is a second line of defense along which the nexus between social position and political preference as a mechanism comes under attack, where rearguard battles rather than forward defense prevail. Power Resources authors do not accept the objection that societal change renders their idea of stable alliances between societal groups and political parties increasingly obsolete. From their point of view, dealignment and modernization have not undermined the social foundations of the “democratic class struggle.” Rather, they claim that changes in social mobility have been relatively modest and that a person’s subjective group affiliation and political identity, despite increased living standards, continue to be shaped by distributional struggles (Korpi and Palme 2003). We will turn to the theoretical implications and empirical appropriateness of this rigid position below (in section 4.1).

3.1.1.2 *Partisan Theory*

A similar position regarding the relationship between ideological affiliation and retrenchment as in the class-centered sociological strand of the Power Resources Theory can be found in Partisan Theory, which can be understood as the political arm of Power Resources Theory. The basic tenet of Partisan Theory is that policy outputs and even policy outcomes depend on the ideological affiliation of government parties because parties want to conform to the preferences of their supporters. In the words of Manfred G. Schmidt, the proponents of Partisan Theory think of parties in a political market “in which politicians and governments deliver policies in exchange for specific or generalized political demand and support” (Schmidt 1996: 155). While Power Resources Theory posits an independent influence of societal power resources not mediated by the representation of the respective political allies of societal forces in government, the focus of Partisan Theory is primarily on the representation of societal interests in government (Schmidt et al. 2007: 42).²²

²² The overlap between Power Resources Theory and Partisan Theory is considerable. Other differences are subtler. For example, most Power Resources research can hardly dissemble that its intellectual roots are to be found in Marxist and neo-Marxist ontological positions. The relationship of labor and capital appears inherently antagonistic, and the portrayal of alignments between societal groups and parties thus static. While the talk of “class-related cleavages” of Hibbs (1977) goes in the same direction, Partisan Theory lacks the heavy teleological ballast of Historical Materialism that Power Resources carries. The differentiation of objective interests

The classic version of the “partisan theory of public policy” stems from Douglas A. Hibbs (1977). He claims that parties seeking to maximize electoral outcomes have different preferences according to the (alleged) tradeoff between inflation and employment rate (also known as the modified Phillips curve²³) depending on their respective electoral core groups. Persons with relatively low incomes are thought to benefit from a “low unemployment-high inflation macroeconomic configuration” (ibid.: 1467). As those persons disproportionately favor left parties, the left parties devote themselves to the fight against unemployment, even at the expense of monetary stability. By contrast, persons with a higher income have an interest in a “high unemployment-low inflation pattern” (ibid.: 1467). As higher incomes are overrepresented in the electorate of right and centrist parties, these parties are inclined to meet the expectations of their core groups for low inflation, even if doing so means abandoning policies promoting employment (ibid.: 1467). In order to back his claim that “the macroeconomic policies pursued by left- and right-wing governments are broadly in accordance with the objective economic interests and subjective preferences of their class-defined core political constituencies” (ibid.:

and subjective preferences and the tendency to think about the exchanges in an electoral market make the incorporation of changing alliances a more realistic option. For instance, the recent popularity of the idea of a party realignment along the lines of risk profiles rather than class and group membership is easier to reconcile with Partisan Theory. Methodologically, Power Resources scholars are more inclined to support the quantitative evidence set forth for their theoretical arguments with contextually rich (comparative-historical) examination (although these case-sensitive passages frequently reveal a certain “Swedocentrism”). With regard to the dependent variables, tendentially, Partisan Theory is often investigated via differences in performance profiles (in German: *Leistungsprofile*), whereas Power Resources research focuses on various measures of (social) equality and social insurance generosity.

23 While the original Phillips curve described the inverse relationship between unemployment and notional wage increases (Phillips 1958), the alleged menu of policy choice regarding the levels of unemployment and inflation as posited by Samuelson and Solow (1960) is referred to as the modified or extended Phillips curve. Hibbs cites various more recent studies to convince the reader of the actual validity of the tradeoff (1977). Attempts at replicating Hibbs’ findings with different samples have failed (Cameron 1985; Schmidt 1983). As Petring has rightly pointed out, the failure to replicate the results with extended samples is hardly surprising and does not necessarily abound to a falsification of the Partisan Hypothesis per se. The reason is that the existence of a politically exploited tradeoff between unemployment and inflation depends on the conviction that the Phillips curve exists among political and economic elites, especially in social democratic circles and among central bankers (Petring 2010: 71). Unfortunately, the beginning of the stagflation crisis that started in 1969 in the United States and the United Kingdom and later beset European countries also marks the end in Hibbs’ time series. The increasing dominance of monetarist thinking undermined convictions of a politically exploitable tradeoff between inflation and unemployment and led to a shift in favor of tighter fiscal policies.

1468), Hibbs presents cross-sectional data for Western Europe and North America and finds positive associations between left parties and inflation ($r = .74$) and a negative relationship between left parties and unemployment ($r = -.68$). Moreover, for the United States and the United Kingdom, he uses time-series data on unemployment and cites confirming survey data in order to illustrate the existence of “class-related cleavages” (ibid.: 1471) on preferences regarding unemployment and monetary inflation.

Tufte extended and refined this approach both with regard to the dependent and independent variables. He claimed that the “single most important determinant” of cross-country variation in macroeconomic performance regarding unemployment, inflation, income equalization, and the size and rate of expansion of the government budget “is the location on the left-right spectrum of the governing political party” (Tufte 1978: 104). Moreover, he pointed out the importance of variables such as the proximity to the next election and the dominant economic problem. He found that politicians are particularly motivated to make use of economic stimuli up to elections.

Another important extension of Partisan Theory regarding the independent variables includes the closer inspection of the institutional conditions under which partisan effects can be observed (for an early example, see Schmidt 1982). This research began in an inductive rather than deductive manner, searching for variables that are supposed to capture the role of countermajoritarian institutions or institutional constraints in political systems. Subsequent work by Immergut on veto points (1990, 1992), Tsebelis on veto players (1995, 2002), Lijphart on consociationalism (1999), and Visser and Hemerijck on corporatism (1997) laid the foundations for theory-guided model specification.²⁴ Still, in the quantitative research practice, the complex institutional characteristics are often just summarized in additive indices that seek to capture the diffusion of power caused by the “institutional structure[s]” (Huber et al. 1993: 711²⁵), the limitation of legislative and executive power by countermajoritarian “institutional constraints” (Schmidt 1996: 172-173), or corporatism understood as the degree of “integration of the economy” (Siaroff 1999: 175). The central assumption underlying the research on the expansion of the welfare state was that strong countermajoritarian institutions, including corporatist and neocorporatist arrangements,

24 Not to give a wrong impression, the relative neglect of political institutions has held its ground more tenaciously in the class-centered strand of Power Resources research (see also Schmidt et al. 2007: 46-48).

25 An updated version which considers changes over time can be found in Armingeon et al.’s (2011) Comparative Political Dataset.

impede the realization of expansionist ambitions. However, the extent to which this logic of status quo preservation still applies in the era of retrenchment is unclear. In particular, Pierson's idea that the "new politics of the welfare state" is characterized by an imperative regarding blame avoidance renders the established theoretical role of countermajoritarian institutions ambivalent, because these institutions can potentially obscure the authorship for unpopular reforms and diffuse political responsibilities.

In the mid-1990s, Van Kersbergen added another important facet to the research on partisan effects by arguing that a focus on the link between the labor movement and low income groups with left (i.e., social democratic) parties must not be overemphasized in some continental European welfare states with strong confessional parties. Here, the working class has also been represented by centrist Christian democratic parties that have pressed ahead with the expansion of the welfare state (Van Kersbergen 1995). This inspired the reclassification of these conservative parties as "centrist" and "religious" and provided a tentative explanation as to why parties like the CDU (Christian Democratic Union) and the CSU (Christian Social Union) in Germany do not conform to the expectations of Partisan Theory and even engage in "social policy race[s]" (according to Schmidt 2005: 94²⁶), an exception that Hibbs already identified in his now-classic article when he conceded that West Germany under the "conservative CDU [...] has experienced both low unemployment and low rates of inflation" (Hibbs 1977: 1471).

Regarding the dependent variable, the expectation that left and right parties generate different outputs and outcomes is of course not restricted to the currently contested assumption²⁷ of a (politically exploitable) tradeoff

26 In the case of West Germany, however, one might add that this was not simply a social policy race between parties but also a race for legitimacy with the unloved socialist sibling state in the East, as the FRG and GDR were the poster children for the capitalist and socialist blocs in global system competition. While this question is too abstract to be addressed in this study, social scientists should at least keep in mind the possibility that the bloc confrontation was a crucial motivation underlying the social policy efforts and the domestication of market forces in the West (as claimed by the Marxist historian Eric Hobsbawm [1996]).

27 While this tradeoff has been negated by rational expectations monetarists ever since, developments in the aftermath of the post-2007 global financial crisis illustrate to a wider public that the frontiers in macroeconomic policy making look very different now than was the case in the 1960s and 1970s. Quantitative Easing (QE) was supposed to stabilize crumbling economies yet achieved underwhelming results. QE is supposed to work in part by boosting spending and jobs, but those effects "have not yet filtered through strongly to the wider economy" (The Economist 2013b). In contrast, recent zero-interest rate policies in North America, Europe, and Japan have boosted the stock market and benefited stock owners (ibid.). Finally, inflation, for now at least, does not seem to be a problem arising from current loose monetary policies (as both the European Central Bank and the Federal Reserve Bank currently meet their 2% inflation

between inflation and unemployment or to the broader set of macroeconomic indicators that Tufte had in mind. The Partisan Hypothesis has been applied to a wide variety of outputs and outcomes of the state: Differentials in inflation and unemployment, economic growth, spending ratios, industrial politics, tax quotas, or the progressiveness and regressiveness of tax and social protection systems. And in the aftermath of the financial crisis, scholars have also developed a keen interest in the partisan determinants of financial regulation.

As with Power Resources Theory, the underlying assumption that politics serves as a transmission belt for existing preferences has hardly changed in recent decades, especially with regard to questions of distribution and redistribution. In recent years, however, the focus regarding the determinants of preferences for parties and policies has shifted slightly from the objective socio-economic status and income levels to objective as well as subjective risk exposure and uncertainty about future income (see Cusack et al. 2006; Rehm 2011).

However, the underlying logic is that left parties mobilize lower wage earners with adverse risk profiles whose objective interest and subjective preference is redistribution and/or insurance against the loss of the ability to extract an income from the market. Thus, left parties should advocate the expansion or at least maintenance of the welfare state. More specifically, with regard to the generosity and conditionality of social insurance in general and unemployment insurance in particular, the application of Hibbs' logic implies that persons with a weak labor market position (and thus a higher risk of falling into the social net) and left parties prefer generous and unconditional unemployment insurance despite its costs and oppose tightened eligibility rules. In contrast, those with a strong labor market position (and a lower risk of ever relying on benefits) as well as employees and asset holders are net contributors to the welfare state and oppose generous unemployment insurance and lax conditionality in coalition with right parties. Thus, regarding the relationship between the ideological affiliation of the government and retrenchment understood as risk (re)privatization, the same Mirror Image or Right Retrenchment Hypothesis follows from both Partisan Theory and Power Resources Theory:

- H1** [Mirror Image/Right Retrenchment Hypothesis:] The share of right (left) parties in government is positively (negatively) associated with the privatization of labor market-related risks.

targets). This illustrates that the complex redistributive implications of loose fiscal and monetary policy are difficult to reconcile with the "old" dichotomization of inflation and unemployment.

The evaluation of the soundness of the underlying assumptions will be carried out in section 4.1.

3.1.2 The Marginalization of Politics: The New Politics Approach and the Globalization Hypothesis

3.1.2.1 *The New Politics of the Welfare State*

Paul Pierson coined the term “new politics of the welfare state.” He posits that the politics of retrenchment is fundamentally different from the politics of expansion and explicitly denies that Power Resources are still decisive in the new “context of permanent austerity” (Pierson 2001: 411):

My central thesis is that retrenchment is a distinctive and difficult political enterprise. It is in no sense a simple mirror picture of welfare state expansion, in which actors translate [...] a favorable balance of class “power resources” or institutional advantages into political success. (Pierson 1994: 1, 2)

A straightforward application of the power resource arguments to retrenchment would suggest that welfare states are in deep trouble. The power of organized labor and left parties has shrunk considerably in many advanced industrial societies [...] However, there is very little evidence that this decline has had a fundamental impact on welfare states. (Pierson 1996: 150)

Rather, he believes that the room for maneuver of policy-seeking parties is significantly restrained. Both the supporters as well as the critics of a generous welfare state have their hands tied. On the one hand, the proponents of the welfare state face the consequences of postindustrialization, a term that Pierson uses to refer to three “endogenous processes of social change” (Pierson 1998: 540). This “triple transition” undermines the financial sustainability of modern welfare states in different ways. The first of these transitions is the slowdown in growth (ibid.: 541-545). Tertiarization, understood as a shift from manufacturing to service sector employment, is generally assumed to be the main reason for this tendency toward reduced growth figures. While productivity increases via standardization and replication are typical of manufacturing, activities in the labor-intensive service industries are more resistant to rationalization. Productivity gains thus remain low. The implications of low growth for the welfare state and its financial basis are twofold. On the supply side, low growth impedes wage increases, thereby reducing lower tax revenues. Concerning the demand side of the welfare state, low growth is accompanied

by higher unemployment and, hence, increased numbers of welfare recipients. The second transition is the “maturation” of the welfare state and the “‘growth to limits’ of governmental commitments” (ibid.: 545–550). Maturation refers to the extension of old programs and the adoption of new programs, a tendency particularly pronounced in pensions and health care. According to Pierson, the costs involved contribute to a “growing sense of budgetary stress” and “loss of policy control” (ibid.: 550). The third endogenous threat to the welfare state is the “demographic shift to an older population” (ibid.: 541). As the ratio of the working-age population to those over 65, the so-called *old-age dependency ratio*, has been steadily declining since the 1960s, pension liabilities constitute a growing part of the nondiscretionary expenses of governments (ibid.: 550–551). As a result of this “triple transition,” governments are faced with high annual deficits and debts, interest payments have reached unprecedented levels, and the balance between discretionary and nondiscretionary spending has shifted to the latter category (Streeck and Mertens 2010; Tanzi and Fanizza 1996). In Pierson’s terms, the three “irresistible forces” of postindustrialization are responsible for “declining governmental capacity and fiscal strain” (Pierson 1998: 551). According to him, the steady fiscal crisis creates an atmosphere of “permanent austerity” that makes adjustment or at least the end of expansion necessary (Pierson 1994, 2001).

On the other hand, Pierson argues that reformers and the opponents of the welfare state also face severe constraints, as program cutbacks are unpopular and welfare states have created their own constituencies. More precisely, he attributes the “tremendous resilience” of the welfare state to two aspects: “electoral incentives” and “institutional stickiness” (Pierson 1998: 551). The “electoral incentives” argument is the fundamental reason why Pierson rejects the assertion that retrenchment can be understood as a mirror image of expansion and instead follows a new logic of politics. Building on the works of Mancur Olson on the logic of collective action and Kent Weaver on blame avoidance, Pierson argues that while the allocation of new benefits in the era of expansion was an exercise in credit taking, governments in the era of retrenchment try to avoid the blame for imposing losses. Pierson refers to two asymmetries to justify this claim. First, the costs of cuts are heavily concentrated on the respective recipient group. As the group shares a rather narrow interest, opposition to cuts can be effectively organized by interest groups and mobilized by political entrepreneurs. By comparison, the taxpayers’ interest in expenditure savings is vague and thus difficult to organize or mobilize. The second asymmetry is a “negativity bias,” meaning that voters are much more sensitive to losses than to gains (Pierson 1994: 2, 18). Pierson concludes that the politics of retrenchment

is not about “credit taking,” as in the era of welfare expansion, but rather about “blame avoidance.” Against the backdrop of concentrated costs and the negativity bias, a highly visible strategy of redistribution from welfare recipients to the taxpayer is likely to be electorally counterproductive (*ibid.*: 18). Rather, politicians must employ strategies of compensation, obfuscation, and division in order to avoid electoral retribution for retrenchment.

The second aspect that keeps governments hostile to the welfare state away from retrenchment measures is “institutional stickiness.” According to Pierson, decisions in social policy are highly path dependent or “institutionally sticky,” because welfare state arrangements create certain incentives, expectations, and behaviors. Based on Douglas North’s work on the subject, Pierson speaks of “lock-in” effects if the costs of adjustment, reform, or even a paradigmatic change in social policy inhibit a deviation from the old policy path and thus lead to “nondecisions” (Pierson 1994: 44-45). The quintessence of both lines of argumentation is that, in Pierson’s view, left and right parties are equally unable to implement (social) policies according to their (assumed) ideological preferences.

3.1.2.2 *Globalization Hypothesis*

The New Politics Approach posits that power resources in general and partisanship in particular are no longer of explanatory help. It has become the basis for research on the politics of retrenchment and even “rose to intellectual hegemony over the 1990s” (Hemerijck 2013: 23). Together with the unequivocal support for group representation arguments by the Power Resources authors, it thus provides a stark contrast to the cognitive framing argument developed in this book. In contrast, the Globalization perspective and the group of authors subsumed under that rubric is more heterogeneous; more of a “mixed bag” of hypotheses. It is by now often accepted that the roots of closer economic integration (into the global market) are political and that the unintended consequences of this process can be addressed politically. For instance, the use of “tax arbitrage” can be countered or at least reduced via tax cooperation between countries (Genschel and Schwarz 2011), and different adjustment strategies to the internationalization of national economies have been pursued in different welfare state contexts (Scharpf and Schmidt 2000). Still, bearing these qualifications in mind, I will subsequently argue that it is possible to identify a certain skepticism toward the role of genuinely political choices:

[T]he political choices open to governments these days have been so constricted by those forces of structural change often referred to as

“globalization” that the differences that used to distinguish government policies from opposition policies are in process of disappearing. (Strange 1995: 291)

This skeptical evaluation of the latitude of politics in general and party politics in particular vis-à-vis the pressure of economic integration and competition by Susan Strange is the simplistic version of what has become known as *Globalization Hypothesis*, sometimes also referred to as the *Efficiency Hypothesis* or the *International Hypothesis* (Moses 1994; Mishra 1998; Scharpf 2000; Strange 1995).²⁸ While Pierson regards internal pressures as the main reason for the marginalization of politics, proponents of the Globalization Hypothesis emphasize the relevance of external factors, though they are by no means suggesting that the domestic factors can be neglected. The argument is that the increased openness of markets accompanied by increased competitive pressure has reduced the range of options governments have at their disposal in terms of social policy. In the 1980s, the internationalization of markets for commodities, services, and capital again reached and exceeded the high pre-World War I levels (Scharpf 2000: 195).²⁹ The political basis of the increased foreign trade interdependence of national markets comprises the treaty rounds of GATT and WTO, as they have paved the way for the gradual reduction of tariffs and other trade restrictions, a trend that was accelerated by the implementation of the Single Market Program in Europe and the erosion of capital exchange controls in the early 1990s (Scharpf 2000: 195). The main point of the proponents of the Globalization Hypothesis is that the removal of restrictions on capital mobility and trade barriers creates an “exit option” for (formerly “captive”) investors, taxpayers, and even consumers. Given these circumstances, solidary wage bargaining, high taxes, and social contributions as well as minimum wages pose a threat to the domestic economy because they increase the production costs, thereby lowering competitiveness (Scharpf 2000: 195-198). While governments in the 1970s were able to determine tax rates, social contributions, and restrictions relatively independent of external constraints, contemporary governments have to fear the dislocation of production facilities, services, capital, and even consumption. As countries compete over investments, governments of all ideological complexions strive for comparatively low taxes and social contributions. In turn, this either reduces their room for maneuver in terms of social policy or leads

28 For a brief overview, see Ostheim (2007: chapter 6).

29 On the globalization of capital, see Swank (2002: chapter 2).

to a race to the bottom of social standards or *social dumping*.³⁰ Thus, while Pierson claims that governments are paralyzed by endogenous (economic and electoral) pressures, the International Hypothesis, in the simplified version I have presented here, suggests that governments engage in (downward) adjustments of social policies to conform with exogenous market pressures exerted by economic integration, their ideological complexions notwithstanding. Overall, although based on rather different theoretical assumptions, both approaches favor the same pessimistic hypothesis as regards the social policy relevance of ideological preferences.

H2 [Ineffectiveness/Marginalization:] The ideological composition of the government has no effect on the privatization of labor market-related risks.

3.1.2.3 *Discussion of the Theoretical Underpinnings of the Marginalization Hypothesis*

With regard to this hypothesis – or its theoretical underpinnings – some reservations must be put forward. One important point is that the plausibility of the New Politics Approach strongly depends on the respective policy area or welfare program. Pierson concedes that “some programs have proven far more vulnerable than others” (Pierson 1994: 5). Pension system reform or its absence is often regarded as a prime example of how the resistance of large groups of well-organized recipients makes retrenchment a potentially costly endeavor for vote-seeking politicians. Pierson mentions the American Association of Retired People (AARP) as “the most dramatic example” of a group that successfully defends the claims of welfare stakeholders (Pierson 1994: 3). In the case of unemployment insurance, however, which is at the heart of the key objective of the postwar welfare state to protect wageworkers against the inability to extract an income from the market (Bonoli 2007: 495), Pierson’s theoretical assumptions seem problematic. He argues that the empirically observable reduction of unemployment insurance benefits should not have taken place – given that cuts to transfers are marked by a high degree of “visibility” (Pierson 1994: 127). This mismatch is due to three problems in Pierson’s theory regarding unemployment insurance. First, the argument about the importance of lock-in effects due to prior

30 Again, I would like to emphasize that authors such as Scharpf not only point out that the “power to tax and regulate” of nation states has “become constrained” by tax competition and the need to reduce labor costs but also that the vulnerability of welfare states depends on the institutional context(s) (2000: 224).

investments does not appear convincing in the case of unemployment insurance. Contrary to pension politics, decisions concerning unemployment insurance do not necessarily create “dense networks of commitments” or “encourage individuals to make significant investments that are not easily reversed” (Pierson 1994: 45).³¹ Second, the importance of blame avoidance seems questionable. This is readily admitted by Pierson, who is well aware that the organization and mobilization of unemployed persons is a difficult endeavor: “[F]ew are likely to realize their stake in unemployment programs until they are unemployed, at which point they are less likely to devote much energy to political action” (Pierson 1994: 102-103). Third, as regards unemployment insurance retrenchment, it is not plausible to expect that the societal and political power resources are insignificant or have become insignificant. Pierson concedes that unemployment insurance has proven particularly “vulnerable,” probably because it is closely linked to the strength of organized labor and the highly ideological “why-work?” question” (Pierson 1994: 105, 128). Against the backdrop of those objections, it is hardly surprising that Pierson calls unemployment insurance the “exception that proves the rule” (ibid.: 166). In doing so, he admits that the dominant theory in the field of retrenchment research does not apply.

As in the case of the New Politics Approach, the Globalization Hypothesis also rests on some rather controversial assumptions. The proponents of a competing hypothesis, the so-called *Compensation Hypothesis*, agree that economic openness creates pressure to increase productivity and control costs. They concede that some tools of macroeconomic policy are no longer available. They argue, however, that increased openness is compensated via generous social policy in order to reimburse the losers of globalization. Rather than a race to the bottom, authors like Cameron (1978: 1249-1251) have predicted increased social policy efforts. Modern revenants of this classic argument bring forward criticism that is even more fundamental. They agree that the electoral demand for redistributive policies has increased in the globalized economy, as those who are objectively or subjectively concerned by “market dislocations” constitute a crucial target group within the electorate (Garrett 1998: chapter 2).³² Authors such as Garrett also emphasize the positive externalities of “big government.” He claims that

31 Such a case could only be made for the Ghent systems in Scandinavia, where unemployment insurance is administered by the trade unions and workers need(ed) to be union members to be eligible for benefits.

32 See also Garrett and Lange (1995); Garrett and Mitchell (2001); Rodrik (1997). Adserà and Boix (2002: 230) even claim that the expansion of the welfare state is a precondition for openness rather than a consequence.

redistribution has a positive effect on infrastructure and human resources and lead to fewer strikes and social tensions. Garrett concludes that as a higher public expenditure quota has no negative effect on growth, there is no a priori reason to expect capital owners to make use of the “exit option” (Garrett 1998: chapter 5³³). Against the background of those assertions, neither from a macroeconomic perspective nor with regard to electoral strategies does it seem plausible to expect that the social policy autonomy of governments has been displaced by market pressures resulting from the increased integration of the domestic into the global economy.

Finally, whether globalization has fostered a race to the bottom in taxation and social provision or if a compensation via social policy has taken place is ultimately an empirical question, as the net effect of both arguments cannot be assessed a priori (Genschel 2004: 626). But the results regarding this tradeoff do not necessarily attest to either the enduring importance or the marginalization of partisan differences. Certainly, a race to the bottom is hardly compatible with the idea of persistent partisan effects as advocated by *Power Resources Theory* and *Partisan Theory*. But, vice versa, evidence against the race to the bottom perspective and in favor of the *Compensation Hypothesis* does not necessarily amount to a refutation of the globalization-induced marginalization of partisan differences. Taking the compensation argument to its extreme, one could argue that high pressure on governments of all ideological orientations to insure and protect employees against the risks arising from ever more open and integrated economies can lead to a race to the top and thus a vanishing of partisan differences in policy outputs and outcomes.

3.1.3 ‘Beyond Left and Right’: The ‘Reversed’ Partisan Influence Hypothesis

Some authors criticize both Pierson’s neglect of partisan politics and the old class-based politics account. According to this position, politics still matter in the era of retrenchment – but in a counterintuitive manner. The basic criticism is that both perspectives are based on old conceptualizations of left and right. It is argued that it is no longer plausible to simply assume that the political Left wants to defend the welfare state and the political Right wants

33 In political economy, the idea that transfers should be regarded as investments because they spark innovation is discussed under the heading of the “free lunch” paradox. According to economic textbook models, taxes and transfers create “deadweight losses” that are detrimental to economic growth. Such a negative effect of spending on economic growth cannot be found, however, as governments focus on less harmful spending and avoid disincentives. Spending thus appears to be a free lunch (Lindert 2004, 2009).

to cut it. Proponents of the idea that parties have moved “beyond left and right” particularly emphasize how the agenda of traditionally left parties changed dramatically in the 1990s (Bonoli and Powell 2004; Giddens 1994, 2000; Ross 2000). More specifically, it is argued that “most major parties of the left are no longer committed to big government in general or an elaborate welfare state in particular” (Ross 2000: 165).

Increased orientation toward market-liberal positions and the implementation of cuts are attributed to parties that are traditionally labeled as “left.” Among the reasons identified to explain these changes are ideational shifts as well as strategic considerations. Since the 1970s, some left parties have been associated with economic downturn and a high tax burden. Fiona Ross understands the move of numerous social democratic parties to the right as an attempt to get rid of the “big government/tax-and-spend” image and regain credibility in terms of economic policy. The British Labour Party is regarded as the textbook example of this difficult and lengthy process of “partisan issue disassociation” (Ross 2000: 163, 164). Inversely, right parties cautiously try to avoid “accusations of social brutality” (*ibid.*: 159) because “politicians must not be seen to impose undue losses. Ironically, the right’s greater ideological commitment to retrenchment may inadvertently limit its scope for effectiveness” (Ross 2000: 165).

Certainly, the decoupling of parties and traditional support groups (*dealignment*) produced additional incentives for programmatic shifts. Apart from the strategic choices parties make in order to maximize votes, changes must also be attributed to a changing context and problem perception that renders certain policy options feasible and others not. The failure of Keynesianism vis-à-vis the stagflation crisis in the early 1970s and the end of the system competition of the Cold War are prime examples of events that change perceptions concerning feasibility and appropriateness. While a discussion of the determinants of the evolution of such programmatic change (and thus discussion of the relative causal weights to be assigned to intrinsic and extrinsic motivations in the evolution of party ideology) is beyond the focus of this study, it is crucial to understand why, at least according to the scholars subsumed under the heading “beyond left and right,” left parties are allegedly more successful than right parties in implementing unpopular cutbacks. Fiona Ross and Herbert Kitschelt accept the importance of blame avoidance, but criticize Pierson for not taking political opportunity structures seriously. They hold the view that the opportunity for retrenchment policies depends on the structure of party competition. According to Ross (2000), left parties benefit from a “Nixon goes to China” logic. Just as only the die-hard anticommunist Richard Nixon

was able to visit China in 1972 without being accused of betraying liberal values, it is easier for supposedly left governments or governments with a left reputation to implement painful cuts. Analogously, with regard to welfare statism, traditionally left parties enjoy more trust and are regarded as more competent than right parties. The willingness to accept the notion that retrenchment policies are necessary is therefore generally higher than in the case of right parties, where there are suspicions of ideological motivations. A variation on the notion of the “credible protector” can be found in the work of Kitschelt, who identifies multiple mechanisms “that may work in conjunction” in the party system constellation that are favorable to retrenchment (2001: 273): No important opposition party can be regarded as a credible protector of the welfare state status quo by the electorate; the existence of a strong liberal party; party competition that revolves around socio-economic rather than socio-cultural differences; mild electoral tradeoffs between vote- and office-seeking strategies; and a party organization in which strategic considerations and status quo-conserving entrenched interests (e.g., those of labor unions and the public sector with regard to social democratic mass membership parties) are comparatively unimportant. Both Ross and Kitschelt by no means argue that left parties take positions that are more welfare antagonistic than those of the traditional right parties. Rather, ideological shifts among left parties bring about significant policy consequences as voters do not harshly punish them for retrenchment because they are perceived as the traditional owners of the welfare state issue and they are the credible protectors of the welfare state. Due to this strategic advantage, they enjoy greater room for maneuver.

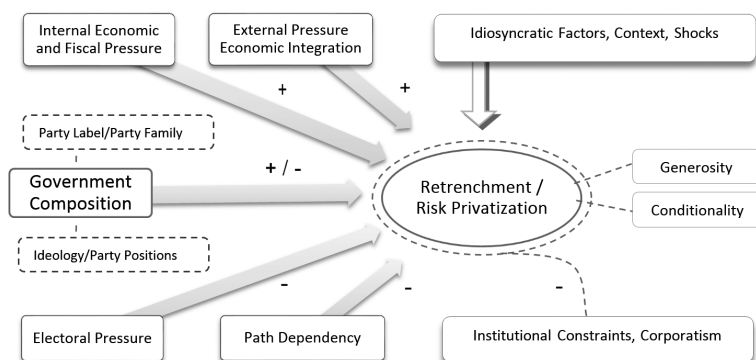
This discussion illustrates both the merits and the heterogeneity of the “beyond left and right” perspective. The approach is particularly instructive in the context of this study because it considers how the historical affiliation to a party family or ascriptions such as left and right may be at odds with a party’s current social policy preferences. This conviction that left parties have undergone a significant ideological transformation appears to be the common denominator of the authors subsumed under the somewhat vague heading “beyond left and right.” On this basis, most proponents of this perspective also share the conviction that left parties can, under certain conditions, be more “successful” than right parties with regard to retrenchment. Because less ideological and more pragmatic motives are often ascribed to them due to their pro-welfare reputation, electoral retribution remains limited. Ross’ work in particular is associated with the hypothesis of “left retrenchment” or a “reversed” impact of partisanship.

- H3** [Reversed Partisanship Effect/Left Retrenchment Hypothesis:] The share of left parties in government is positively associated with the privatization of labor market-related risks.

Using the available evidence, the next section assesses whether there is evidence for this hypothesis beyond the high-profile cases of the third-way social democrats in the 1990s. Whether it is plausible to expect that left parties that implement cutbacks suffer fewer electoral losses than right parties that take similar measures can be questioned on theoretical grounds. Why should the protective halo of the reputation as the credible protector of the welfare state not fade away once the electorate has been repeatedly subjected to cuts initiated by left-leaning parties? This is all the more true if the other underlying assumption that the Left has drifted to the Right is correct. As presented in chapter 5 in a discussion of the patterns in government ideology over the last four decades, there are indeed clear indications of a shift to the right by parties that were once left or centrist, although it can be said in advance that no such “end of ideology” – to borrow a phrase that Bell (1960) and Fukuyama (1989) popularized as a shortcut for the hypothesis that (political) worldviews are converging – can be detected for the eighteen OECD countries in this study.

3.1.4 Summary: Three Perspectives on Government Ideology and Retrenchment

Figure 3.1 summarizes the concepts that the three strains discussed above deem important as regards the effect of the ideological composition of government on retrenchment, understood as risk privatization. According to the Power Resources Approach and the Partisan Hypothesis, retrenchment can be conceived of as a mirror image of expansion and the privatization of risks is regarded as a project mainly promoted by right governments, whereas left parties – as advocates of (organized) labor – still defend the status quo or even expand welfare programs. By contrast, the New Politics Approach suggests that the autonomy of governments is constrained in the face of a delicate dilemma: While postindustrial pressures undermine the foundations of the welfare state, the electorate is predominantly opposed to cuts. Proponents of the International Hypothesis argue that the struggle to maintain the competitiveness of highly integrated national economies has led to a race to the bottom and minimized the leeway for genuinely political social policy decisions. Finally, those authors subsumed under the heading “beyond left and right” remind us that left parties may have undergone an ideological transformation that renders it necessary to distinguish between

Figure 3.1 Potential Determinants of Retrenchment

partisanship understood as historical affiliation to a party family and actual party preferences. This transformation of left parties, in combination with their reputation as “credible protectors” of the welfare state, may be the reason why a reversed partisan effect can be observed. Against the background of these three competing perspectives regarding the social policy consequences of the political complexion of governments, the next section reviews and discusses the existing empirical evidence and identifies five problems in the way partisan effects have been investigated thus far.

3.2 State of Research: Inconclusive Evidence, Desiderata, and Problems

The evidence regarding the role of ideological affiliation for retrenchment is inconclusive, particularly when compared to the substantial scholarly consensus on the role of party politics during the era of expansion.³⁴ Moreover, not all of the perspectives outlined above have been subject to equally intense critical scrutiny. While the role of partisanship in a globalized economy constitutes by itself a vast research field, explicit evidence concerning the question of left retrenchment is scarce and often a by-product of the heated scholarly discussion sparked by the “old politics” versus “new politics” debate. These reservations notwithstanding, the next section

34 For an overview of the literature largely agreeing that social democratic parties, and to a lesser extent Christian democratic parties, are the key factor in explaining variation in welfare state expansion, see, for instance, Schmidt et al. (2007).

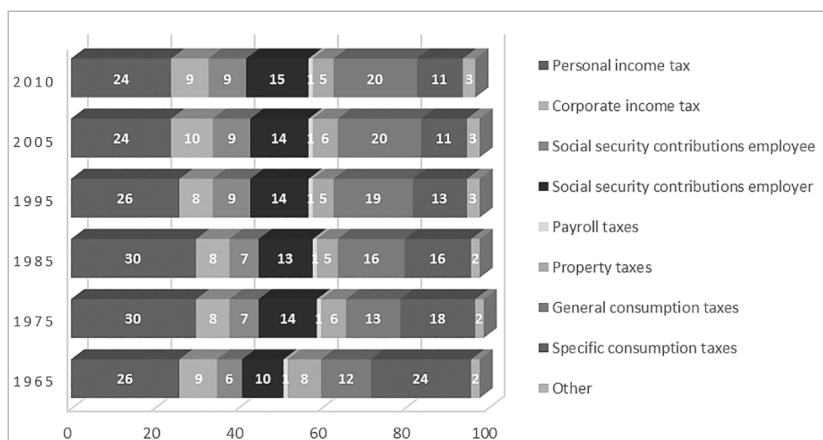
summarizes the empirical findings regarding the three perspectives on partisan effects. As a matter of principle, it seems instructive to move from the more consensual to the more contentious issues. Finally, I will point out the deficiencies that are impeding progress in comparative welfare state research before singling out the conceptualization and theorization of the ideological complexion of government as the most pressing problem.

3.2.1 Globalization Hypothesis

The idea that parties and governments and their policies converge because of globalization was at the height of its popularity in the 1990s (see, e.g., Mishra 1998; Moses 1994; Scharpf 2000; Strange 1995). The reasoning was that left and social democratic policy instruments would be “no longer effective” (Moses 1994: 133) in highly integrated economies and that the lack of tax revenue as a precondition for the provision of public goods undermines the policy autonomy of governments (Hicks and Swank 1992). By now, many authors have become more critical of this globalization-induced “policy fatalism” on empirical grounds (Alber and Standing 2000: 116), although it would be an exaggeration to speak of consensus in favor of a skeptical view on the role of globalization.

Regarding the micrologic of the Globalization Hypothesis, it seems problematic that neither a race to the neoliberal bottom in taxation nor clear-cut changes in the tax structure has taken place (OECD 2012). The total tax revenue as a share of GDP remains stable (*ibid.*: 19), reaching its peak in 2000 (35.2% in the entire OECD and 38.5% in the eighteen OECD countries under scrutiny in this study) and has since leveled off. Only the countries in Central and Eastern Europe (CEE), some of which implemented flat-tax systems since the mid/late-1990s, exhibit a marked trend toward leaner governments. Taxes on income and profits as a share of GDP have been trendlessly fluctuating around 11-12% between 1975 and 2010 (*ibid.*: 20).

If not the level of taxation, then perhaps the composition of tax revenues has changed. Studying the tax structure between 1975 and 2010 as presented below in figure 3.2, however, it is difficult to spot dramatic systematic displacements, except that there has been a substitution of general by specific consumption taxes across OECD countries. Corporate taxation, which is at the heart of the discussion of globalization-induced tax competition, made up 9% of the tax yield in 1965 and 2010 and has been even lower in the 1970s and 1980s. Of course, if one would use the peak in the share of corporate taxation between 1975 and 1985 as a yardstick, one would come to a more skeptical conclusion, in line with Genschel and Schwarz (2011: 356), who show how top income tax rates and corporate tax rates have declined between 1985 and 2009.

Figure 3.2 Developments in Taxation and Social Contributions, 1965-2010

Source: Data from OECD Tax Revenue Trends (OECD 2012, 23). The share of social contributions as a whole is slightly underestimated in the graph, as social security contributions from self-employed individuals and benefit recipients make up 1-2% of the total revenue, which is not considered in either of the categories.

In any case, although stability is the prevailing impression, someone who favors progressive taxation will find something to grouse about when surveying the developments in figure 3.2: Over the last decades, personal income tax as a share of total taxation has decreased slightly, whereas social security contributions, both by employees and employers (categories 3 and 4 in figure 3.2), have increased slightly. This tendency lowers the progressivity of the tax system as a whole, as social security contributions are often proportional to earnings rather than progressive; or even regressive when they are subject to income caps and assessment ceilings, as is often the case. While this is a subtle yet important trend, the overall impression remains one of stability.

This relative stability in the volume and composition of taxation does not necessarily imply that openness does not restrain governmental options; neither with regard to tax policy nor social policy. Previous studies have found evidence for competition on tax rates, although there is variation across countries and the years covered and it is emphasized that the conditions for – and attractiveness of – tax arbitrage depends on political decisions (Genschel and Schwarz 2011; Leibrecht and Hochgatterer 2012). Moreover, adjusting taxation might seem necessary for a variety of other reasons than economic integration into the world market. For instance, it may be necessary to increase taxation due to the rising costs associated with increased unemployment, health care, or demographic aging. Governments may

refrain from pursuing such a strategy, however, as higher taxes constitute a disadvantage in international competition (see Genschel 2002: 246). Just because we witness neither a clear *race to the bottom* nor a shift from the taxation of mobile to immobile factors does not mean that economic integration is not a serious constraint on the political behavior of governments. Thus, the influence of globalization policy must be accounted for *ceteris paribus*.

Against the background of the developments in taxation, however, it is hardly surprising that influential causal studies generally do not support the contention that there is a systematic negative effect of economic openness on indicators of taxation and social welfare (Castles 2004; Garrett and Mitchell 2001; Huber and Stephens 2001; Swank 2005).³⁵ A recent meta-analysis by Koster confirms this reading of the state of research in favor of the skeptics of globalization-induced retrenchment. Based on the so-called vote-counting method, he finds that a clear majority of studies does not support the claim that economic openness threatens the welfare state (Koster 2009). While eight pieces support the Globalization Hypothesis, nineteen provide a falsification. This finding also holds true when different time frames, the number of cases, and the impact factor of the journal are taken into consideration.³⁶ It must be added, however, that some of the most recent contributions on globalization-induced social policy effects question this apparent consensus of the “skeptics.” First, there is the claim that the validity of the Globalization Hypothesis has increased in recent years (Brady and Lee 2014; Busemeyer 2009). Second, it seems as though globalization exerts more pressure in liberal market economies with comparatively low levels of job specialization and skill specificity, whereas the highly firm-specific skills that constitute the comparative advantage of coordinated market economies (e.g., Germany) render the social protection schemes in these countries less susceptible to the downward pressures of global economic competition (Jensen 2011a). These studies suggest that the discussion of globalization and fiscal sovereignty has yet to be settled. It is also important to distinguish between the international integration of trade and finance (most authors focus on trade). These important qualifications notwithstanding, if the relative stability of the tax base and the multivariate

35 For deviant findings, see Kwon and Pontusson (2010).

36 Koster claims that the refutation of the Globalization Hypothesis is also independent of the respective operationalization of welfare statism. Unfortunately, he simply presupposes that an expenditure approach is sufficient, without even addressing entitlement approaches. My objection to such nonchalant operational optimism has been already sufficiently documented in chapter 2 on the “Dependent Variable Problem.”

evidence are taken together, it still seems fair to conclude that the globalization hysteria of the 1990s was – at the very least – overstated.

3.2.2 Beyond Left and Right

The empirical support for the Reversed Partisanship or Left Retrenchment Hypothesis is even more modest in a large-*n* context. Apart from case studies, which often refer to the “Third Way” of the social democrats (Green-Pedersen and Van Kersbergen 2002), no evidence can be found for the theoretically convincing notion that left parties, as protectors of the welfare state, have a mandate to “adjust” social protection systems. In fact, none of the quantitative studies assembled in table 3.1 suggests that left parties have overtaken the parties on the right in terms of social policy. This is not necessarily surprising. One might argue that the description of the specific configurations under which such a left-retrenchment scenario may occur is the entire point of the Kitschelt (2001) and Levy (1999) contributions; they are very specific about the presence of a certain constellation in the party system (Kitschelt 2001) or the existence of dysfunctional welfare policies in welfare states of Christian democratic imprint, which can be dismantled by progressives without hurting their ideological cause (Levy 1999) as prerequisites for left retrenchment. The works of Green-Pedersen and Ross lend themselves best to the more universal claim that “social democratic governments introduce more rather than less retrenchment than right-wing governments, thereby reversing the classic ‘politics matter’ claim.”³⁷ In a way, Ross has anticipated a shortage of confirmative results beyond case studies and argues that left retrenchment is too subtle to be detected by broad macrocomparative studies based on expenditure data (Ross 2000: 156). Leaving aside that such statements amount to an immunization of predictions and threaten to cast in stone the separation of qualitative and quantitative research, studies based on a more cautious operationalization also fail to provide confirmation. Vis (2009) has used fuzzy set Qualitative Comparative Analysis (QCA) in order to reveal how the political provenience of the government affects changes in benefits and eligibility rules, finding that right governments use poor socio-economic prospects as an opportunity for unpopular cuts, while left governments only engage in retrenchment if the socio-economic *and* the political perspective of the government is bad (i.e., low approval rates indicate that the government

37 This is how Green-Pedersen (2007: 13) summarizes the stances taken in Ross (2000) and Green-Pedersen (2002).

might be voted out of office). In other words, left retrenchment depends on demanding scope conditions. In Vis' data, there are only two such cases.

3.2.3 “Old” vs. “New” Politics

The jury is still out on the question of “old politics” versus “new politics.” On the face of it, expenditure-based accounts suggest that the role of party politics has become marginal in the era of retrenchment and that the link between spending patterns and ideological affiliation vanished in the 1990s. Conversely, entitlement-based accounts claim the enduring viability of party politics: While the Left was inclined to expansion, it is now the right that is more involved in cutbacks. Closer examination of the skeptical and optimistic studies, however, reveals that such generalizations based on the dependent variable choices – comforting as they may be – are of limited validity.

This is certainly true as regards the most comprehensive and systemic study to this day in the field by Huber and Stephens (2001), which has – *nolens volens* – become a standard reference point for the marginalization perspective. Its interpretative power is largely due to the explicit comparison of the role of partisanship in the era of welfare state expansion and the era of retrenchment, complemented by the commendable usage of various dependent variables as well as occasional recourses to case-specific evidence and narratives to aid interpretation.

Huber and Stephens depart from a conventional conception of class as income group (sociologists might rightly decry the exclusion of variables such as education, occupational status and *habitus*, etc.) and seek to test the classic assumption that left parties, which are supposed to represent the working class and the lower middle class, lead to a more generous and redistributive welfare state. In operational terms, they employ a modified version of Castles and Mair's (1984) very successful expert judgment-based, left-center-right classification. They subdivide the center and right parties into the three categories: *secular*, *Catholic*, and mixed and *non-Catholic Christian* (using data by Huber, Ragin, and Stephens from 1997). They emphasize that they seek to capture the “long-run partisan character of government” by using cumulative national ideology shares (Huber and Stephens 2001: 21).

On this basis, they find positive effects of Christian democratic and social democratic partisanship for the era of expansion (1960-1972), but fail to find such effects for the subsequent era of retrenchment (data until 1995), neither with the different spending categories nor when using unemployment insurance entitlements from the SCIP data. In particular, the result regarding the missing impact of partisanship on unemployment

insurance retrenchment is emphasized as puzzling against the background of its far-reaching implications on the distribution of power resources in the struggle between labor and capital, because it constitutes a *de facto* reservation wage (Huber and Stephens 2001: 84, 213). Their substantial interpretation of the results as a whole confirms the dilemma Pierson described: The popularity of welfare programs may be a constant that constrains supposedly welfare-averse conservative governments, but fiscal constraints arising from economic malaise increasingly tie the hands of the allegedly welfare-affine left. Consequently, the “effects of the political coloring of governments declined substantially” (*ibid.*: 2), because a “sharp narrowing of political differences” occurred in the 1980s (*ibid.*: 221). One potential objection regarding the long-term perspective on the effects of partisanship that the authors claim is that it possibly comes at the cost of a loose conception of causality: The cumulative scores on social democratic and Christian democratic incumbency do not allow for the isolation of the unit heterogeneity (i.e., country idiosyncrasies) that may drive differences regarding welfare state changes. It is thus all the more important that their result (that effects have vanished in the 1990s) has been confirmed by a number of studies based on expenditure *changes* rather than *levels*.

In a widely cited study, Kittel and Obinger (2003) seek to uncover whether “policy orientations,” measured via cabinet portfolio shares of leftist (social democratic, socialist, communist, and environmentalist) and Christian democratic parties (data from Schmidt 2000), have been “consequential” in terms of social expenditure changes throughout the 1980s and 1990s. They do so using the so-called *first difference* method (Kittel and Obinger 2003: 29). They confirm that the effect of partisanship breaks down in the 1990s for both categories of parties, both in terms of substance and significance. The effect of left government was already weak and insignificant in the 1980s. But they are also careful and modest enough to acknowledge that such a result does not necessarily mean that politics does not matter in subtler ways, for instance in terms of the precise foci of welfare programs (*ibid.*: 40). Likewise, in a more recent study, Potrafke investigates the effect of that to which he refers as “government ideology,” “political ideology,” or simply “ideology” (2009: 106). He utilizes a right-center-left scale (from Woldendorp et al. 2000) ranging from 1 (indicating right government) to 5 (left government) and finds that “partisan effects” on the changes in the share of social expenditure disappear in the 1990s.

A number of more optimistic studies concerning the role of politics in the era of retrenchment also exist, although they add important qualifications to this conclusion. Based on Schmidt’s five-point, left-center-right scale (data

from Armingeon et al. 2004), Emmenegger (2007) finds that even short-term partisan effects on expenditure changes are conditioned by the longevity of governments. They increase with government duration. The fact that partisanship does not have a significant impact per se, at least in the short-term, also indicates the need to test the Partisanship Hypothesis across different countries and country groups given the variations in the “wear and tear” of governments and the average length of an administration across countries.

The idea that disaggregation is imperative in comparative welfare research is also the quintessence of studies that compare effects across programs. Zohlnhöfer et al. (2012) – again based on the portfolio data from Schmidt – find no partisan effect for pension entitlements, but for sick pay and unemployment benefits. Where right parties have been in government in the 1980s and 1990s, both sick pay and unemployment benefits have more forcefully been curtailed. The authors argue that the deviation regarding pensions may be explained by the higher approval rates for higher government spending on pensions compared to unemployment insurance, as is persuasively demonstrated drawing on the data from the International Social Survey Program (ISSP) for 1996 and 2006. Jensen confirms that the Rights’ predilection for risk privatization does not extend to life-course risks but is restricted to programs that insure against labor market risks; and he finds similar differences regarding the popularity of social welfare programs (Jensen 2014).

These program-specific results are in line with the methodologically simple pioneer study by Castles (2009), who argues in favor of a disaggregated expenditure approach and demonstrates that the major categories of social spending as well as their determinants are unrelated. While the total share of left cabinet seats (again based on Schmidt as included in the Armingeon et al. [2006] Comparative Political Dataset) is significantly positively associated with working-age cash expenditures and total public expenditures; age-related expenditures as well as health expenditures are unrelated to left government incumbency. Again, the rationalization is that working-age cash spending has far-reaching implications for vertical (re)distribution in general, and poverty and inequality more specifically. The implicit assumption is that this redistributive “Robin Hood” function is thus ideologically divisive, whereas health and old age expenditures are primarily used to provide protection against risks and lifecycle redistribution; something which has been referred to as the consumption-smoothing “piggy bank” function of the welfare state (see Barr 2001).

Another conditioned “yes” to the question whether the complexion of government still matters comes from the aforementioned Vis (2009) fuzzy

set QCA analysis. The pattern that she finds for British, Danish, Dutch, and German cabinets is that “electorally risky unpopular reforms” are driven by socio-economic problems in right-leaning governments, whereas a combination of economic malaise and low political support induces left retrenchment. However, the status of a bad socio-economic situation as a “necessary condition” for cuts is compatible with various microfoundations other than her prospect-theoretical interpretation that actors make risky choices when they are in an economic (and political) “losses domain.” These range from neofunctionalist arguments centering on necessary adjustments to objective pressures to more cynical strategic explanations, according to which parties use economic crises as a convenient “smokescreen” for the implementation of their welfare-residualist ideology (Stephens 2008: 193). It is therefore not entirely clear whether Vis’ evidence speaks in favor of “old politics” or “new politics” interpretations.³⁸

Less conditional verdicts can be found in the entitlement-based accounts of Allan and Scruggs (2004) and Korpi and Palme (2003), both of which are widely perceived as principal witnesses for the enduring viability and significance of the “old” party politics. According to them, as the Left was inclined to expansion, the right is more involved in cutbacks (Allan and Scruggs 2004; Korpi and Palme 2003). But both studies not only take issue with the causal question of the demise of class politics, but – like this study – have thought it necessary to first demonstrate that the resilience expectation derived from the “new politics” literature spearheaded by Pierson does not hold empirically; at least not for those programs and areas of the welfare state that evoke ideological and distributional struggle. Only in a second step do they devote themselves to the logically ensuing question of causal analysis. Both studies criticize the specification of the dependent variable in terms of welfare effort measured as spending, but they also caution against the use of OECD gross replacement rates (which Pierson [1996] uses as a complementary measure) as a potential source of error regarding the investigation of partisan effects (Allan and Scruggs 2004: 498; Korpi and Palme 2003: 426). The Allan and Scruggs study uses the CWED data, while Korpi and Palme use their SCIP data (see section 2.2).

38 Besides, there is a risk that the results are a function of a disputatious coding decision regarding the sets. According to the truth table in the annex (Vis 2009), the reclassification of the first Kohl cabinet – which Vis does not associate with unpopular reform despite the 7 percentage point cut in replacement rates – would render obsolete the conclusions that a bad socio-economic outlook is a “necessary condition” for cutbacks.

Furthermore, Allan and Scruggs claim that Huber and Stephens fail to find strong effects of partisanship since they test for pro-welfare rather than anti-welfare parties. They contend that a complementary focus on the right (they use both left and right party shares of cabinet as taken from Swank's Comparative Parties Data Set) reveals that "old politics" accounts hold up rather well and that the effect of the "partisan makeup of democratic executives also appears to work 'in reverse'" (2004: 509). Based on a country fixed-effects design with country-specific breaks, they find that – until the 1980s (in their terms: "pre-break") – right government was not associated with changes in unemployment insurance replacement rates. From then on ("post-break"), however, an all right-wing government was on average associated with curtailments around 1.5 percentage points greater than a non-right government. Effects for sickness replacement rates are even slightly stronger. These results correspond with the Korpi and Palme (2003) results. As regards the link between "cabinet composition" (ibid.: 436) and retrenchment in the "short-term social insurance programs" (ibid.: 441) regarding unemployment, sickness, and work accidents, they find that – across all institutional contexts – the lowest risks exist for left parties, defined as "traditional social democratic parties and the parties to their left" (ibid.: 444). By contrast, right parties, also called "secular-conservative-centrist" (ibid.: 436), implicitly defined as all parties that are neither left nor confessional (ibid.: 444), exhibit the highest probability for cuts.

The authors add for consideration that "[t]he link of parties to socioeconomic categories cannot be taken for given" (ibid.: 443) and cite evidence in favor of the persistence of class and class voting. Likewise, Allan and Scruggs emphasize that that partisan differences regarding the welfare state along the lines of the left-right dichotomy must exist on the programmatic level in order to materialize at the policy level and refer the reader to the Manifesto Project to ensure that there is no systematic evidence of programmatic convergence (Allan and Scruggs 2004: 502). Based on the data used in the studies mentioned thus far, however, any claims – plausible though they may be – which touch on the motives for retrenchment (e.g., that governments composed of parties from the "neo-liberal right" pressed ahead with retrenchment [ibid.: 509]), are beyond the empirical scope of these studies. They equate (historical) party identity with actual ideological profile(s). More specifically, they depart from the presumption that partisan differences regarding the welfare state can a) be found regarding parties' – or more specifically, governments' – programmatic positions and that b) left parties are in favor of expansion or at least defend the status quo, whereas right parties opt for welfare state contraction and risk privatization.

Table 3.1 Quantitative Studies on the Role of Cabinet Ideology for Welfare Retrenchment

Study	Welfare data	Ideology	Period	Countries	Partisan Effect
Huber & Stephens, 2001	Expenditure levels Net replacement rates	Labels	1960–1995	18	Breaks down in the 1990s
Obinger & Kittel, 2003	Expenditure changes	Labels	1982–1997	21	Breaks down in the 1990s
Korpi & Palme, 2003	Replacement rate changes (sickness, work accident, unemployment)	Labels	1975–1995	18	Left adjustment Right retrenchment (more severe cuts)
Allan & Scruggs, 2004	Replacement rate changes (sickness, unemployment)	Labels	1975–1999	18	Right retrenchment
Bräuninger, 2005	Expenditure levels	a) Labels b) Manifestos	1971–1999	19	a) No b) Yes
Giger, 2006	Expenditure changes, Replacement rate changes	Labels	1980–2003	18	Weak and insignificant for all indicators
Amable et al., 2006	a) Expenditure changes b) Replacement rate changes (sickness)	Manifestos	1981–1999	18	a) No b) In case of shocks
Emmenegger, 2007	Expenditure changes	Labels	1980–2000	18	Increases with government duration
Potrafke, 2009	Expenditure changes	Labels	1980–2003	20	Breakdown in the 1990s
Vis, 2009	Replacement rate changes, case evidence	Labels	1979–2005	4	In case of poor socio-economic prospects
Finseraas & Vernby, 2011	Welfare state generosity	Labels × Polarization	1971–2001	21	If polarization high, reappeared post-1980s
Zohlnhöfer et al., 2012	Replacement rate changes (sickness, unemployment, pensions)	Labels	1980–1999	18	Unemployment: yes Sick pay: partly Pensions: no
Jensen, 2014	a) Replacement rate levels (unemployment) b) Expenditure levels (unemployment) c) Health expenditure levels	Labels	1971–2001 1980–2007 1980–2007	18 23 23	a) Right Retrenchment b) Right Retrenchment c) No

Notes: The selection criteria were: retrenchment focus, last data year ≥ 1995, no edited volumes.³⁹

39 The focus on contraction and the currency of the data are to some degree mutually dependent criteria. Note that this does not imply that important studies whose last data point predates 1995 (e.g., Garret 1998; Garret and Mitchell 2001; Iversen and Cusack 2000) are ignored. Yet they are not part of the core of current retrenchment research. I primarily rely on journal articles (and books) that underwent peer-review procedures, despite the problems bedeviling it (The Economist 2013a).

There are, however, a few instructive exceptions from this general tendency toward preferences-imputation; studies that in one way or another do consider the actual rather than the assumed programmatic profile of parties. The only such study with an impact on the welfare community⁴⁰ comes from economists who explicitly speak of “ideology” as their independent variable (Amable et al. 2006: 426) and use a self-composed left-right index based on the Manifesto data. They find only a weak link between expenditure data and ideological affiliation, but the development of sickness replacement rates is significantly and substantially linked to party positions. While left governments weaken the impact of shocks, stronger reductions occur in administrations with ideological proclivities that the authors classify as right. The authors understand that party preferences are not static and that ideology interacts with socio-economic pressures and changes. In doing so, they convincingly point to the advantages of left-right scores based on manifestos over “the more traditional binary variable (left/right), often found in the literature” (ibid.: 433).

However, the rationale underlying the calculation of the ideology score remains unclear. The composition of their index of left and right, as described in the annex of the study, is informed by neither data nor theory, based instead on questionable ad hoc coding decisions. Not only do they mix cultural, economic, and foreign policy issues, some of the items that make up their left part of the scale (e.g., “Marxist analysis” and “nationalization”) seem outdated and thus exhibit very low frequencies in modern party manifestos. Other categorizations, such as the assignment of “social harmony” as left rather than right item, are unconventional (e.g., Klingemann et al. 2006: xix).⁴¹ Another point of concern is the unconventional selection of net sickness insurance replacements rates as the only proxy for welfare state entitlements to be contrasted with social expenditures. At no point do the authors explicate the rationale underlying this choice. If one were to choose one entitlement program as a *pars pro toto* for the welfare state at large, the more conventional choice would be unemployment insurance given its redistributive implications. By contrast, sickness insurance fits awkwardly with the classic question initially raised by the authors: They ask whether party politics is still an arena for distributive political struggles between

40 Fifteen journal citations according to the Web of Knowledge, including some self-citations (as of June 2014).

41 Note that the authors use vote-weighted means for the ideological position of government in case of coalition governments rather than the traditional cabinet shares depending on the number of ministers.

socio-economic groups, a question emphatically affirmed by the proponents of the “old politics” approach. One potential reason is that the authors merely “assume that welfare state changes are mainly driven by insurance motives, thus somehow neglecting the issue of inequality and redistribution” (ibid.: 429). This would be a rather vague justification for such a strong positing. As calculations based on the Luxemburg Income Studies show, the progressiveness or regressiveness of the welfare state and its programs, which can be inferred from comparisons of posttransfer and pretransfer income-inequality – so-called income-decomposition(s) – varies strongly over time as well as between countries (Beramendi and Rehm 2012; Joumard et al. 2012). Another study that does not equate ideology with (historical) party identity but rather employs dynamic measures to capture the emphasis placed by parties on different issues in their manifestos comes from Bräuninger (2005). While neither of the aforementioned studies is cited and – probably because of the focus on fiscal policy rather than welfare state or retrenchment per se – the study has not gained traction outside the confines of the public choice community. This is important, as it makes explicit that “nominal party labels” and “left- or right-wing affiliation” (ibid.: 411) must be carefully delineated from “programmatic preferences” (ibid.: 411), because neither the unsteadiness nor the multidimensionality of the latter is accounted for when using the former. However, Bräuninger remains deliberately agnostic about the extent to which preferences as voiced in manifestos are strategic or sincere first-order preferences of actors. With regard to macroeconomic policies pursued by governments, he asks “whether the programmatic preferences of government parties are, or remain, pertinent even if the partisan identity proves, or has become, irrelevant” (ibid.: 410). He finds that while left and right parties do not consistently differ in spending behavior, programmatic emphasis on government efficiency finds expression in budgeting, measured via the budget categories of the IMF’s Government Finance Statistics. In that sense, his results are a confirmation of partisan effects, although not directly related to questions of social policy and risk privatization.

Another rare indication for the necessity to complement analyses based on static party identity with programmatic aspects can be found in a recent article by Finseraas and Vernby (2011), who suggest that the center-right parties, measured via expert judgments/labels as in all of the aforementioned studies (source for the cabinet shares is again Armington et al. [2006]’s Comparative Political Dataset), exert a negative effect on welfare state generosity (taken as the composite scores of CWED 1 [Allan and Scruggs 2004]) when polarization on socio-economic issues (indicated by the emphasis in party manifestos) is sufficiently high. Overall, contrary

to accounts based solely on party identity, the authors find evidence that partisan effects reappeared after their disappearance in the 1980s.

Altogether, as the above description of the research and its summary in table 3.1 should make clear, it has been confirmed that a scholarly consensus on the role of partisanship in the era of retrenchment comparable to expansion research is not in sight, despite largely similar country samples, time frames, and methods. Based on the above review and the second chapter on the intricacies involved in the choice of the dependent variable, the next section sums up the potential sources for this dissonance, most of which have been addressed in recent contributions.

3.2.4 Summary: Coping with the Deficiencies of Comparative Welfare Research

One lesson – encouraging or not – that can be drawn from the previous discussion of the literature is that if one wants to compare the impact of different measures of party ideology, it is advisable to do so within the same analytical framework (nested models). It is difficult to do this across studies, because even seemingly arcane deviations in the analytical framework or the countries and years that are covered could be at the bottom of differences in the results. Sure, a modicum of underdetermination and a lack of final certainties is inherent to the investigation of social, for not to mention macrosociological, relationships. They are in constant flux. But the lack of conclusive evidence concerning the link between the ideological affiliation of the government and welfare policies in times of retrenchment can largely be attributed to five interrelated problems, some of which seem reconcilable, others which are increasingly addressed in the literature. The identification of sources of disagreement and obstacles to progress is obviously not just a crisis syndrome and shall not give rise to defeatism or “anything goes” conclusions. Rather, it can itself be regarded as a sign of the maturation of retrenchment research. I will briefly summarize the problems and then elicit how I intend to cope with them in the study at hand.

3.2.4.1 *The “Dependent Variable Problem” (and the Related Problem of Time Intervals)*

The conceptualization and measurement of the dependent variable is certainly among the aspects in retrenchment research that have received the most scholarly attention. Rightly so, the implications of either opting in favor of welfare effort (measured via expenditure ratios, disaggregated or not) or social rights (measured via benefits and attached conditions) are

severe. The choice of the indicator has significant implications for the test of the two hypotheses which structure the retrenchment discourse – the Resilience Hypothesis and the Partisanship Hypothesis. Analyses based on spending data fail to falsify the Resilience Hypothesis, whereas social rights-based approaches point in the opposite direction. The picture is less clear regarding the Partisanship Hypothesis, but analyses based on spending data are, tendentially, more critical of the persistence of partisan effects. In chapter 2, I pointed out the various disadvantages of spending ratios as a proxy for the welfare state, particularly when compared to entitlements. The disadvantages include: relative independence from actual social protection developments, even more so when the demand for protection and/or the GDP fluctuate; no consideration of taxes and social contributions – and thus the progressivity/regressivity of the system; incoherent categorization of types of spending; low proximity to influential theoretical concepts; and low significance in terms of individual life chances. Against this background, it is hardly surprising that expenditure data is increasingly complemented with, if not replaced by, social rights data when the concept of interest is not related to budgetary questions per se. The concept of interest in this study is retrenchment, conceived of conceptually as the retreat of the state involving the privatization of labor market risks in general and the risk of unemployment in particular. In operational terms, I speak of instances of retrenchment when programs become less attractive because the generosity of entitlements is reduced and/or respective eligibility rules are tightened. Note that this conceptualization, as any conceptualization of retrenchment, is inherently bound to change. While the convention in expenditure literature was to focus on cumulative effects measured via levels, differences are now commonly used. A closely related but more delicate matter that must be considered in the research design is the question of timing; that is, the time intervals during which change is assessed. Reforms are not usually implemented within a single year (Pierson 1996, 2003). This renders pooled time-series cross-section analyses with one-year lags problematic (as claimed by Kittel and De Deken [2007]). Very extreme yet highly plausible examples set forth by Pierson include decade-long lags in the case of pension politics. Albeit to a lesser extent, time lags also apply to legislation regarding unemployment insurance generosity and conditionality. Related problems exist with regard to ideology. Changes in the ideological complexion of governments – no matter how we account for them – do not go hand in hand with calendar years. The treatment of annualized country cases as independent cases, despite a lack of variation on the independent variable of interest, inflates results in terms of statistical reliability. My approach to use

the cabinet balance, or more precisely the social policy balance of “ideologically consistent quasi cabinets,” as a dependent variable is consistent with calls for a “pragmatic intermediate solution” and four-year intervals (Kittel and De Deken 2007: 93). The advantages and complications accompanying this cabinet strategy are discussed in the research design chapter.

3.2.4.2 *Deceptive Holism*

Another problem documented in the literature review that complicates the accumulation of evidence is that studies often refer to “the welfare state” as an entity. In principle, scholars agree that this does not do justice to the heterogeneity of existing welfare programs. Pierson reasons that “[t]he extent of programmatic variation deserves emphasis. It suggests that there are significant dangers in generalizing about ‘the welfare state,’ which is, after all, a concept covering a range of disparate public policies” (Pierson 1994: 5).

However, this insight has not prevented Pierson (1998) from speaking of the “new politics of the welfare state” or welfare states as “immovable objects.” In a similar manner, most of the studies reviewed in the chapter on empirical evidence claim to deliver results concerning “the welfare state.” This is problematic, because “actors and institutional structures vary across welfare state programmes” (Clasen 2005: 2). In section 3.1.2.3, I described why assuming similar dynamics and determinants in policy fields as different as pensions and unemployment is theoretically problematic. Empirically, Castles has convincingly confirmed the assumption that developments in spending categories are neither correlated nor driven by the same factors (Castles 2004, 2009). It has repeatedly been confirmed that the between-program differences render the comparison of aggregates misleading (Allan and Scruggs 2006; Jensen 2014; Zohlnhöfer et al. 2012). The quintessence is that the partisan effect must be investigated in a program-specific manner to avoid broad yet misleading generalizations. A theoretically compelling distinction exists between labor market-related risks and life-course risks, although it is not yet clear whether risk asymmetries or the redistributive implications (horizontal versus vertical) drive the broader support for the latter.

3.2.4.3 *Methodological Autism*

There is a methodological gulf and little cross-fertilization between small-*n* and large-*n* studies. Large-*n* comparisons use cruder data to make generalizations. Qualitative researchers employ more nuanced concepts but tend to demonstrate rather than test their hypotheses. Qualitative researchers criticize the lack of conceptual validity in quantitative research; the quantitative camp stresses the requirements for theory validation (Scruggs 2007).

It is therefore hardly surprising that a conspicuous mismatch exists in comparative welfare research on the role of ideology and the justifications for its relevance or irrelevance in terms of policies. The rationales in quantitative studies are based on agency; or more specifically, the representation of socio-economic groups. Ideational arguments are more established in the more case-sensitive welfare and public policy literature (Béland and Cox 2010; Starke 2008; Stiller 2010). I draw two concrete conclusions: First, the arguments raised by qualitative studies on the effect of the ideological composition of government must be tested in a large-*n* context in order to assess their external validity beyond case studies. Second, as a large-*n* strategy may invoke validity problems, complementary illustrative case studies are necessary to assess the validity and meaningfulness of the data and the inferences when more detailed case-specific information is taken into account.

3.2.4.4 *Undertheorization of Retrenchment Motives*

Surprisingly little explicit attention has been devoted to the “why question” and the theoretically little understood motives for cutbacks. This was already lamented in literature reviews some years ago (Green-Pedersen and Haverland 2002; Starke 2006), and little has changed since then. Only the outlier in the field of quantitative studies examined here, Vis’ four-country Qualitative Comparative Analysis, hints at the motives for cutbacks, although her data also seems to be reconcilable with several explanations different from actors’ loss aversion. Given that instances of radical retrenchment can be observed, for example in New Zealand, the Netherlands, or the United Kingdom (as documented in chapter 2 or in Starke [2008]), the question remains: What motivates allegedly risk-averse politicians to implement unpopular cuts if the opportunity structure gives them the opportunity to do so? This question is closely related to the central concern of this study: the insufficient conceptualization of ideology in most studies. Virtually all of the contributions that appeared after 2000, no matter if upbeat or skeptical about the relevance of government ideology, rely on the use of party labels. As argued in the next chapter, this usage of the familiar left-center-right trichotomy or similar typologies based on party identity (hereafter also subsumed under *party labels*) can be regarded as the operational expression of the persistence of group-based explanations for partisan effects that has been documented in the literature review. Here, the goal is to spell out the interdependent conceptual (definitional and operational) as well as the theoretical problems associated with this practice.

4 **Theoretical and Analytical Framework: Taking Ideology Seriously**

The previous chapter discussed rival arguments regarding the impact of party ideology on welfare state retrenchment and pointed out a number of important limitations in our understanding of this link. In particular, we know relatively little about the motivations underlying retrenchment – or what one might call the “why question.” So why do they do it? In this chapter, I argue that we need to take (party) ideology more seriously in order to approach this question. Thus, I single out the common practice of investigating the impact of partisanship based on static expert judgments and the underlying theoretical assumptions as the most pressing and underresearched problem. Regarding the operational dimension of this Independent Variable Problem, I argue that party labels based on such expert judgments are limited in terms of their concept validity as proxies for the ideological composition of government and that their usage prompts problems of empirical discrimination as regards the different theoretical arguments underlying the three competing theoretical perspectives. At the theoretical level, I argue that this measurement strategy implies a one-sided conception of government ideology as representation of (material) group interest and show that the related causal mechanism inherent to this conception stands in stark contrast to the definitions, assumptions, and findings in several adjacent strains of research. For one, the mechanisms comprising the causal chain underlying Power Resources and Partisan Theory are under pressure by the erosion of party group ties commonly referred to as dealignment. More to the point, the comprehensive work on (political) ideology, ideas, and cognitive frames is neglected.

Based on these criticisms, the remainder of the chapter then complements the hitherto dominant approach of ideology as agency for (fixed) group interests with an alternative and more literal conceptualization of ideology as belief system and cognitive frame. More precisely, I develop a cognitive framing argument as to why the ideological composition of government affects social policy choices of democratic elites in general and unemployment insurance in particular, even under conditions of high economic problem pressure. Against the theoretical background of this cognitive framing argument, I suggest a suitable measurement strategy based on the discussion of two strategies. The chapter concludes with a

summary of the contending hypotheses on the role of party ideology and three metaexpectations summing up my criticism of the current mainstream idea of what (party) ideology is and why it should matter in terms of welfare state retrenchment.

4.1 The “Independent Variable Problem” in Comparative Welfare Research

Despite its far-reaching implications for the investigation of the partisan effect, the lacuna that received only scant attention is the problematic conceptualization (understood as definition and measurement) of partisan ideology and the theorization of partisan effects, hereafter referred to as Independent Variable Problem. Based on a description of the established practices in quantitative welfare research, I argue that the Independent Variable Problem is threefold: first, the expert judgment-based usage of static labels as proxies leads to problems of empirical discrimination regarding the three theoretical perspectives and produces measurement artifacts. Second, explanations of partisan effects based on the representation of, or identification with, (material) group interest conflict with research on (electoral) dealignment. Third, the interest- and identity-based understanding of government ideology and its effects on welfare policies in the large-n research stands in stark contrast to the importance of ideational aspects in qualitative social policy research and public policy studies. A dominant focus on group interest representation also neglects the insights from the long-standing literature on (political) ideology. This neglect seems all the more problematic in a dealignment-induced context of high(er) strategic uncertainty.

4.1.1 Expert Judgment-Based Common Practice

In 1985, Converse and Pierce made the point that researchers of partisanship at the voter level are extreme “lumpers,” because almost any indicator of partisanship was treated as equivalent to any other (1985: 143). The contrary can be said based on the review above – comparative welfare scholars investigating the partisan effect refer to the same indicators for their independent variable partisanship by using a remarkable range of ascriptions/(alleged) synonyms. At a basic level, it is obviously possible to identify a semantic core. All studies repeatedly refer to the effect of politics, the partisan makeup of government, or simply speak of cabinet

composition or the role of (party) politics. Conversely, beyond this lowest common denominator, the semantic spread reaches from “policy orientations” (Kittel and Obinger 2003: 29), “government ideology” or “political ideology” (Potrafke 2009: 106), to “the political colouring of governments” (Huber and Stephens 2001: 2), “the political colour of the cabinet” (Vis 2009: 37), and “traditional political categories” (Korpi and Palme 2003: 436). Word-ing with connotations to conceptions of partisanship as party identity *and* party ideology/positions is often used in the same study. Partisanship, government ideology, and cabinet composition are treated as equivalents. This cacophony regarding wording stands in stark contrast to the consensus in terms of measurement.

Most studies use a static concept of ideological affiliation to investigate partisan effects. More precisely, they account for the ideological composition of government by using time-invariant tags or labels based on expert judgments. In principle, there are four possibilities to measure the composition of the government via such expert judgments (Schmidt 1996: 157-159): the historiographic approach, according to which parties are assigned to historical party families; the left-right dichotomy; the strength of the biggest right party in government; and a trichotomy with the categories left, center, and right. The classic reference point for works on expert judgments is a Castles and Mair study with the refreshingly unassuming title “Left-Right Political Scales: Some ‘Expert’ Judgments” (1984) in which country experts were asked via postal surveys to locate parties on a ten-point scale between “extreme left” and “extreme right.” While efforts to locate parties have been made since the early 1970s (see Budge 2000: 104), the main innovation contributing to the popularity of the data was the new opportunity to balance the biases of the previously individual expert judgments by averaging judgments of several country experts.⁴² Their overview of the ranges (distance of maximum and minimum) shows that this was a necessary step.

The number of categories/intervals is usually reduced when the partisan effect is investigated. The traditional approach in the research on the determinants of welfare state expansion was to focus on the share of left parties, usually measured as a percentage of cabinet positions in case of coalition governments, occasionally complemented with the equally measured share of Christian Democratic parties. Likewise, in retrenchment research, partisanship is mostly measured via the share of left and/or right parties in

42 Similar expert judgment studies have been published by Huber and Inglehart (1995), who ask their country experts to provide the criterion they used for the left-right assessment of parties, and Laver and Hunt (1992).

government, sometimes the share of centrist and/or Christian democratic parties is also considered. These are the “traditional rough indicators for the ideological position of the government” (Kittel and De Deken 2007: 92). As described in the literature review, the most popular data set from which the cabinet share variable is taken is the Comparative Political Dataset by Armingeon et al. (2011), followed by an unpublished data set by Schmidt (2000). Other sources include the Comparative Parties Data Set from Swank (2006), Huber et al. (1997), and Woldendorp et al. (2000). Whereas studies based on the data sets from Armingeon et al. and Woldendorp et al. use the left-center-right trichotomy, the left-right dichotomy, or focus on left partisanship alone, the Schmidt (2000) and Huber et al. (1997) data falls into the historiographic category. However, the welfare state scholars who use this data usually translate the historical affiliation to the social democratic party family or party families allegedly left of the social democrats into a broader left-partisanship category, which includes socialist, communist, and environmentalist parties. Overall, the wide range of denotations used to refer to the ideological complexion of government is not reflected in a correspondingly wide range of indicators. The differences in measurement remain within relatively narrow confines.

One could interpret this as indication that research on partisan effects in the era of retrenchment is still in an early stage at which researchers are for now focused on the effects of alternative government complexion per se, the precise causal mechanisms responsible for potential partisan effects in the social policy domain notwithstanding. However, such an interpretation does not dovetail with the explicit focus on rationales in the three theoretical perspectives discussed above.

On less speculative grounds, I want to stress that hardly any of the surveyed studies contain critical remarks on problems regarding the independent variable in general and the match between wording/denotations, assumed causal mechanism, and operationalization. Indeed, even those authors who – at least implicitly – recognize the conceptual difference between government partisanship as party identity or political coloring or historical affiliation to a party family on the one hand, and government partisanship as ideological profile on the other, assume the empirical congruence of both of these semantic dimensions of partisanship. For instance, Vis (2009) claims her categorization of parties is compatible with the Manifesto Project’s left-right index. Similarly, with a loose reference to the Manifesto data, Allan and Scruggs (2004) state that there is sufficient programmatic variation that they are optimistic that preferences regarding the welfare state in general and its expansion and contraction in particular (still) correspond to left

and right partisanship as measured via expert judgment-based labels. In Zohlnhöfer et al. (2012), welfare state aversion or the affinity of parties and voters are thought to be congruent with right and left ascriptions. Giger (2006) notices that, ideally speaking, studies should entail programmatic information on governments to know whether parties differ ideologically. A note of caution can also be found in the influential article by Korpi and Palme, although their reference to the potential importance of “variations in party strategies” (2003: 443) is primarily meant as a counterargument for scholars who think that changes in class structure make class voting obsolete. In the other label-based studies, the existence of programmatic differences regarding the welfare state, allegedly the *conditio sine qua non* for partisan effects on social policy, is even less problematized.

The following sections will question such optimism on empirical and theoretical grounds. The usage of expert judgments will be shown to be associated with a number of operational and theoretical shortcomings regarding the proper test of the competing hypotheses on the influence of government ideology. There are also the opportunity costs arising from not using the alternative or complementary approaches I discuss, justify, and test based on the criticisms. Let us first review the problems regarding the validity of measurement and restrictions of empirical discrimination between alternative explanations. Subsequently, I turn to the theoretical dimension of the Independent Variable Problem. I argue that a conceptualization of partisanship in terms of interest representation is not only at odds with findings on dealignment and party reactions to the uncertainty this process creates but that it also fails to incorporate insights from two adjacent streams of research: ideational social policy determinants and the concept of ideology.

4.1.2 (Mis)Measuring Government Ideology

Four measurement problems are immanent to the use of party labels as a proxy for the complexion of government when investigating the “politics matter” question in retrenchment research: the inability to capture ideological change, the problems arising from the multidimensionality of party ideology, the lack of empirical discrimination between the contending theoretical perspectives, and, finally, the tautologies possibly arising when we use party labels as the independent variable.⁴³

43 There are other interesting yet less pressing problems I will have to leave aside here; for instance, the question of the functional equivalence of labels across countries and the impossibility

4.1.2.1 *Time Invariance*

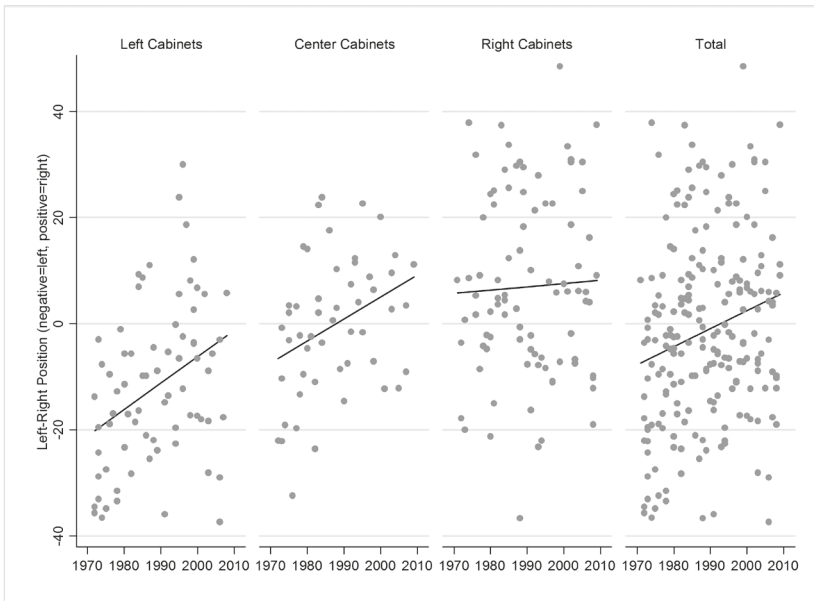
First, the use of expert judgments and the historical affiliation to party families does not allow one to consider the ideological change of parties over time. The short-term and long-term adaption of parties is neglected. As the example of the ideological transformation of the left demonstrates (Bonoli and Powell 2004; Giddens 2000; Ross 2000), classifications generated at one point in time may not be valid anymore one or two decades later. Figure 4.1 plots the dynamic right-left positions as calculated by the Manifesto Research Group based on content analysis of party manifestos (see Klingemann et al. 2006)⁴⁴ across time from 1970 to 2010; column-wise for governments with parties labeled as left, center, or right (based on the popular data set by Armingeon et al. [2011]). Negative values on the y-axis indicate left positions, whereas positive values signify right positions. The inserted lines reflect the linear trend over time. It shows that the gap between categorizations of governments as left, center, and right on the one hand and dynamic left-right positions on the other is indeed ever-decreasing since the 1970s, although one should – as always – be weary to call this a secular trend. For once, the growing detachment of the actual positions from the categories is due to the march to the ideological center of parties categorized as left by country expert judgments. Moreover, figure 4.1 also indicates a right twist of parties labeled as centrist. These tendencies are confirmed if parties in and outside government (i.e., all parties) are considered together (see annex 1). More importantly, similar programmatic displacements over time will be documented for welfare and the market affinity of governments in greater detail in chapter 5. At the very least, the gap between dynamic data and static ascriptions suggests that the rejection of the Partisan Hypothesis might be an operational artifact owing to the ever-decreasing validity of party labels as proxies for government ideology.

Important examples of such ideological conversions abound. The most strained case of ideological transformation is the postwar development in the United Kingdom. According to the narratives of political historians and the Manifesto data, the Conservatives have been a moderate center-right party with a paternalistic element dating back to the “one-nation” conservatism of Disraeli. Until, during Thatcherism, the once welfare affine and market-reserved Conservatives were one of the most decidedly right,

of gradations between parties with equal labels. These challenges are second-tier problems for the research question at hand.

44 A detailed discussion will ensue in section 4.2.

Figure 4.1 Dynamic Left-Right Positions of Governments Labeled as Left, Center, or Right



Notes: X-axis based on the Right-Left of the Manifesto Project (see Klingemann et al. 2006), positive values indicate right positions and negative values left positions. Categorization as left, center, or right party according to the CPDS data set from Armingeon et al. 2011.

pro-market, and anti-welfare governments to be found among industrialized democracies. The opposite diagnosis can be made for the British Labour Party, which has transformed from a socialist party to centrist and much less welfare-friendly “New Labour” under Blair from the mid-1990s on, although the renaissance of social democratic positions within Labour under Ed Milliband reminds us that such ideological transformations are reversible.

An extreme example beyond the oft-cited cases of “Third Ways” in the United Kingdom, the United States, or Germany is the social democratic Swedish SAP under Carlsson and Persson from 1994 to 1998. Notionally, this government was as left as can be according to the common nominal measurement practice, with a share of 100% left ministers, but it took positions that are commonly associated with the political right, indicated by a RILE score of 23.8. While the party still embraced the egalitarian norms underlying the universal welfare state, compared to its former term in office, also under premier Carlsson (from 1988 to 1991), SAP radically adjusted the causal worldview it deemed suitable to do justice to those norms. Market

principles became part and parcel of the Swedish version of “supply-side egalitarianism,” which is centered around productivity and competitiveness. This shift toward “new political measures” in order to “uphold the fundamental, classic values” (Carlsson and Lindgren 2007: 19) is documented by Carlsson himself and reflected in the Manifesto data and the scores calculated and presented later in this study for market ideology and welfare ideology as well as their normative and ontological/causal subdimensions. To the users of party labels who are unaware of such ideological shifts, the welfare curtailments that Carlsson euphemistically describes as part of a “remediation policy” (ibid.: 19) – according to the generosity measures used in this study, generosity has been cut by 9 percentage points – will appear as evidence contradicting the idea that the ideological complexion of cabinets is still momentous.

4.1.2.2 *Dimensionality/Multidimensionality*

A related complication concerning the substantial meaning of categorizations as left, center, or right arises from the assessment of multiple policy dimensions to generate the final right-left estimate. Positions ascribed by experts vary strongly, depending on the respective policy area and the respective criterion used for the assessment of left and right (e.g., Budge 2000; Laver and Hunt 1992). Countervailing indications may apply depending on whether considering the socio-economic or cultural dimension. The existence of (at least) these two dimensions of party positions itself is no longer controversial (Benoit and Laver 2007; Kitschelt and McGann 1997; Marks and Steenbergen 2004).⁴⁵

The question of dimensionality is crucial because scholars who use labels in their research “impute” substantive policy content(s) (Budge 2000: 108). In the case of the classic formulation of Partisan Theory from Hibbs, for example, preferences regarding the (alleged) tradeoff between employment and inflation are assumed. In the literature surveyed here, the substantive programmatic aspects that are imputed are welfare affinity and market interventionism for the parties with left labels, and welfare antagonism and nonintervention for parties with right labels. Few studies are explicit about this imputation strategy (e.g., Allan and Scruggs 2004; Zohlnhöfer et al. 2012). This strategy is only partly justifiable on empirical grounds. I shall revert to this aspect of multidimensionality later when discussing the limitations of time-variant left-right scales and summarizing the patterns in government ideology over time. As will be shown (in 5.2), the

45 For an explicit discussion of this literature and multidimensionality, see 3.2.2.

assumption that right parties favor welfare-state contraction whereas left parties advocate expansion or at least defend the welfare state status quo is not only problematic if static labels for left and right partisanship are used. The inclusion of items that are theoretically unrelated and empirically weakly related to economic and social policy – mostly items associated with moral, cultural, and foreign policy-related standpoints – also renders the use of the time-variant right-left measure RILE problematic in that regard. It is a multidimensional measure and a suboptimal proxy for welfare positions in the sense that we still impute preferences of parties despite having more precise data.

4.1.2.3 *Empirical Discrimination*

A third key problem with using labels in order to investigate the Partisanship Hypothesis is a lack of discriminatory power: if the null hypothesis – that the complexion of government does not matter – cannot be rejected, it remains unclear whether ideological indifference or political impotence to implement preferences is the reason for this (non)result. While Power Resources and Partisan Theory suggest that right parties favor retrenchment and the left still wants to defend the welfare state, the “new politics” literature and Globalization Hypothesis suggest that such programmatic differences do not matter vis-à-vis external and internal pressures. On this reading, the disagreement of both perspectives primarily concerns the maneuverability of politics and the enforceability of allegedly different ideological stances rather than the existence of such programmatic differences. According to a more far-reaching interpretation, “new politics” and the Globalization Hypothesis also imply that there should be a narrowing of policy positions. Likewise, the contributions subsumed under the rubric “beyond left and right” hold that (many) parties of left origin have undergone a genuine programmatic transformation and are now more critical of the welfare state and big government. At the very least, left parties are now thought to prefer preemptive adjustment of the welfare state, allegedly shielded from electoral punishment by virtue of their traditional issue ownership regarding matters of social justice and the welfare state. Seen this way, the dissent between the “beyond left and right” and the “old politics” perspectives concerns the nature of the policy preferences of left parties rather than their actual enforceability. The quintessence here is that in order to do justice to all three competing theoretical perspectives and in order to distinguish (self-imposed) ideological indifference from marginalization (resulting from external constraints), it is necessary to explicitly test whether the assumption of persistent and meaningful ideological differences between

parties remains accurate. This is why the causal analysis will be preceded by an analysis of the patterns of cabinet ideology.

4.1.2.4 Contamination of Preferences with Reputation and Behavior

Another concern with the application of expert judgments is that they do not measure preferences, but reflect retrospective evaluations of observed political behavior or merely comprise a party's reputation as being left, right, socialist, and so forth (Bräuninger 2005; Budge 2000: 109–110; Klingemann et al. 2006: 6, 83). To illustrate his skepticism, Budge hints at the predicament in which country experts may find themselves: They are often under tight deadlines, asked to judge on parties' ideological stances at a specific point in time, faced with often "hypothetical policy contrasts" along which parties have to be rated, and ignorant as to which organizational parts of the party are precisely to be evaluated (Budge 2000: 109). This constellation may lead researchers to – often unconsciously – draw on past or current political behavior and ideological reputation as the basis for their inferences.

The problem is that if studies detect a relationship between party labels and past policies, while the ascription of these labels by experts is based partly or even fully on past policies rather than declared preferences, this would constitute a circular argument. Seen from this angle, it is not the static nature of party labels per se, but the associated decline of their tautological (policy) content that could be behind the erosion of the consensus regarding the role of partisanship. Objection might be raised, of course, that the extent to which the country experts asked to estimate positions seek guidance in past legislation is unknown. It is also true that the distinction between intention and behavior is ideal-typical. At the very least, however, the potential contamination of both aspects – preferences and policies – nonetheless raises questions concerning the risk of using expert judgments as standalone indicators for partisanship in studies on the political determinants of social policies.

4.1.3 Cabinet Ideology as Agency for Group Interests and Dealignment

The Independent Variable Problem is not merely a measurement problem. While the aforementioned problems of measurement and empirical discrimination arising from the use of labels are per se impedimental to the inferential aims of the "politics matter" research, they also reflect a deeper conceptual constriction underlying the *modus operandi* in quantitative research. Both the critics and proponents of partisan effects conceive of

ideology as derivative of material interests of groups, thereby understanding the incidence or absence of such effects as resulting from (un)successful group representation in the face of economic pressures, to which an objective quality is often attributed. On the basis of a brief summary of this conception, I will subsequently elucidate why the underlying causal chain departs from empirical assumptions that are nowadays largely counterfactual. I will then argue that a focus on operationalization via labels and conceptualization as group representation is not only at odds with findings on dealignment and party reactions to the uncertainty this process of dealignment creates but that it also fails to incorporate insights of two other important adjacent streams of research: the first of which deals with cognitive frames and ideational (social) policy determinants and the second with the concept of (political) ideology.

4.1.3.1 The Causal Chain underlying Partisan Effects

Partisanship is usually treated as a derivative of material group interests and partisan effects are the result of parties that implement policies that serve the economic interest of the core group. This conception of partisanship and ideology as agency for (fixed) group interest(s) becomes most apparent among the most ardent advocates of persistent partisan effects: the proponents of the Power Resources Approach. The assumed causal chain can be understood as a group interest-based and extended version of the Responsible Party Model.⁴⁶ Let us briefly recall the neatly delineated frontiers of the “old politics” perspective regarding the causal association between social position, preferences, and vote choices on the one hand, and programmatic offerings and policy choices on behalf of parties on the

46 The requirements for responsible governments, stemming from the axiom that “the popular will must be reflected in government policy” (Thomassen 1994: 251) are: the existence of different policy alternatives; parties that are able to implement their programs; and voters with clear policy preferences aware of the positions of different parties and thus capable of choosing the party closest to their policy preferences (ibid.). The classic reference point is the report “Toward a More Responsible Two-Party System” by the American Political Science Association’s Committee on Political Parties (American Political Science Association 1950); for a recent evaluation, see Dalton et al. (2011). The argument has been set forth against these assumptions, and thus the Responsible Party Model as a whole, that it is empirically invalid because the behavior of neither the voters nor the parties, conforms to the model assumptions. Precisely because “the chain is no stronger than its weakest link” (Converse and Pierce 1986: 698), it is significant that striking examples of basic voter misattributions regarding current policy issues and even the mere question as to who is in control abound: see Stokes and Miller (1962) for the United States. Equally troubling evidence comes from France (Converse and Pierce 1986) and “even” Switzerland (Bonfadelli 1994), prompting that the voter rationality assumptions of the Responsible Party Model may be questionable.

other hand (see section 3.1.1). While the causal chain can be broken down into more sequences, there are basically two bundles of assumptions:

- 1 First, it is assumed that a causal nexus exists between socio-economic status, group affiliation, social policy preferences, and voting that is organized as follows: Policy preferences and party preferences are stratified by social position and group membership.⁴⁷ In retrenchment research, “group-specific preferences” means that persons with lower-middle-class and working-class backgrounds – more specifically those with limited income and higher risk exposure, hereafter summarized in terms of a weak labor market position – disproportionately prefer protection from generous and relatively unconditional social insurance. Higher status groups – people with higher income and lower risk exposure; that is, a strong labor market position – are, in turn, disproportionately in favor of more modest and conditional social insurance.
- 2 The second block of assumptions includes parties’ willingness and ability to cater distinctive social and economic policies to the expectations, preferences, and needs of their respective core groups. The alignments are conceived of as corresponding to the (historical) affiliation between parties with status, income, and risk groups. These variables characterize the strength or weakness of ones’ labor market position. More precisely, in the “democratic class struggle,” the left parties represent those with weak market positions by modifying market outcomes and altering the allocation process itself, whereas the Right serves as a protégé of the resourceful beneficiaries of market distribution (for passages exemplifying the insistence on this logic centered on the position relative to the market sphere, compare statements in Korpi and Palme (2003: 427) with Korpi (1983: 107; cited in section 3.1.1).

The persistence of this traditional account, according to which actual ideology depends on the party family, which in turn is a function of social (class) constituency, has recently also been described and criticized on theoretical grounds in a review by Häusermann et al. (2013). While I concur with the authors that it is necessary to consider the demanding scope conditions for the enduring viability of the theories, I am more skeptical regarding the parties’ capacity to cope with the “delinkage.” As argued

47 Concrete ideas about how “thick” the concept of social position should be vary – ranging from a preference for complex sociological class schemes to more parsimonious ones. At least in welfare research, the more common conceptualizations refer to social position in terms of income and (subjective as well as objective) risk groups.

in the following, the group- or class-based account and its underlying assumptions regarding the causal mechanism stand in contrast not only to the research on dealignment and the – admittedly modest – knowledge we have on parties' strategies to cope with this process, but also fully neglect the literature on the impact of cognitive frames and (political) ideology on policies.

4.1.3.2 *The Broken Link between Groups and Parties*

As argued below, the logic that places the labor movement and left parties on one side and capital and right parties on the other side of political struggles, deeply rooted in the class dualism of the industrial age, has been increasingly undermined by socio-economic, societal, and political change.

With regard to the link between group affiliation or socio-economic status on the one hand and party preference on the other, it is the erosion of electoral core groups and their ties to parties – commonly referred to as dealignment – that is of central importance. In short, the dealignment thesis holds that party ties are generally eroding as a consequence of social and political modernization (Dalton and Wattenberg 2002: 22). Three subcategories can be distinguished (based loosely on the categorization by Weßels [2000]). Ecological dealignment means that traditional core groups, which are historically affiliated to certain parties, are shrinking. In turn, this is due to the tertiarization of industrial societies and increased social and geographic mobility. Sectoral dealignment implies that even among those who still belong to traditional core groups, the predictive force of social structure for party preference has decreased. This is mainly due to cognitive mobilization and improved access to higher education, the erosion of confessional ties, and the emergence of new conflicts that sometimes cross-cut old conflicts. Similar factors may be behind the de-ideologization of group influences, meaning that the politicization of formal group membership – as well as social structure via organizations such as trade unions and the church – decreases (ibid.). This can be measured, for instance, by weaker systematic effects of core group membership on left-right self-placements in comparison with earlier survey data points.

Whereas the aspects of lower group politicization and the shrinkage of the core groups affiliated with parties is virtually undisputed, some scholars argue that the predictive power of group or class membership for party preference is conditional on a party's programmatic offerings; that is, the lack of top-down politicization and ideological convergence are responsible

for declining group and class voting.⁴⁸ However, considerable and seemingly irreversible changes in group composition due to postindustrialization are consensual. These compositional changes imply that even if there would still be a significant group effect under the assumption of specific programmatic conditions, it would be of ever lower electoral relevance in terms of party vote shares as the sheer size of the group(s) shrinks (Best 2011), which, in turn, dilutes incentives for parties to target-specific groups in the first place. This is aggravated by the fact that the amorphous new service class, the so-called “salariat,” and the “new middle class” are widely “considered to lack a *prima facie* loyalty to any political party” (Mair et al. 2004: 2), something which stands in stark contrast to the strong left-party leanings of the declining industrial working class.

That said, it is hardly surprising that electoral research has observed a shift from long-term to short-term determinants of voting. While issues and candidates have become more important, socio-economic status and group affiliation have become less important (Bürklin and Klein 1998; Dalton and Wattenberg 2002; Thomassen 2005). In short, as the walls of electoral ghettos fall and electoral support becomes more contingent, the “available electorate” grows (Mair et al. 2004: 2), which creates vulnerabilities and opportunities alike for parties. But how do parties cope with these dealignment-induced changes, most importantly the increasing share of “available” voters?

4.1.3.3 *Parties’ Strategic (Non)Reactions to Dealignment*

Against the background of this process of electoral dealignment, the second part of the causal chain, according to which parties cater their policy proposals and the implemented (social) policies to their respective core groups, appears equally problematic. This assumption seemed plausible as long as voters identified with parties and alliances between societal groups and political parties were stable. As these groups shrink and fray, emancipate themselves from traditional political allies, and the subjective and objective interests become ever more heterogeneous, however, it becomes less clear which (group) interests the vote-seeking parties should represent and why. Do parties simply carry on as if their core groups persisted? Do they target

48 Elff (2009), Evans (1999), and Evans and Tilley (2012) set forth this argument to criticize Dalton et al. (1984), Dalton and Wattenberg (2002), Jansen et al. (2011), Lipset (1999), Nieuwbeerta and De Graaf (1999), and Westle (2012). It must be kept in mind, however, that these studies mostly feature only one or a few countries and that scholars point to the country variance in dealignment findings (Best 2011; Nieuwbeerta and De Graaf 1999).

smaller and more specific groups (as Häusermann et al. 2013 suggest)? Do they retreat to ideology as a cognitive anchor in order to preserve their capacity to act under conditions of increased electoral uncertainty (as suggested by Budge [1994: 445-447])? Or are they mostly stuck in a strategic limbo?

There is abundant research on electoral changes. However, systemic and empirically grounded answers to the question of how parties perceive dealignment and how they adjust to their changing habitat of increased electoral uncertainty are scarce, partly because “the question of party responses can be answered empirically only at the level of the individual party” (Mair et al. 2004: 1). Based on data-sated case studies from the four biggest countries included in their study (the United Kingdom, France, Germany, and Italy), Mair et al. arrive at the simple conclusion that parties cope very differently with the electoral uncertainties and the growing vulnerability resulting from “electoral dealignment” (2004: 2). Beyond this, the case evidence warrants caution regarding the capacity of parties to successfully design positions and policies as part of a coherent (new) vote- and office-maximizing strategy (as optimistically assumed by Häusermann et al. [2013]).

No dominant strategy has emerged in the United Kingdom, where the strong impact of think tanks, a majoritarian electoral system, and an approximately unimodal voter-preference distribution provide a most likely case context for the catch-all hypothesis (Webb 2004). To the extent that party responses to dealignment are policy oriented – mostly reactions have been organizational – they rarely conform to a vote-maximizing and office-seeking approach. After its defeat in 1979, largely a result of its ideological isolation, the pragmatists within Labour lost and the party lurched even further leftward. Likewise, after their crushing defeat in 1997, the Conservatives, famed for their “will to power,” ironically followed a sectarian ideological impulse that drove the party even further to the right, further away from the median voter. In terms of organization, increased leadership autonomy, but also plebiscitary elements, such as the “road to the Manifesto” in the pre-1997 Labour campaign, can be observed in the United Kingdom (*ibid.*). The French case also attests to the “untidy reality” (Knapp 2004: 49) and the “individual” party responses (*ibid.*: 78). The defining feature of the electoral market of the Fifth Republic is that the impact of – minor and major – strategic choices “is highly unpredictable” (*ibid.*: 67). One extreme example in the series of consequential miscalculations produced by the PS (Parti Socialiste) vis-à-vis the rising Front Nationale is the case of the 2002 presidential elections: In the first round of the election, PS encouraged candidates likely to cannibalize left votes whose votes they deemed a reserve of marginal second-ballot votes: Its strategists dismissed the possibility that

Le Pen and Front Nationale could overtake Jospin, thus eliminating him from the race in the first round – until this scenario actually became reality (ibid.: 68-69). In Germany as in the United Kingdom, parties understood that the targeting of unaligned groups is imperative in principle, “yet both parties struggled to adopt vote-maximizing strategies” in practice (Scarrow 2004: 105). One obvious factor behind adaptive problems is that multiparty proportional electoral systems exacerbate the difficulty to appeal to new groups without losing traditionalists, but the deeper problem is internal fractionalization. The German Social Democratic Party (SPD) provides a drastic yet telling example: Although the Sinus-Institut in Heidelberg repeatedly recommended that lifestyle milieus rather than occupationally or organizationally defined groups should be targeted (for not to mention the strategic expertise commissioned by the Ebert Foundation), organizational and ideological infighting – for which Kitschelt blamed the insulation of the traditional left within the party (1994: 247-249) – led to “apparent indecisiveness” in the face of changing electoral markets (Scarrow 2004: 105). Similarly, Kitschelt emphasizes the SPD’s “organizational and strategic paralysis” and “indecisiveness” (1994: 247). Finally, the Italian case hardly allows us to isolate party responses to dealignment processes. More than changes in voting behavior per se, the “Tangentopoli” scandal evolving around illegal party finances and political corruption, which marked the end of the First Republic and its party system, and the resulting electoral reforms (the most important in 1993) have changed the strategic context for Italian parties (Bardi 2004).

In conclusion, the recurring themes running through the four cases are: the responses to dealignment and the new configurations and uncertainty it generates are highly party-specific; developments are countervailing even if we look at only one party; parties rarely have a coherent – for not to speak of a successful (i.e., vote-maximizing) – coping strategy; and centrifugal forces within parties seem to undermine centripetal electoral competition and the targeting of (new) groups. Overall, the erosion of core groups and the links between parties and groups as well as the fragmentary case evidence on party reactions to the increased uncertainty produced by this process of electoral dealignment render (group) interest representation arguments problematic.

It seems at least equally plausible to assume that parties that act under conditions of increased uncertainty tend to use ideology as a “cognitive anchor” in order to preserve their capacity to act (Budge 1994: 445-447). However, the idea that a government’s ideology should be regarded as a heuristic which channels problem perception is virtually absent in the

literature reviewed. On the contrary, proponents of partisanship effects and proponents of the Globalization Hypothesis and the New Politics Approach alike attribute a quasi-objective status to economic pressures (e.g., low economic growth/economic crisis, economic integration/globalization). Fortunately, however, conceptions according to which parties are serving groups or are reacting to structurally given (economic) problems and interests in self-apparent crises are not without alternatives.

4.1.4 What Is Ideology and Why Should It Matter? Ideology and Cognitive Frames

What is dubbed ideology, cabinet or government ideology, ideological or political complexion of government, or simply partisanship in the reviewed empirical studies on retrenchment can also be labeled agency for group interests; at least with regard to its theoretical status in the theories that claim persistent partisan effects. In that sense, the measurement via party labels is consistent with the assumed causal mechanism. Parties matter because of group representation. What is most striking, however, is that this theoretical stance stands in sharp contrast not only to the research on dealignment and the case evidence I outlined above about parties' coping strategies, or rather the lack of cohesive and successful coping strategies, but also to 1) established conceptualizations of ideology in general and 2) the popularity of framing arguments in the qualitative social policy and public policy literature in particular. Based on the main ideas common to these two bodies of research, this chapter shows that it is worthwhile for large-n researchers to complement interest-based arguments with a literal understanding of ideology: as a belief system.

It would be conceivable to depart from etymological derivations, historical connotations, and idiosyncratic uses to approach the term ideology or to call upon literature on "bounded rationality" (a term coined by Simon [1995]) and "heuristics and biases" (Kahnemann 2011; Kahnemann and Tversky 1979) to provide a basis for the discussion of ideational arguments. I will stick to the confines of political science in order to distill the overlap in the core definitions in both bodies of research; knowing that these behavioral streams of research on bounded rationality and heuristics and biases have long diffused into the political science and political psychology literature utilized here. This restriction is necessary to avoid charges of opportunistic eclecticism and because these two fields of literature are already very encompassing, and – unfortunately – beset by concept inflation and "superfluous coextensiveness" (Sartori 1969: 399), the synonymous

use of different terms for the same concepts. I will first discuss ideas and ideational approaches and then proceed with the literature on political ideology. Finally, I try to distill their common definitional core.

4.1.4.1 “Ideational” Approaches

There is a multitude of approaches that are usually subsumed under the heading “ideational.” The common denominator is “the belief that cognitive and normative elements play an important role in how actors understand and explain the world” (Surel 2000: 395). The three variations that set off the most lasting repercussions in social policy research are the concepts of *economic ideas* (Blyth 2002), *policy paradigms* (Hall 1993), and the *advocacy coalition framework* (Sabatier 1998). In Hall’s classic formulation, policy paradigms are defined as an

overarching set of ideas that specify how the problems [...] are to be perceived, which goals might be attained through policy and what sorts of techniques can be used to reach those goals. Ideas about each of these matters interlock to form a relatively coherent whole that might be described as a policy paradigm. Like a gestalt, it structures the very way in which policy-makers see the world and their role within it. (Hall 1993: 91)

One factor underlying the success of this conception is that Hall demonstrated the potential of the approach to explain policy changes based on an assessment of the transition in macroeconomic beliefs from Keynesianism to monetarism in the United Kingdom in 1979 and 1989. For Blyth, building on the work of Hall and ideational approaches in international relations research, “economic ideas provide agents with a “scientific” and a “normative account” of the existing economy and polity, and a vision that specifies how these elements should be constructed” (Blyth 2002: 11). They constitute an “interpretative framework” that helps agents to interpret their environment, especially in times of crisis (*ibid.*). They thus reduce uncertainty and empower actors to propose a particular solution. In the absence of such ideas that coordinate expectations and nourish perceptions of self-interest, however, collective action is impossible. For empirical illustration, Blyth draws on the triumph of embedded liberalism in the 1930s in Sweden and the United States and the swinging back of the pendulum to market-conforming ideas after the stagflation crisis of the 1970s. More recently, Blyth (2013) has popularized ideational arguments far beyond the narrow confines of political economy with his (political) campaign against the “dangerous idea” of austerity and its alleged status as

the dominant interpretative framework in the aftermath of the financial crisis.

Sabatier (1998) distinguishes an abstract “deep core” of “basic ontological and normative beliefs,” dependent on the relative importance of values, from “policy core” beliefs that, at a lower level of abstraction, represent an advocacy coalition’s basic normative commitments and causal perceptions across policy domains or subsystems. Again, the emphasis is on “fundamental value priorities” and “basic perceptions concerning the general seriousness of the problem and its principal causes” (*ibid.*: 103), and it is assumed that actors perceive the world differently. Actors are regarded as rational at the instrumental level, but the determination of objectives is linked to cognitive and normative frames that form the lenses through which actors perceive the world. In this view, policies are an institutionalization of values and involve certain conceptions of causal relationships (i.e., the assumed efficacy of different policy measures differs).

The more recent literature on the impact of ideas on public policy is largely in line with the main ideas voiced by Hall, Blyth, and Sabatier. Policy makers hold certain causal beliefs and normative convictions, ideas which serve as cognitive frames that filter perception and are crucial for the construction of interests, especially under uncertain conditions. However, the notion that ideas are merely epiphenomenal to interests is commonly explicitly rejected (see Béland 2005, 2009; Béland and Cox 2010; Campbell 2002; Hay 2010; Olive et al. 2012; Steinmo 2003). Fortunately, these contributions also increasingly supplement the strong focus on large-scale paradigmatic change with assessments of more incremental policy changes and politically routine decisions. Exemplarily is the wide range of theoretical and empirical contributions as assembled by Béland and Cox, whose basic contention is that

ideas shape how we understand political problems, give definition to our goals and strategies, and are the currency we use to communicate about politics. By giving definition to our values and preferences, ideas provide us with interpretive frameworks that make us see some facts as important and others as less so. (Béland and Cox 2010: 3)

This, in turn, has significant implications for the role attributed to interests in the policy-making process. Rather than “seeing politics as the contest among people who have clear and stable interests and develop strategies to pursue them,” the authors favor “a vision of politics as the struggle for power and control among people who are motivated by myriad ideas,” with the “perceived interests” of actors being only one among many of such ideas (*ibid.*: 3) or beliefs that “provide guides for action” (*ibid.*: 4). Interestingly,

authors see the renaissance of ideational arguments since the 1980s as part of an attempt to reclaim the concept of ideology from its association with historical materialism with its central dichotomy of infrastructure versus superstructure/*Basis* versus *Überbau* (ibid.: 8). The rejection of a materialist view of interests and the assumption of the existence of objective economic interests (which prevails among Marxists and Rational Choice scholars) forms the bedrock of ideational analysis. Emphasis is on the subjective interpretation of interest by political actors, subject to historical, political, and social constructions (ibid.: 10; Hay 2010: chapter 3); in other words, actors' changing beliefs about what is in their best interest. A pivotal point here is that concepts such as Hall's (policy) paradigms "evoke the notion of a single dominant idea that governs an area" and should thus be differentiated from "problem definitions," understood as more fluid and constantly competing ideas (Mehta 2010: 33). Empirical applications of such a nuanced consideration of competing ideas on policies are unfortunately rare. The empirical focus remains on changes in shared ideas and beliefs in the face of policy problems, which then leads to paradigmatic change. But the impact of competing frames, the consideration of concurrent variation in the normative and causal assumptions of actors, and its impact on decision-making practice, especially of the routine kind, is infrequently a scholarly undertaking. This deficit is much less prevalent in the literature on political ideology, despite the otherwise striking similarities.

4.1.4.2 *The Concept of (Political) Ideology*

As already indicated in the introduction, some scholars consider the term *ideology* to be the "most elusive concept in the whole of social science" (as famously expressed by McLellan 1996: 1), and its "semantic promiscuity" has often been lamented (Converse 2006, Gerring 1997: 957). The mere fact that De Crecy, who established the term and considered ideology an objective "science of ideas," was later dismissed by Marx and Engels as a bourgeois ideologue, is very telling regarding the eventful history of the term. Pejorative connotations also persist in popular culture.

In the political science literature on ideology, however, it is commonplace to refer to a system or set of beliefs (Converse 2006), "ideational framework" (Merelman 1969), or "worldview" (Vincent 2010), usually qualified as political or addressed more specifically as the views on the role of government and the proper order of society. In short, ideology is often conceptualized as a distinctly political subtype of belief systems. Most authors distinguish at least between a normative or value dimension and an ontological or evaluative dimension, although the precise terms used in order to make this

distinction vary. For instance, Budge defines ideology as the “body of normative and factual assumptions about the world,” which define the broad principles on which policies should be based (Budge 1994: 445). Erikson and Tedin conceive of ideology as the “set of beliefs about the proper order of society and how it can be achieved” (Erikson and Tedin 2001: 64). Similarly, many authors emphasize the importance of ideology as a mental map or scheme to interpret the environment and characterize ideology as a source for prescriptions on how this environment should be structured and what means must be employed to move from the status quo to a desired order of society and politics. Most authors accentuate that values and feasibility and efficiency concerns are closely interwoven and regard actors as rational only at the instrumental level. The importance of ideology as a heuristic under conditions of uncertainty is another recurring theme.⁴⁹

As regards the empirical evidence, it seems by now consensual that individuals may not effectively process and evaluate evidence, in particular when it contradicts their preconceived ideas.⁵⁰ For obvious reasons, studies on the question as to whether ideological biases found in experimental psychology also apply to political elites are very difficult to find. The available evidence indicates that the ideas of political elites affect their perception of the status quo, the nature of problems, and potential solutions. For instance, based on a survey of members of the German Bundestag, it has been demonstrated that ideological bias crucially affects the “perceived mobility of international tax bases” and the “perceived national autonomy in tax setting” (Heinemann and Janeba 2011: 286).

Overall, functionalist and neo-Marxist assessments of ideology as a mere superstructure (*Überbau*) for underlying material interests are of marginal importance; epiphenomenological views of ideology are generally rejected in current research. In sum, the conceptual core of many mainstream definitions – the existence of ontological and normative beliefs with distinctly political implications at different levels of

49 See reviews of Gerring (1997); Knight (2006); Jost et al. (2009); and Sartori (1969). The classic contribution of Sartori (1969) is an outlier in the sense that some of the pejorative connotations popularized by Marx and Engels’ usage of ideology (in terms of status quo-preserving (mass) manipulation – mainly in their “The German Ideology”) are perpetuated in his characterization of ideology as a rigid doctrine.

50 See Kahan et al. (2013) for an exemplary piece on “motivated numeracy.” Such studies on the effects of ideology on individuals can be regarded as merely a specific application of the general importance of “heuristics and biases” and “bounded rationality” in perception and decision-making that has long been established in the field of behavioral economics (Kahnemann and Tversky 1979; Kahnemann et al. 1982; Simon 1995). See Kahnemann (2011) for a bestselling yet thorough summary.

abstraction – can be said to exhibit a marked proximity to definitions of cognitive frames, as discussed above regarding the idea-based or ideational literature. On this basis, I formulate a cognitive framing argument in the next section. Note that this synthetic approach to developing the framing argument out of – and based on – existing fragments, from the literature on political ideology and the ideational literature, is a conscious choice so as to avoid muddling the conceptual waters further with ever new terminology.

4.2 Addressing the Problem: Ideology as Cognitive Frame/ Belief System

Based on an understanding of ideology as a belief system and in line with the conceptual and empirical consensus within the two streams of research on ideas and ideology, my ambition in the remainder of the chapter is to develop a (cognitive) framing argument as to why the ideological composition of government affects the social policy choices of democratic elites, even under conditions of high problem pressure. In doing so, it first becomes necessary to substantiate the general concept of ideology. This is done in the following with regard to the traditional and near hegemonic left-right dyad, whose structuring role for the “politics matter” debate has already been documented in section 3.2. In other words, I address the question if and why – based on what rationale – the political ideology of governments, or for that matter, left and right ideology and the nexus of norms and ontological beliefs inherent to both poles, should correspond to retrenchment policies. Equipped with such a theoretical criterion and with the operational problems in the investigation of partisan effects as yardstick for evaluation, I then propose and discuss two potential “solutions” to the Independent Variable Problem. While the usage of time-variant left-right scales provides a remedy to most of the validity problems outlined in section 4.1, the question of the theoretical meaningfulness of this indicator regarding retrenchment remains due to the unsolved problem of multidimensionality. This problem is then addressed by constructing specific indices for market and welfare ideology, which capture the nexus of norms and ontological beliefs at the heart of the left-right dyad and whose association with social policies in general and the privatization of labor market-related risks in particular can be spelled out theoretically. I conclude with a summary of the hypotheses to be tested and three broader metaexpectations/hypotheses.

4.2.1 Ideology as a Cognitive Frame: Substantive Content of the Left-Right Distinction

In order to conduct a test for the relevance of ideology as a cognitive frame rather than as a proxy for interest representation, it is first necessary to discuss the substantive content of left and right ideology against the background of the conceptions of political ideology and (policy) ideas. The framing argument made in this section departs from the observation that classic and popular definitions of ideology (Budge 1994; Converse 2006; Merelman 1969; Vincent 2010) are largely consistent with the concepts of economic ideas (Blyth 2002), policy paradigms (Hall 1993), or the advocacy coalition framework (Sabatier 1998), all of which have caused lasting repercussions in case-oriented public policy research. The intersection of the discussed definitions suggests that ideology can be regarded as a cognitive frame or interpretative framework that provides actors, or more specifically governments, with two closely intertwined sets of beliefs: Specific causal beliefs about the interplay between government, the economy, and society (this will be called the *ontological* dimension) and beliefs about the norms and values that are to be maximized as the basis for the assessment of the status quo (hereafter referred to as the *normative* dimension).

Regarding the determination of the substantial content of left and right belief systems, as the (by far) most commonly referred to ideological continuum, and the one that also structures the “politics matter” discourse in comparative welfare state research, two antithetical basic approaches exist. The first approach is inductive and departs from the idea that left and right do not carry any meaning independent of time and space (Benoit and Laver 2007; Gabel and Huber 2000). According to this view, what is left and right is always context-specific. This approach, however, is associated with a number of problems and limitations arising from the inductive way of proceeding. Certain items are considered left in a specific context (e.g., a specific country at a given time) when they are emphasized by parties that have been categorized as left (Benoit and Laver 2007: chapter 6). Or it is assumed that the dominant dimension that emerges from factor analysis represents the left-right conflict (Gabel and Huber 2000). But it remains unclear *why* the respective party is categorized as left or *why* the latent dimension with the highest eigenvalues, mostly referred to as the superdimension that structures the political conflict, should be regarded as a left-right dimension. In fact, the political fault lines might be more adequately characterized as evolving around matters of democratization, value change, or the environment. Moreover, there is no clear relationship

to questions of (re)distribution and the dichotomies associated with class conflict, such as public versus private ownership, equality versus inequality, state intervention versus market allocation, or demand-side versus supply-side economics.

From a historical perspective, the variability of left and right is “only” evident at the level of means, precise aims, and groups associated with the left and right ascription and not at the level of principles, ideas, and general ambitions. In the nineteenth century, for instance, republican and liberal forces that strove to wrest power from the ancient regime(s) have been regarded as left. With the rise of new conflicts and the changed status relative to the status quo, these forces have increasingly been regarded more to the right of the political spectrum, whereas socialists and communists came to be regarded as representatives of the political left (see Fuhse 2004: 211–212). This by no means invalidates the idea that there is an abstract core of left and right with certain norms and causal beliefs. The question arises why scholars use the same terms of left and right in implicit and explicit cross-sectional or longitudinal comparisons if the substantial meanings of these notions are entirely bound to very specific temporal and geographic contexts. The “super-dimensions” underlying party competition can be investigated without the pathos of left and right.

Rather, and this brings us to the second, more deductive, approach: The reference to these notions of left and right is merely instructive, especially in comparisons, if some core assumptions are assumed to be stable over time (or for lack of a better word: universal). These assumptions can be distilled from the intellectual and conceptual history of the left-right dyad, although the precise manifestations in terms of preferred policy means, midterm goals, and associated groups may vary.

As Jahn (2011) has rightly pointed out, the conceptual history of left and right is largely neglected when the substantial context of the concepts is determined in empirical research. According to him, left-right scales require a theoretical foundation to ease the interpretation of calculated positions. Based on Norberto Bobbio's *Left and Right* (1996, in German: 2006), which is the most authoritative and prominent modern treatise on the substantial content of the left-right dyad (Fuhse 2004: 213), he tries to extract those aspects that constitute the core of left and right ideas. For Bobbio, the conflict of equality versus inequality and hierarchy is the basic dichotomy underlying left-right. He traces this distinction back to different images of human nature. According to Bobbio, the conviction that people are fundamentally equal and that inequalities must therefore be justified with excellent arguments is left (Rousseau being the leading

exponent identified with this idea). Conversely, the persuasion that people are essentially distinct or unequal marks the anthropological origin of the right (the leading exponent of this idea is Nietzsche). Despite all of the historical variability regarding the concrete manifestations of left and right ideology, Bobbio succeeds in describing the development of the left-right dyad under a widely accepted viewpoint. This historically grounded view that left and right are divided by the different core values equality and freedom is broadly shared by intellectuals, political philosophers, and historians of ideas (see, e.g., Giddens 1994: 251; Kymlicka 1997; Vincent 2010: 14), semantic nuances notwithstanding. Alternatively, one might simply speak of different attitudes to (in)equality as the underlying organizing principle of the left-right dyad. For Kymlicka (1997), left and right are, strictly speaking, merely different conceptions of equality. One might also speak of a different “egalitarian level” inherent to both: While the left departs from a thick, substantial definition of equality, the right confines itself to a thin, formal understanding of equality. The left regards certain material requirements as a precondition for substantial equality and thereby justifies redistribution and state intervention. The right, invoking a formal concept of equality, is skeptical of redistribution and intervention, as these actions are regarded as an infringement upon or an outright violation of individual freedom and individual self-ownership.⁵¹

The discussion now brings us to the question as to which causal world-views and, ultimately, institutional preferences result from the competing core values or norms of equality and inequality. The quintessence is that the different basic values of equality and freedom correspond to different emphases on state intervention and redistribution as opposed to market allocation. This varying emphasis, in turn, finds its institutional expression in a preference for either the (welfare) state or market mechanisms. If freedom or inequality is the more fundamental value or equality merely formal, market allocation is the weapon of choice, as market results are perceived as an expression of procedural justice, while redistribution is regarded as an attempt at leveling off natural differences and assumed to stifle individual ambition. By contrast, to the extent that equality is the dominant value, the (re)distribution of market results via welfare state

51 Note that these attempts at distilling a core of left and right exhibit marked proximity to the two antipodean conceptions of justice that dominated political philosophy in the twentieth century: Rawls' *Theory of Justice* (1971) with its social democratic impetus and Nozick's purist libertarian insistence on “self-ownership” (1974).

transfers and taxation is regarded as desirable in order to achieve a higher degree of substantial equality.

This nexus of norms and ontological beliefs provides the theoretical anchor for the selection and evaluation of alternative ways to account for party ideology. More precisely, the target, in addition to the consideration of the operational concerns outlined earlier, is to empirically capture 1) the normative divide between the competing core values of equality and (negative) freedom and 2) the ontological divide between market allocation on the one hand and state intervention and redistribution on the other; a distinction which may also be regarded as a causal and ultimately institutional manifestation of the fundamentally different norms underlying the left-right dyad.

4.2.2 Approach One: Time-Variant, Multidimensional Left-Right Scales

As indicated earlier, a twofold strategy is employed to wade into the operational and theoretical problems and limitations that comprise the Independent Variable Problem. The first strategy is to use left-right scales that capture shifts in party positions based on the content analysis of party manifestos conducted by the Manifesto Research Group (Budge et al. 2001; Klingemann et al. 2006). The MRG project counts the frequency of quasi sentences related to a particular issue. Fifty-six such categories exist. This procedure is based on the assumption in Salience Theory that parties emphasize issues and deemphasize others rather than directly confronting each other on the same issue (Budge and Robertson 1987: 389-391; Klingemann et al. 2006: xviii), although this dissociation of a spatial reading of political competition can be criticized as slightly inconsequent.⁵²

52 Benoit and Laver (2007: 65) rightly point out that Salience Theory was applied somewhat inconsequentially when the categories were designed. Indeed, many of the items used for the RILE are positional (meaning that they are pro and con/positive and negative statements). Members of the Manifesto Project eventually conceded this long ago (Budge et al. 2001: 83). Another important criticism concerning the coding process is that the source documents used are diagnostically less conclusive in some countries than in others. More specifically, it is claimed that the use of leaflets, speeches, etc., as – Manifesto proxies leads to measurement error and a centrist bias in the left-right positions (Gemenis 2012). Budge (2013) provides a summary of CMP criticisms and a response. Few critics have actually scrutinized the validity of the codings at the individual-statement level. Yet the recent publication of the “corpus data” underlying the Manifesto aggregate scores (see <https://manifestoproject.wzb.eu/>) now allows researchers to re- and subcategorize individual statements. Codings by social policy experts familiar with the

Left-right scales are constructed by adding several ideological issues (hereafter: items). The most important is the RILE score of the Manifesto Group, which “opposes emphasis on peaceful internationalism, welfare and government intervention on the left, to emphases on strong defence, free enterprise, and traditional morality on the right” (Klingemann et al. 2006: 5). The relative emphasis on thirteen items classified as left is subtracted from the relative emphasis on thirteen right items; that is, negative values indicate that left positions outweigh right positions and vice versa.

Table 4.1 Left and Right Items of the RILE

Left Items	Right Items
Decolonization, Anti-Imperialism	Military: Positive
Military: Negative	Freedom, Human Rights
Peace	Constitutionalism: Positive
Internationalism: Positive	Political Authority
Democracy	Free Enterprise
Regulate Capitalism, Market	Economic Incentives
Economic Planning	Protectionism: Negative
Protectionism: Positive	Economic Orthodoxy
Controlled Economy	Social Services: Limitation
Nationalization	National Way of Life: Positive
Social Services: Expansion	Traditional Morality: Positive
Education: Expansion	Law and Order
Labour Groups: Positive	Social Harmony

Source: Klingemann et al. (2006: xix)

The extent to which the RILE score is a result of an inductive or deductive approach is debatable. The authors of the Manifesto Project try to relate their measure to writings of Edmund Burke, whose *Reflections on the Revolution in France* (1790) indeed remains an important reference point for the political Right in general and conservatives in particular (Heywood 2007), and Marx. Its actual origins appear nonetheless to be inductive. Items were chosen based on Principle Component Analysis, which is a subtype of factor analysis that identifies the underlying dimension which best accounts for

respective welfare state, policy, and country contexts indicate that the welfare state relevant CMP items measure quite precisely what they are supposed to measure according to the CMP item descriptions, although re- and subcategorization also points to theoretically interesting variation underneath the original categories (Horn et al. 2017). The share of miscoded statements is, on average, relatively modest (< 10%).

the observed covariation among all the items in the coding scheme of the Manifesto Project. The Manifesto Project scholars argue that this method was only used to test “pre-conceived ideas” of left and right (Klingemann et al. 2006: 6).

But to what extent does using the RILE address the many outlined problems with the use of labels in the investigation of partisanship effects? Firstly, the RILE approach has many obvious advantages: it is clear what left and right refer to in a substantive manner, ideological turns of parties over time are accounted for, differences in degree are considered, the index is not based on past policy reputation, and, above all, it enables researchers to discriminate between a lack of ideological commitment and a lack of assertiveness if no effect of party ideology can be found.

Still, the left-right index is only of limited use for the investigation of partisan effects on retrenchment. The reason is that it covers a number of topics hardly related to the normative (equality versus freedom) and ontological divide (state intervention versus market allocation) between left and right in general or questions of social policy and retrenchment in particular. Items such as attitudes toward the “Military,” “Constitutionalism,” “Democracy,” or “Law and Order” are good illustrations of why the RILE as a multidimensional measure is often a source of conceptual confusion. While the combination of these aspects together with economic and social issues in one index has been criticized as “not only confusing but also wrong” because such indices reduce complexity to an extent that is “bad for comparability and conceptual clarity” in general (Keman 2007: 4), my concern here is more specific. The concrete problem in retrenchment research is that scholars who use broadly defined and measured concepts of left and right to investigate the partisan effect, no matter if static or time-variant (e.g., the RILE), implicitly assume that left partisanship equals support for the welfare state while right partisanship is equated with opposition to the welfare state. This has previously been referred to as an “imputation” strategy. All too often, however, this assumption behind the imputation is wrong. To make this point, I will start by presenting some correlational evidence and then proceed with a simple factor analysis to confirm the multidimensional nature of the RILE. Finally, I will illustrate the significant implications of this multidimensionality with a brief reference to some exemplary political parties.

Firstly, correlations between the RILE and selected (re)distributive and regulatory positions such as Social Services Expansion, Social Services Limitation, Economic Orthodoxy (meaning neoclassical positions), Economic Enterprise, Social Justice, and Market Regulation are modest (see

table 4.2). While it is always difficult to define thresholds, it is safe to say that correlations at the level of about 0.5 (and usually much lower) indicate that the approximation is not large enough to justify using RILE as a proxy for a party's affinity or aversion to the welfare state.⁵³ As to the question of the reason for these weak associations, the correlations between the socio-economic and moral-cultural (in US terms: social) items among the thirteen left and thirteen right items, as summarized in the annex (annex 2 for left, 3 for right items), are suggestive. It turns out that bivariate correlations do not exceed 0.1 and are often closer to 0 with often inconsistent signs.

Table 4.2 Correlations of the RILE and Selected Socio-economic and Welfare Positions

		A: RILE CMP 1/2 (All Parties)	B: RILE Cabinets (1971-2002/ Pre+Post)	C: RILE Cabinets (Re- trenchment/ Post)
Social services expansion	Pearson correlation	-.406**	-.536**	-.598**
	Significance (2-tailed)	.000	.000	.000
	N	2937	174	89
Social services limitation	Pearson correlation	.223**	.370**	.272**
	Significance (2-tailed)	.000	.000	.000
	N	2937	174	89
Economic orthodoxy	Pearson correlation	.338**	.512**	.484**
	Significance (2-tailed)	.000	.000	.000
	N	2937	174	89
Free enterprise	Pearson correlation	.386**	.620**	.590**
	Significance (2-tailed)	.000	.000	.000
	N	2937	174	89
Social justice	Pearson correlation	-.275**	.367**	-.181**
	Significance (2-tailed)	.000	.000	.000
	N	2937	174	89
Market regulation	Pearson correlation	-.269**	.246**	-.184**
	Significance (2-tailed)	.000	.000	.000
	N	2937	174	89

A: Includes all parties in the Comparative Manifesto Project (1 or 2, see Klingemann et al. 2006).

B: Includes all cabinets in the countries under investigation here (that overlap with CMP 1 or 2).

C: Same as B, but only for retrenchment period, also referred to as post-break period in this book.

** Correlation significant at a 0.01 level (2-tailed).

* Correlation significant at a 0.05 level (2-tailed).

53 While this observation has no bearing on the general argument made in this section, note the interesting fact that the relationship between the RILE and (re)distributive and regulatory positions is mostly closer among the governments investigated in the study at hand (see columns B and C in table 4.2) than compared to the match for all parties included in CMP 1 and CMP 2 (column A).

This relative unrelatedness is simply an expression of the multidimensionality of the RILE and the fact that cultural viewpoints are relatively independent from distributional or regulatory positions. This distinction or the separation of similar dimensions is widely accepted in the literature on party positions (Benoit and Laver 2007; Kitschelt and McGann 1997; Marks and Steenbergen 2004). Benoit and Laver (2007) distinguish “economic policy (interpreted as the trade-off between lower taxes and higher spending)” and the dualism of “moral liberalism and conservatism [...] (interpreted as policies on matters such as abortion, gay rights and euthanasia).” Similarly, Marks and Steenbergen (2004) differentiate between “socio-economic left-right positions” on the one hand, and the contrast between two opposing value systems: “traditional/authoritarian/nationalist” versus “green/alternative/liberal,” on the other. Kitschelt and McGann (1997) made the more universal distinction of two axes: “socialist” versus “capitalist” and “libertarian” versus “authoritarian.” Overall, the distinction of a cultural (in US terminology: social) and an economic or redistributive dimension is rather consensual among party scholars. Thus, I constrain myself to a brief empirical assessment via factor analysis to elucidate its validity.

The intuitive a priori allocation to all manifesto items to either cultural or distributional/regulatory aspects is largely confirmed by the Principal Component Analysis for the thirteen right and thirteen left items (see table 4.3 below). Looking at the factor loadings of right items in the right section of table 4.3, socio-economic aspects dominate in the first extracted factor (free enterprise+, incentives+, protectionism-, economic orthodoxy+, welfare-), while the second factor summarizes moral and cultural question (national way of life+, traditional morality+, law and order+, military+). With regard to the thirteen left items shown on the left side of table 4.3, the first dimension comprises items that could be categorized as moral and foreign policy (military-, peace+, internationalism+, anti-imperialism+), while the second dimension consists of socio-economic items (market regulation+, economic planning+, controlled economy+, nationalization+, welfare+). Overall, this confirms that the RILE includes aspects that are relatively independent from the economic/distributive/regulatory dimension, including, most notably, issues related to cultural, moral, and foreign policy. But what are the concrete ramifications of this pattern?

Table 4.3 Factor Analysis, Component Matrix

Left items	1	2	3	4	Right items	1	2	3	4	5	6
peace +	.539	-.326	.398	-.039	military +	.110	.551	.319	.018	-.498	.113
internationalism +	.322	-.289	.457	-.063	Freedom/human rights +	-.024	-.365	.594	-.220	.401	.049
Anti-imperialism +	.445	-.326	-.039	.106	constitutionalism +	-.116	-.230	.312	-.274	-.218	.603
democracy +	.228	-.297	-.432	.466	political authority +	-.223	-.109	-.071	.614	-.047	.212
Market regulation +	.266	.383	-.012	.182	free enterprise +	.652	-.146	.371	-.026	.050	-.092
economic planning +	.124	.349	-.203	-.027	incentives +	.465	.227	-.365	-.164	-.037	.090
protectionism +	.149	.173	-.015	-.719	protectionism -	.371	-.176	.061	-.177	-.411	-.069
Controlled economy +	.351	.410	-.021	-.258	economic orthodoxy +	.576	-.089	.075	.394	-.102	-.188
nationalization +	.437	.490	-.178	.085	Welfare -	.565	.003	.052	.187	.306	.181
welfare +	-.202	.458	.465	.223	national way of life +	-.119	.554	.513	.094	-.026	.044
education +	-.291	.247	.542	.310	traditional morality +	-.078	.503	.152	-.133	.387	-.343
labor +	.417	.331	-.129	.281	law and order +	.245	.346	-.264	-.037	.351	.599
military -	.601	-.033	.290	.036	social harmony +	-.120	-.041	.250	.551	.070	.102

Notes: Extraction via Principal Component Analysis (in SPSS). Includes CMP 1 and 2 (Budge et al. 2001; Klingemann et al. 2006).

For example, many parties emphasize traditional morality, social harmony, and law and order, often while adopting a nationalistic tone. Based on those aspects, expert judgments and content analysis alike would categorize them as right parties. The problem is that these parties all too often also embrace social solidarity and welfare (although social solidarity may depend on the “right” passport and ethnicity, in line with those parties frequently nativist and welfare chauvinistic agendas). Populist right parties like the Front Nationale under Marine Le Pen, which claims that nationalism is the new counterideology to globalism, provide extreme examples of this discrepancy.⁵⁴ Conversely, parties that strongly emphasize market allocation and are skeptical of the welfare state may take very liberal positions on cultural and moral matters. This tendency is particularly pronounced in classic European liberal parties strongly committed to the values of individualism, such as the Dutch VVD (Volkspartij voor Vrijheid en Democratie) and the former German quasi-“natural government-party” FDP (Freie Demokratische Partei). More concretely, the FDP is a centrist party according to its RILE score, which is on average 1.2 between 1949 and 2009. The average RILE value is 1.3 for the entire data set in combination with a standard deviation of 17.4. But the FDP values on welfare ideology average at 9.7, almost one standard deviation (8.4) below the average of 16.1 in the entire data set, while its score for market ideology averages at 9.5 and is thus half a standard deviation (6) higher than the data set average of 6.8. I will pick up the example of the FDP in the next section when welfare and market ideology are introduced. For one, because it exemplifies how right-left positions can be a dubious proxy for social policy preferences of parties, and secondly because its varied ideological orientation reminds us that intertemporal variation is important

54 This is by no means meant as a general criticism of the attempt to construct and use indices combining programmatic positions. As can be inferred from the way of proceeding in this section, it is not my conviction that the listing of examples provides convincing evidence to invalidate such efforts. Idiosyncrasies that are misrepresented by indices are a price worth paying for an overall reduction in complexity. For instance, the above general characterization of right-wing populist parties as socially conservative may apply to the Front Nationale, The True Finns (now called The Finns), The Flemish Block, New Zealand First, etc., but Geert Wilders and his fellow party members from the Partij voor de Vrijheid, representing a Dutch particularity, justify their fierce criticism of “Islamization” as part of a defense of “Judeo-Christian European civilization,” explicitly including gay rights (Buruma 2013). Rather, what I am concerned about here is the aggregation of multiple dimensions that are at best weakly related and have systematically countervailing effects at worst. Right-wing populist and classical liberal parties with their cross-cutting stances on cultural and economic dimensions provide an example of the latter case. Here, the use of the RILE as a summary measure for policy stances regarding economic questions in general and the welfare state in particular (i.e., the imputed preferences) evokes the old statistics joke of a hunter shooting at a rabbit in a field: first the hunter misses him to the right, then to the left. But on average, the rabbit is dead.

and that volatile data often reflects real programmatic change. At this point, however, it is important to take away that the FDP's centrist RILE score is, on average, not very revealing with regard to its welfare affinity or aversion, both when quantitative data or subjective perceptions and – equally subjective – the party's general reputation are employed as standards.

More generally, if a party is right-leaning on cultural matters (authoritarian/socially conservative), it might also be pro-welfare state/redistribution and intervention; and if a party is culturally left (libertarian/socially liberal), it might still prioritize market allocation and counter redistribution. Furthermore, Keman (2007) is right that aspects that are unrelated to *both* the cultural and economic dimensions (e.g., education+ or democracy+) tend to lead to further conceptual confusion; irrespective of their political importance. But this concerns relatively few RILE items.

The quintessence here is that all of its advantages over the use of party labels notwithstanding, the usage of the dynamic RILE scale is associated with a considerable measurement mistake and a validity gap: Parties with the same RILE scores can – and often do – hold opposing views on questions regarding the welfare state and the redistribution of market-generated results. Thus, in order to investigate whether a causal link between an incumbent's political ideology and retrenchment exists, it is necessary to focus on more specific aspects of party ideology that are theoretically meaningful regarding risk privatization/unemployment insurance retrenchment.

4.2.3 Approach Two: Disaggregated Measures – Welfare and Market Ideology

It has been established thus far that multidimensional concepts of partisan ideology such as left and right should be decomposed in order to minimize conceptual confusion when testing the Partisan Hypothesis. Moreover, the dimensions and indicators used should be theoretically connected to social policy choices in general and retrenchment policies in particular. Thus, I will specify and justify two ideology indices which are, at the same time, at the heart of the left-right dyad and relevant for social policy retrenchment. I draw on 1) the normative divide between the competing core values of equality and (negative) freedom and 2) the ontological divide between market allocation and state intervention as determined in 4.2.1 as a criterion for selecting the items for the index construction. On this basis, it must be specified how these welfare-specific cognitive frames operate, why they should translate into distinct social policies in general (general cognitive framing argument), and, more specifically, into distinct

social policy responses to common economic challenges (specific cognitive framing argument). I will first examine these questions with regard to retrenchment in general and then regarding unemployment insurance cutbacks in particular.

In order to investigate whether a causal link between an incumbent’s ideology and social policies exists, I construct indices based on party manifesto data aiming to approximately capture the normative (equality vs. freedom) and ontological (market allocation vs. state intervention) divide underlying the (economic) left-right dichotomy. Here, I suggest and then discuss and test two indices: “welfare ideology” and “market ideology” (see table 4.4 below for a summary). The normative dimension of welfare ideology combines items that are related to egalitarian values and redistribution (“social justice,” “welfare state expansion”), whereas the ontological dimension of welfare ideology can be regarded as a measure for state intervention and market skepticism (“market regulation,” “economic planning,” “controlled economy,” “Keynesian demand management”). The normative dimension of market ideology captures the emphasis on meritocratic and antiegalitarian attitudes (“welfare state limitation,” “labor groups: negative,” “middle class/professional groups”), whereas the ontological dimension of market ideology covers neoclassical economic and laissez-faire positions (“free enterprise,” “economic orthodoxy”). The complete wording of the items, taken from the Manifesto Project’s codebook, is listed in annex 7.

Table 4.4 Welfare Ideology and Market Ideology

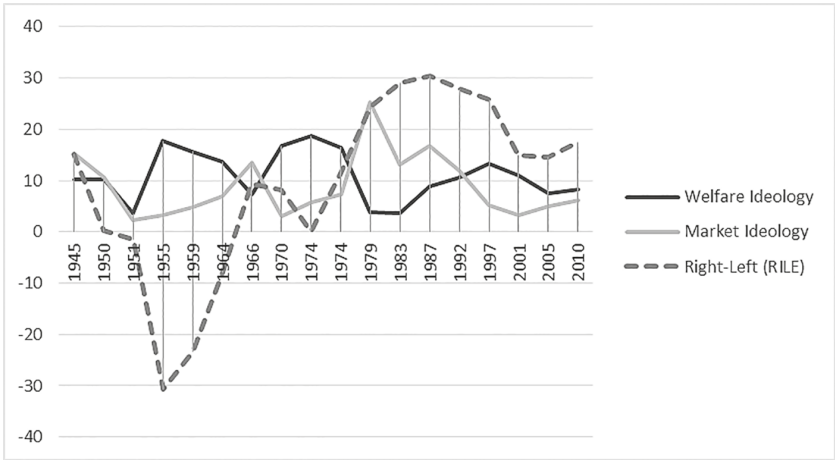
		Welfare (Economic Left)		Market (Economic Right)	
		Normative	Ontological	Normative	Ontological
Govpos503	Social Justice	X			
Govpos504	Welfare State Expansion	X			
Govpos403	Market Regulation		X		
Govpos404	Economic Planning		X		
Govpos412	Controlled Economy		X		
Govpos409	Keynesian Demand Management		X		
Govpos505	Welfare State Limitation			X	
Govpos702	Labour Groups: Negative			X	
Govpos704	Middle Class/Professional Groups			X	
Govpos401	Free Enterprise				X
Govpos414	Economic Orthodoxy				X

As might be expected given the overlap in items with the RILE – these indices stand in predictable directional relationships with the RILE. Among all cabinets from the eighteen OECD countries 1971–2009, the association with the normative dimension of welfare ideology is -0.67 and 0.56 for the ontological dimension. The normative version of the market ideology index is associated with a RILE of 0.32 , the ontological market ideology index with 0.63 . These relationships regarding the RILE are virtually identical for the period of welfare state expansion and the era of retrenchment.

The informational gains associated with the complementary use of the scales for market ideology and welfare ideology become clearer using examples of the parties already referred to throughout the course of this study. The two major British parties are among the cases for which the narratives of political history match the development of the right-left scale – not least because both the economic and the cultural/moral/social dimensions point in the same direction – at least for most of the postwar period (which is probably why they figure prominently in Klingemann et al. [2006]). But even where both dimensions are relatively congruent, as in the United Kingdom, the informational gains associated with the complementary use of welfare and market ideology can be shown to become particularly clear at the critical junctures of a country's party political history. In the British case, these junctures are clearly the rise of Thatcherism and the transition to New Labour. Figures 4.2 and 4.3 capture the Conservatives' swing to the right during Thatcherism after the conservative paternalism of the immediate postwar legislative periods as well as New Labour's move to the center under Blair in the mid-1990s. Figure 4.2 shows the impact of neoliberal thinking on the once welfare-oriented Conservatives. But the stark increase of the RILE is accompanied by a steep rise in market ideology and a marginalization of welfare ideology only until Thatcher comes to office 1979. Thereafter, further increase in the RILE is accounted for by (noneconomic) aspects, mainly a drastically increased emphasis on "freedom and human rights" (the values are: 1979: 1; 1983: 4.6; 1987: 8.1). This is hardly surprising given the historical context of the Falklands War regarding the alleged self-determination of the pro-British islanders in 1982 and persistent domestic violence.

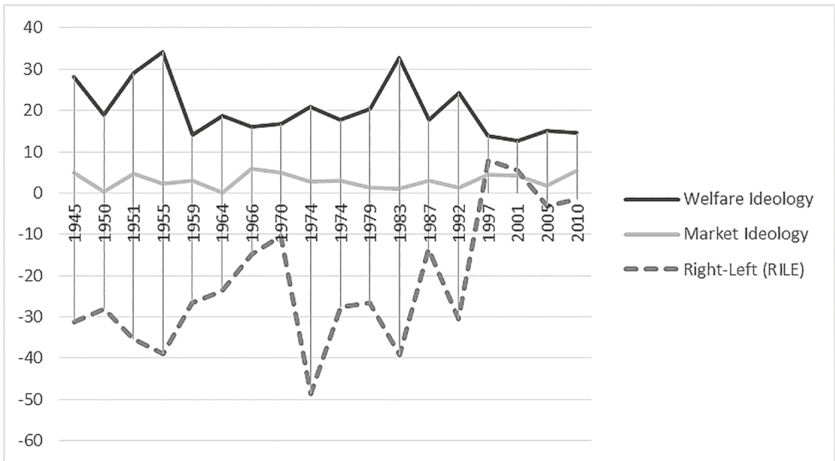
Figure 4.3 suggests that the centrist shift of New Labour in the mid-1990s, which is generally well captured by the RILE, is largely characterized by a weaker emphasis on welfare and social justice rather than a reevaluation of the role of the market. While welfare ideology dips from its previously

Figure 4.2 UK Conservative Party Positions



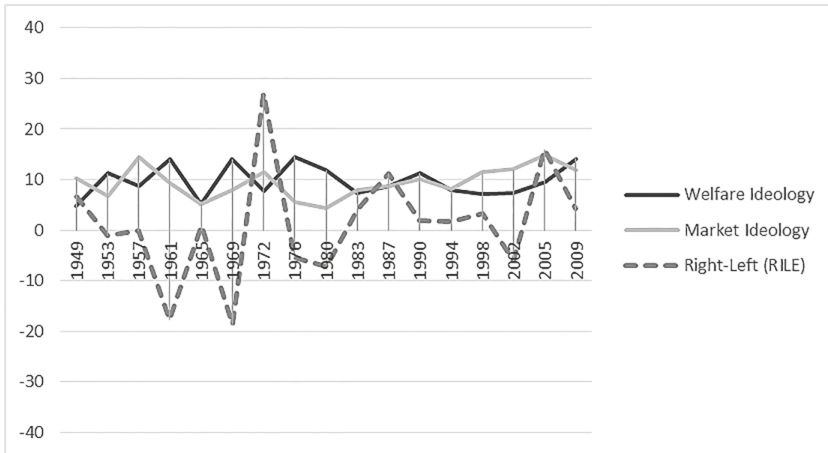
Notes: For the calculation of the right-left index RILE, see chapter 4.2.2; for welfare and market ideology, see 4.2.3.

Figure 4.3 UK Labour Party Positions



Notes: For the calculation of the right-left index RILE, see chapter 4.2.2; for welfare and market ideology, see 4.2.3.

above-average levels, market ideology barely changes and remains below-median/below-average. At this point, however, it should be noted that this example of New Labour also illuminates the limits of using the welfare and market scales to account for the ideological composition of the government: one of the core slogans of the “Third Way” of the social democrats

Figure 4.4 German FDP Positions

Notes: For the calculation of the right-left index RILE, see chapter 4.2.2; for welfare and market ideology, see 4.2.3.

throughout Europe – “no rights without obligations” (Giddens 2000: 81), which is the intellectual foundation for the increasing conditionalization of social rights – is at best captured indirectly by lower welfare scores.

Another party whose programmatic postwar pattern is very instructive is the aforementioned German FDP – precisely because of its seemingly erratic shifts on the right-left axis (shown in figure 4.4). While readers may be inclined to dismiss these shifts as artifacts, the fickleness resulting from ideological heterogeneity and the fractionalization of German politically organized liberalism is consensual for political historians. For example, volatility – in combination with existential crisis as the modus operandi of the FDP – emerges as a leitmotif in the assessment of Wolfrum (2006: 63, 64, 229, 235, 353, 354, 355). As a textbook example of an eternal *Honoratiorenpartei* (a term originally coined for the political clubs of the 1840s, often led by local notabilities, which translates into *Honoratioren*), it lacked the rational ideological immobilization that comes from a strong member and activist base. The factional struggles perpetuated the unresolved contradictions resulting from the split in a classic liberal (*altliberal*) and a national (*nationalliberal*) stream in 1867 (impelled by Bismarck, the “Iron Chancellor” of the Reich), aggravated by the fact that the FDP became the primary party refuge for Nazis and sympathizers.⁵⁵ The FDP reminds

⁵⁵ Theodor Heuss, first *Bundespräsident* and proponent of the moderate wing, spoke of the “Nazi-FDP.”

us that “restraint” and the relative stability of views – often emphasized as constitutive in the literature on ideology at the individual level – must not be a trait of ideology at the organizational level. Subtle shifts in the balance of power, in the case of the FDP for instance between the moderate “Young Turks” and the national wing in the crucial state of North-Rhine Westphalia, can lead to a new faction dominating the party platform.

Yet though these leaps of right-left positions may represent the actual volatility of the FDP, they stand in marked contrast to the relatively stable values on the indices for market and welfare ideology, which is all the more remarkable given the higher number of underlying items of the RILE. Values appear to remain in a relatively narrow corridor when compared to the more erratic shifts of the party in right-left terms; or with the welfare and market ideology of the Tories and Labour in the United Kingdom. These relatively stable values for welfare and market ideology confirm that the FDP is comparatively moderate by the standards of other European liberal parties. For instance, when its values are compared to the more *laissez-faire* Dutch VVD. However, the within-country comparison of parties provides an instructive example of the considerable inferential costs at which comes the assumption of correspondence between right-left positions and socio-economic and distributional preferences. In line with its “more market, less government” reputation, the FDP exerts the highest values for market ideology (oscillating around a mean of 9.5 since 1949) and by far the lowest values for welfare ideology (average of 9.7) in the postwar German party system. Based on its centrist right-left position of 1.2 as a measure of its ideology and compared to an average of 12.3 of the less market-friendly and more welfare-affine CDU/CSU (the alliance of two parties: the Christian Democratic Union and the Christian Social Union), however, the FDP would wrongly appear to be ideologically indifferent regarding the (welfare) state and the market.

4.2.4 The Effect of Welfare and Market Ideology as Welfare-Specific Cognitive Frame

My overall hypothesis is that emphasis on welfare and market ideology affects social policy retrenchment. If market intrusion is deemed desirable in order to promote equality, this will, *ceteris paribus*, go along with less risk privatization. If a government regards the market as the weapon of choice, it will, *ceteris paribus*, restrain welfare generosity and tighten conditionality. The background assumption is that ideology serves as a “cognitive anchor” and a filter of perception (similar to Budge 1994:

445-447), and thus exerts a funneling – or at least moderating – effect on political behavior, even under conditions of (economic) crisis and increased electoral uncertainty.

In order to substantiate this (cognitive) framing argument in its abstract form, the attributes ascribed to the different sorts of cognitive frames (e.g., political ideologies, economic ideas, policy paradigms) must be applied to the specific question as to why market and welfare ideology should affect the privatization of labor market risks/the retrenchment of unemployment insurance schemes. As carved out above, the basic tenet of ideational arguments is that actors are not merely reacting to structurally given interests in self-apparent crises but are instead guided by the “interpretative frameworks” through which they perceive situations and problems (and thus also their interests and what serves their interest). With regard to welfare and market ideology, the underlying assumption is that these cognitive frames affect or even direct the government’s perception of the economic problems, thereby shaping social policy reactions. As interpretative frameworks, they provide governments with distinctly “normative” and “ontological” accounts of the economic situation and the nature of economic problems such as unemployment and low growth.

As summarized in table 4.5, this means that the answers to a range of causal and value-laden questions evolving around and connected to cuts in unemployment insurance differ substantially: On the ontological dimension, this includes causal assessments regarding the view of the market, the role of the state in economic affairs, the prioritization of (macro)economic goals (e.g., low unemployment versus low inflation/low debt), the assessment of the causal reasons for economic crises and high unemployment, and the arguments concerning cuts in unemployment insurance that result from this economic problem diagnosis. On the closely related normative dimension, answers differ regarding the extent to which the privatization or labor market risks is in line with varying conceptions of fairness, social justice, and moral perceptions about the workless.

Table 4.5 Welfare and Market Ideology as Cognitive Frames

Set of Ideas/Beliefs/Ideologemes	Welfare Ideology	Market Ideology
<div>Ontological Dimension</div> <div>↕</div> <div>Normative Dimension</div>	<p>Economy/market viewed as: Role of the state should be: Public enemy number one: Reasons for unemployment: Societal or individual guilt: Argument concerning cuts: Intellectual/academic roots: Ideological core values: Policy/fairness imperative: Moral view on unemployed: Argument concerning cuts: Mentors, intellectual roots for views on human nature:</p>	<p>Self-regulating Passive, pro market allocation Inflation, high deficits State intrusion and high costs, employment ratio depends on market-clearing price of labor Partly problem of passivity Generous programs constitute work disincentives, cuts reduce unemployment, lead to budgetary relief Classic liberalism, neoliberalism, neoclassic economics, monetarism Freedom (negative freedom and formal concept of justice) Fair competition, equal access Critical: idle, undeserving Fosters performance-based distribution, incentivization Nietzsche: Men are born unequal; equality is therefore artificial</p>

Based on: Bobbio (1996, 2006); Blyth (2002); Hall (1993); Jahn (2011); Petersen et al. (2011); Serrano Pascual and Magnusson (2007); Sjöberg et al. (2010)

4.2.4.1 *Market Ideology*

Governments with pronounced market ideology tend to perceive low growth and high unemployment as a consequence of (disequilibrating) state intrusion into otherwise largely self-regulating (labor) markets. Economic orthodoxy holds that employment levels depend on the market-clearing price of labor. If labor is not priced in a way that the entire supply can be marketed (the frictions that render full employment impossible notwithstanding), this is caused by public meddling, primarily in the form of unemployment compensation, as benefits (along with minimum wages) constitute the reservation wage that increases the market price of labor, offset incentives to work, and strengthen passivity. Thus, retrenchment in crises is considered an important means to bring the labor market back to its (alleged) equilibrium by lowering the price of labor.

Governments with high market ideology expect positive economic consequences of welfare cutbacks. Cuts are believed to reestablish and strengthen incentives to work and to invest and this (re)incentivization is believed to lead to further economic growth and lower unemployment rates. Another reason why governments prone to market ideology look favorably on retrenchment is that they believe that cuts have a positive net effect on the budget, despite effects on domestic demand, which market ideologists regard as less vulnerable than welfare ideologists: Cuts are perceived to be in line with general preferences for low public budget deficits, precisely because welfare programs are associated with disincentives and inefficiencies detrimental to economic growth and thus tax revenues. The size of the public sector and market interference in general – and generous unemployment insurance in particular – is seen as part of the problem during economic downturns. Regarding the policy responses during crises, governments subscribing to a pronounced market ideology thus stress that it is time to “tighten the belt” and “swallow the bitter medicine” (of retrenchment). In addition to this austerity preference in hard economic times, welfare retrenchment is also compatible with normative preferences for a more performance-based distribution of goods (that rewards individual ambition and risk-taking) and the spirit of free enterprise and meritocracy that is at the heart of market ideology. On these grounds, it can be hypothesized that governments that are characterized by stronger market ideology are more inclined to risk privatization (hypothesis H4 in its general sense) and, beyond that, that market ideology amplifies the negative effect economic pressures exerts on welfare state programs (hypothesis H4 in its specific sense):

- H4** Governments that rank high on market ideology are more inclined to risk privatization.
- H4b** The impact of economic pressure on risk privatization is conditional on (high) market ideology.

4.2.4.2 *Welfare Ideology*

By contrast, governments that rank high on welfare ideology have a more skeptical view of the self-governing capacities of the market and therefore assign a more activist role to the (welfare) state, whose interventions they deem necessary to avoid crises and to correct misallocations they regard as unfair. They tend to see low growth and unemployment as a failure of demand and the vulnerability of employees resulting from it as a built-in injustice in inherently unstable corporate capitalism rather than as a problem of the incentivization of individuals reluctant to join the labor market. Social insurance is regarded as an automatic (macroeconomic) stabilizer that exerts an important countercyclical effect. Cuts are therefore regarded as a further reduction in aggregate demand without positive implications for the employment ratio. The same anticyclical thinking leads to the expectation of negative budgetary net effect of cuts. Keynesian demand management requires that social expenditures in general, and social transfers in particular, should be raised throughout an economic crisis to increase or at least stabilize private consumption.

From a normative point of view, cuts are at odds with an egalitarian understanding of social justice and a focus on equity of needs, as opposed to merely insisting on a level playing field. Beyond mere subsistence, governments with high welfare ideology norms tend to regard social protection for those with weak labor market positions and the fostering of social upward mobility as part of their comprehensive understanding of social justice as a constitutive aim of the welfare state. Against the background of these considerations, it can be hypothesized that governments ranking high on welfare ideology are less inclined to the privatization of labor market risks (hypothesis H5 in its general sense) and, beyond that, that governmental welfare ideology serves as a buffer against the otherwise strong negative effects from economic pressure (hypothesis H5 in its specific sense):

- H5** Governments that rank high on welfare ideology are less inclined to risk privatization.
- H 5b** The impact of economic pressure on risk privatization is conditional on (low) welfare ideology.

4.2.5 Summary: Hypotheses and Metahypotheses on Retrenchment and Ideology

Before the empirical analysis, it is necessary to briefly recapitulate the arguments and empirical expectations regarding the link between government ideology and social insurance retrenchment. Three hypotheses have been formulated in the theory section based on three competing theoretical perspectives regarding the effect of the ideological composition of governments on retrenchment understood as privatization of labor market-related risks. The proponents of the *Power Resources Theory* and the *Partisan Hypothesis* assume the persistence of partisan effects on social policies. If retrenchment is indeed a mirror image of welfare state expansion, we should find evidence for right retrenchment and left resilience (H1). By contrast, based on the *New Politics of the Welfare State* approach by Pierson and the *Globalization Hypothesis/International Hypothesis*, partisan effects are marginalized by endogenous and exogenous pressures, and no partisan effects should be found (H2). According to a third perspective, parties have moved *beyond left and right* not only in terms of ideology but also in terms of social policy. The expectation is that we should find evidence for left retrenchment (H3). These three competing hypotheses can be tested via party labels based on expert judgments or using the dynamic RILE score. Complementary hypotheses have been derived based on the criticism of the mere “imputation” of welfare state-relevant preferences when left and right labels are the independent variable. The application of my (cognitive) framing argument has led me to expect a negative effect of market ideology (H4) and a positive effect of welfare ideology (H5):

- H1 [Mirror Image/Right Retrenchment Hypothesis]: The share of right (left) parties in government is positively (negatively) associated with the privatization of labor market-related risks.
- H2 [Ineffectiveness/Marginalization/Null Hypothesis]: The ideological composition of the government has no effect on the privatization of labor market-related risks.
- H3 [Reversed Partisanship-Effect/Left Retrenchment Hypothesis]: The share of left parties in government is positively associated with the privatization of labor market-related risks.
- H4 [Market Ideology Hypothesis]: Governments that rank high on market ideology are more inclined to risk privatization.
- H5 [Welfare Ideology Hypothesis]: Governments that rank high on welfare ideology are less inclined to risk privatization.

4.2.6 Three Metaexpectations/Metahypotheses

As a summary of the discussion of the three perspectives, the Independent Variable Problem, time-variant left-right positions as measured by the RILE of the Manifesto Project, as well as welfare ideology and market ideology as potential “solutions,” three metaphypotheses can be formulated, as follows.

First, if the arguments concerning the deficiencies of the left-center-right trichotomy are correct, party labels, capture (at best) the importance of historical affiliations between groups and parties rather than observable differences regarding the ideological complexion of the government at a given time. This renders their use as exclusive proxies for the complexion of government problematic and calls for their complementation using aggregated and the disaggregated dynamic measures such as the RILE index, welfare ideology, and market ideology. No effects based on the measurement of left and right cabinet shares via party labels are expected to be found, whereas the Right-Left index and welfare and market ideology are expected to be explanatory factors for government retrenchment regarding unemployment insurance (metahypothesis MH₁).

Second, if the argument concerning the conceptual confusion introduced by multidimensional measures such as the RILE is correct and the “imputation” of welfare-relevant preferences indeed leads to incorrect predictions based on the RILE, the explanatory power regarding the retrenchment of the more specific and theoretically justifiably disaggregated measures for welfare and market ideology should be higher compared to compound concepts of left and right measured via the RILE, as many of its items are hardly theoretically connected to social policy retrenchment (metahypothesis MH₂).

Third, if the mechanisms suggested by the framing argument apply and welfare and market ideology do not just exert main effects but operate as conceptual lenses through which actors perceive problems, their causes, and the respective responses and solutions, then the effects of economic pressures on social policies in general and the privatization of labor-related risks in particular should be conditional on government ideology regardless of the existing main effects (metahypothesis MH₃). In order to test the cognitive framing argument in this specific sense – as opposed to the wide sense in which it is tested according to hypotheses H₄ and H₅ – two additional hypotheses have been introduced to address the interactive relationship of problem pressure and ideology:

H4b [Specific Market Ideology Hypothesis] The impact of economic pressure on risk privatization is conditional on (high) market ideology.

H5b [Specific Welfare Ideology Hypothesis] The impact of economic pressure on risk privatization is conditional on (low) welfare ideology.

All of the above hypotheses will be tested in chapter 6. I will also examine if and how the results depend on opposition ideology. The consideration of opposition ideology helps us to determine whether partisan effects are underestimated, overestimated, or even entirely spurious, or if partisan effects on social policy responses are strategically conditioned by the major ideological alternatives. The empirical analysis is then complemented with illustrative case evidence from Germany (under Kohl), the United Kingdom (Thatcher), and Sweden (Carlsson). The focus is on government ideology and its effects on unemployment insurance retrenchment in hard economic times. But first, it is necessary to examine if and to what extent meaningful differences in the ideological characteristics of the governments in question persisted throughout the last four decades.

5 The “End of Ideology?” Government Ideology over Time

Chapter 2 concluded that a reprivatization of labor-related risks has taken place. But to what extent is retrenchment, understood as risk privatization, actually accompanied by a change in the ideological climate at the government level? Assessing the patterns in government ideology is of integral importance for a comprehensive answer to the “does politics (still) matter?” question. This is necessary to avoid the risk of exaggerating the effects of ideological stances of government that differ only within an ever narrower corridor of programmatic variation. After briefly summarizing the scholarly arguments in favor of the convergence position found at three different levels of abstraction, I map developments in cabinet ideology for the eighteen OECD countries under investigation from the 1970s on. The empirical evidence suggests partial convergence regarding the programmatic positions of governments, but clearly no “end of ideology” is in sight.

5.1 The Debate on Ideological Change and Ideological Convergence

In order for partisanship to matter there must be product differentiation in terms of the ideological offerings of parties. This assumption is at the heart of the *Responsible Party Model* and its group-based modifications that underlie the *Partisanship Hypothesis* and the *Power Resources Approach*. Notable social scientists such as Lipset, Bell, Giddens, Kirchheimer, Mair, and Fukuyama have all rejected this idea. The discussion is mainly led at three different levels of abstraction: concerning grand design, actual party positions, and policy beliefs. The daringness of hypotheses increases with the level of abstraction and conclusions are less sweeping where amenable to instant empirical verification.

The “end of ideology” literature is located at the upper end of the ladder of abstraction. In the postwar context of historically singular prosperity increases paralleled by the wage compression economists refer to as “the great compression,” its proponents noticed a broad ideological consensus in favor of *welfare capitalism* (or: *managed capitalism*, *social democracy*, or *pragmatic liberalism*) in the Western hemisphere. This contrasted sharply with the (violent) struggle between conservative, liberal, and socialist

ideologists in the first half of the twentieth century.⁵⁶ For Lipset, this deeper consensus was possible because the functional need for political ideologies as reactions and responses to modernization phenomena, such as the industrial revolution, and the problems caused by them eroded with the salience of these problems, such as stark class divisions. But the most famous, and even more abstract, among the “endists” is the “end of history” proclaimed by Fukuyama (1989). Against the background of the fall of the Soviet Union and transition in Middle and Eastern Europe, to him, the triumph of Western liberalism and capitalism as universal doctrine(s) marked the end of the history of ideas and in this sense the finishing point of all history, understood in the Hegelian sense as a progressive and purposeful process.⁵⁷

At the other end of the ladder of abstraction, with less intellectual furor and lust for projections, scholars are debating specific forms of ideological convergence. Here, the dominant conclusion of neoliberal ideological convergence is mostly based on the assessment of specific policy beliefs in a given country over time. It is particularly interesting for the study at hand that various authors claim that such convergence in views can also be observed regarding unemployment, unemployment insurance, and labor market policy as well as the relative importance of spending on employment and unemployment as against budget consolidation. The perception is that egalitarian, redistributive, and interventionist views are in retreat, whereas market solutions and incentivization are the new credo (Atzmüller 2009; Cook 2008; Heitzmann and Österle 2008).

The scholarly advocacy for convergence that is most important for the present study, however, is situated between these two levels of abstraction and is concerned with programmatic change at the party position level. One influential proponent of conversion was Kirchheimer (1965), who saw the gradual programmatic approximation of the German and Austrian social democratic and conservative parties after World War II as an example of the dealignment-induced trend that milieu-specific mass integration and membership parties turned into catch-all parties (the more colorful term used is *Allerweltparteien*, which translates into “run of the mill” parties). The notion of catch-all parties that trade “ideological penetration”

56 Lipset (1960: chapter 13) and Bell (1960) are the pivotal contributions of this first wave of the “end of ideology” debate.

57 Fukuyama explicitly borrows from Hegel’s teleological conceptions of history as a directional and purposeful process, basically replacing one Hegel-inspired historicism – namely “historical materialism” – with “liberal historicism” (see also Festenstein and Kenny 2005, chapter 11; Heywood 2007: chapter 12).

for "quick electoral success" (Kirchheimer 1965: 27, own translation), whose cross-class vote maximization strategies led to de-ideologized competition at the center, bears resemblance to Downs' scenario of two-party convergence toward the position of the median voter under the assumption of a unimodal preference distribution (Downs 1957), and it might even be understood as a historical concretization of Downs' Spatial Convergence Theory. Similar to Kirchheimer, the more recent Cartel Party Hypothesis (by Katz and Mair 1995) departs from the idea that the mass party became the victim of its own success, because the erosion of social constituencies (i.e., the mitigation or even the end of the class struggle and milieu boundaries) led to falling party membership rates. According to this conception, parties become semi-state agencies in order to compensate for losses resulting from declining membership contributions via state subventions. In order to secure their access to spoils and patronage, political competition is increasingly reduced and cartel parties use inter-party collusion to contain and manage competition and increasingly resemble one another so that the differences between winners and losers are compressed. In this manner, "none of the major parties is ever definitively 'out'" (Mair 1997: 115). Note that none of the aforementioned convergence perspectives on parties explicitly equates the flattening of the ideological landscape with marketization or neoliberalization, although a turning away of firmly left positions is inherent. But there are also less agnostic works pointing in the direction of convergence at the positional level. In particular, considerable research is concerned with the ideological transformation of the Left, which is said to have become less statist and more market friendly, as a source for the thinning of the ideological supply side. Exemplary contributions are assembled by Bonoli and Powell (2004) on social democracy, many of which use Giddens' "Third Way" concept as reference point and yardstick, with some authors arguing that centrist programmatic turns preceded this rallying cry.⁵⁸ Studies using Manifesto data indicate that tendencies toward programmatic convergence exist among the major parties (Budge and Robertson 1987; Keman and Pennings 2006; Mudge 2011). But is this process also consequential regarding governments and their welfare and market ideology?

58 For further literature on the liberal turn of the Left, see Giddens (1994, 2000), Ross (2000). It is also discussed in section 3.1.3, as well as the influential analysis of Crouch (2008), according to which a neoliberal mainstream among governments in favor of state retreat is at the heart of privatization policies.

5.2 Developments and Patterns: Partial Ideological Convergence

Do changes in social policy – most countries exhibit a structural break in the 1980s and for the OECD as a whole, downward convergence on a cross-country basis was the diagnosis of chapter 2 – correspond with shifts in the ideological landscape at the level of government parties in the OECD? First, I discuss the patterns within the population of governments in the last four decades. Two aspects must be considered when assessing the programmatic change of governments – the direction of changes in programmatic positions and the spread and dispersion of these positions.

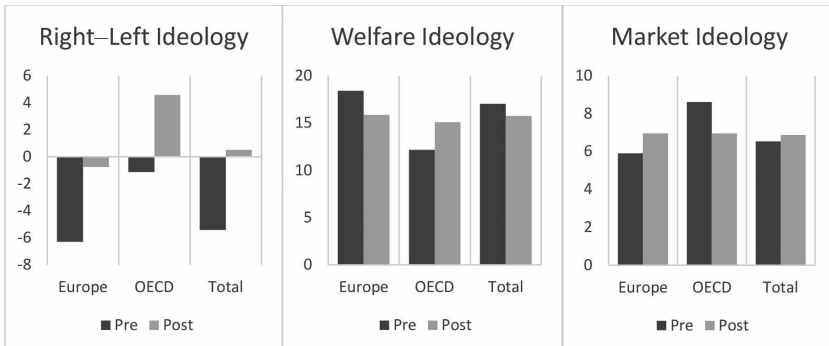
On average, governments in the era of welfare state retrenchment have scored higher in terms of their right-left positions, indicating more right-wing positions, and exhibited lower scores on welfare ideology as well as slightly higher scores on market ideology than in the era of welfare state expansion. As summarized in table 5.1 and visualized in figure 5.1, governments have been moderately leftish prior to the structural break (-5.42) and centrist afterwards (0.51). The modest decline in the popularity of welfare ideology (17.03 to 15.75) and the even more modest increase in market ideology (6.53 to 6.87) are accompanied by reductions in the coefficient of variation (standard deviation divided by mean), which suggests a moderate sigma convergence.

Table 5.1 Summary Statistics: Government Ideology Pre- versus Post-break

	Right-Left RILE Position		Welfare Ideology		Market Ideology	
	Pre	Post	Pre	Post	Pre	Post
Total 18						
Mean	-5.42	0.51	17.03	15.75	6.53	6.87
Std. Dev.	18.00	16.82	10.16	7.54	7.03	5.51
C.o.V.	–	–	0.60	0.48	1.08	0.80
Europe						
Mean	-6.29	-0.76	18.41	15.87	5.91	6.95
Std. Dev.	17.50	16.13	9.96	6.87	5.21	5.95
C.o.V.	–	–	0.54	0.43	0.88	0.86
Rest OECD						
Mean	-1.13	4.57	12.17	15.08	8.61	6.95
Std. Dev.	18.91	18.62	7.79	9.17	10.90	4.73
C.o.V.	–	–	0.64	0.61	1.3	0.7

Notes: Std. Dev. = Standard Deviation, C.o.V. = Coefficient of Variation. For details on pre- vs. post-break, see table 2.1 or section 6.1.

Figure 5.1 Development of Right-Left, Welfare Ideology, and Market Ideology



Notes: Based on cabinets in 18 countries as listed in Table 2.1 from 1971–2009. “OECD” includes all of the Non-European OECD countries: Australia, Canada, Japan, New Zealand, and the US. For details on the pre- vs. post-break variable, see Table 2.1 and chapter 6.1.

In conclusion, one may speak of *partial* ideological convergence at best, as the overall movement toward market ideology and away from welfare ideology as well as the declines in the coefficient of variation between the era of welfare state expansion and welfare state retrenchment (pre- versus post-break) are modest and the result of countervailing developments. Here, of course, the demonstration of such countervailing trends in and outside Europe is only one obvious example. For lack of a better criterion, if the manifestations of ideological diversification in the past are any guide, deideologized politics is not a specter haunting either Europe or the rest of the OECD. This becomes even clearer when looking at the variation in the ideological profiles for each country over the last four decades for the right-left positions, welfare ideology, and market ideology (annex 4-6). These xtplots persistently reveal strong differences between and within countries, with the notable yet unsurprising exception of Switzerland, which shows little variation in ideology.⁵⁹

The same caution regarding far-reaching convergence interpretations seems warranted if the development of the different indicators for

59 A more subjective and therefore more error-prone approach to assessing the transformation of the ideological climate and notions of ideological convergence would be to rely on specific parties. In my view, such a perspective hardly allows for meaningful conclusions. One big problem is the time horizon. Skepticism regarding the postulation of secular trends (e.g., toward marketization) is warranted if we look at current developments in the three countries I have occasionally relied on to illustrate my arguments: In Sweden, Germany, and the United Kingdom, the labor parties have shifted back to social democratic orthodoxy throughout their time in opposition after flirting with centrist positions in the 1990s. This swinging back of the ideological pendulum exemplifies how, in retrospect, some alleged trends look more like events.

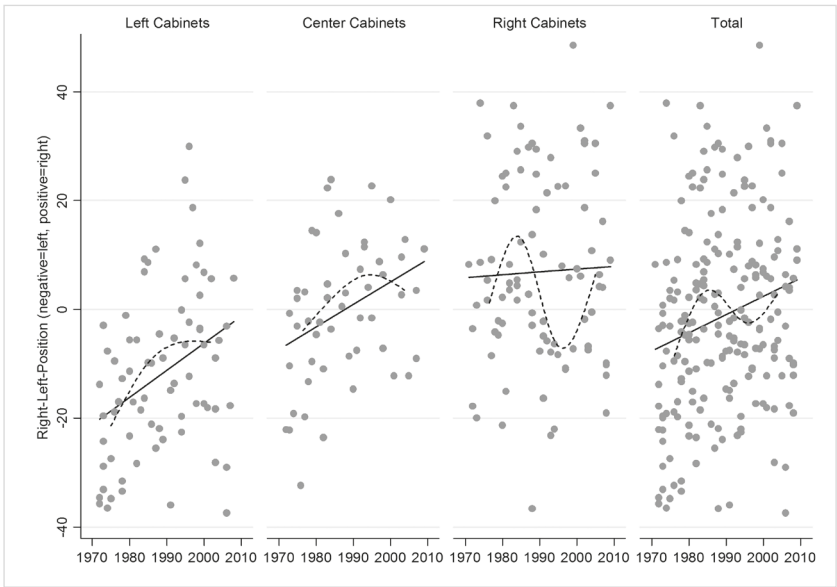
government ideology (RILE, welfare ideology, market ideology) is traced over time, using the traditional left-center-right trias as a grouping variable. Based on the simple plotting of the evolution of the government positions (right-left in figure 5.2, welfare ideology in figure 5.3 and market ideology in figure 5.4) by party labels over time, visual inspection allows us to qualify conclusions on patterns in government positions and to get an impression of the real distribution of ideological profiles and their variation over the last decades.

By doing so, we are able to assess whether the data exhibits a funnel or tunnel shape when plotted over time as well as the effect of very high or very low values on the above statistics. Only if the evolution of positions reveals a funnel shape must we be concerned that the ideological differences whose effects we are investigating are becoming ever smaller in substantial terms. As a by-product, this visual approach also helps to reiterate the important point that right-left, whether accounted for in terms of dynamic positions or static party labels, is an (increasingly) misleading heuristic for positions regarding welfare ideology and market ideology. Any dot in figures 5.2, 5.3, and 5.4 represents a cabinet, the straight line represents the linear trend over four decades, and the dotted line represents a *median spline*; a combination of the four cross medians for the four decades.

RILE: As already pointed out when discussing the problem of static expert judgments resulting in, for instance, the left-center-right trichotomy of labels as operationalization, left parties became more centrist, center parties drifted rightward, and right parties exhibited relative stability in terms of right-left positioning, although the ten-year cross median represented by the dotted line indicates decade-wise fluctuation. The overall impression is that governments have come to be more rightist over the last four decades. The total distribution can be characterized as a channel rather than a funnel. But is there also a corresponding trend toward marketization as measured by higher market ideology and an ideological distancing from the welfare state as measured by decreasing welfare ideology?

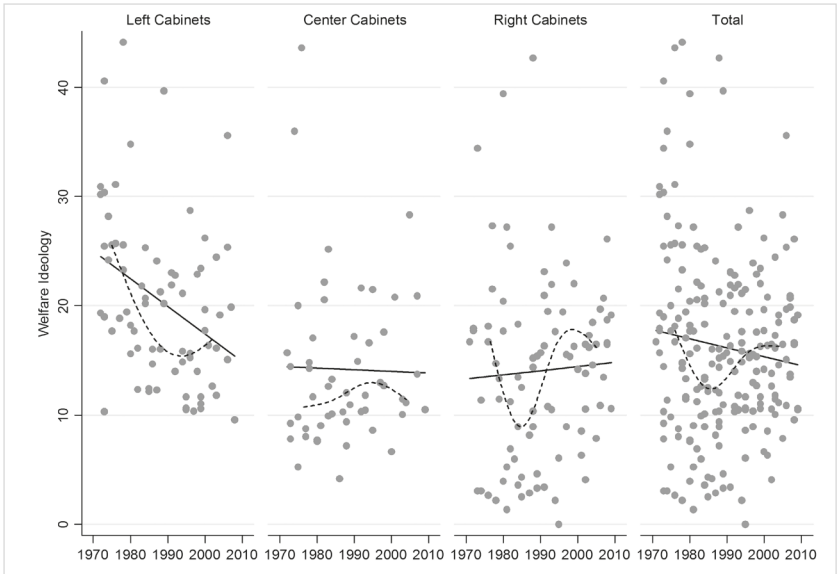
Welfare: As for welfare ideology, as figure 5.3 shows, the linear trend for left cabinets in the last decades is indeed starkly negative, although coming to a halt after the 1990s, while no such broad trend exists for governments of centrist or right provenience. The visual inspection of the total distribution suggests that both extremely low and extremely high values (lower than 5 and higher than 30) became less frequent

Figure 5.2 Right-Left Positions of Left/Center/Right Governments over Time



Notes: X-axis based on the right-left index of the Manifesto Project (Klingemann et al. 2006), positive values indicate right positions and negative values left positions. Left-center-right categorization according to the CPDS data set from Armingeon et al. (2011).

Figure 5.3 Welfare Ideology of Left/Center/Right Governments over Time



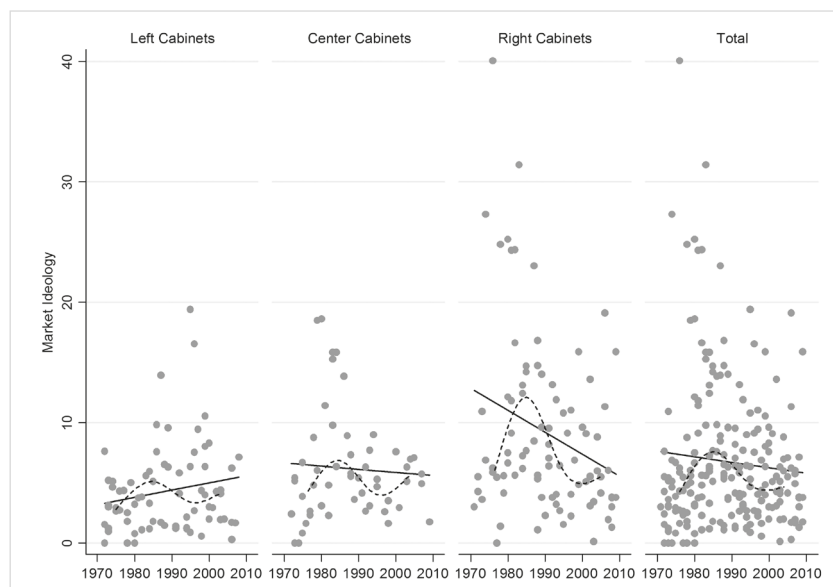
Notes: Calculation of Welfare Ideology, see chapter 4.2.3. Left-center-right categorization according to Armingeon et al. (2011).

from the 1990s on. It would be an exaggeration to describe the data as funnel-shaped, but we can rather speak of the concomitant incumbency of governments with a starkly polarized welfare ideology became less frequent. This mitigation of ideological poles may be interpreted as de-ideologization at the fringes.

Market: Figure 5.4 reveals a moderate linear upward trend in the market ideology of left-labeled governments throughout the course of the last four decades. By contrast, there is a strong downward trend in the slope for the market ideology scores of governments classified as right. As the dotted line representing the ten-year cross median indicates, this trend is driven by a bisection of the decade mean from the high in the 1980s to a low in the 2000s. Notably, the once very high values of market ideology (i.e., values greater than 20) are nonexistent from the 1990s on. Again, apart from the lower number of cabinets with very high values, the data is tunnel- rather than funnel-shaped.

Overall, the figures suggest that the technical convergence according to the coefficient of variation must not be overinterpreted. These coefficients are in part attributable to the occurrence of some relatively high values in

Figure 5.4 Market Ideology of Left/Center/Right Governments over Time



Notes: Calculation of Market Ideology, see chapter 4.2.3. Left-center-right categorization according to Armington et al. (2011).

welfare ideology (primarily among left-labeled parties) and market ideology (primarily among right-labeled governments) in the 1970s and 1980s, something rarely seen in the following two decades. Moreover, we do not see the sort of overall funnel-like compression of the programmatic positions that would constitute reasons for concern from a normative democratic point of view. Such a diagnosis would also be not unproblematic from an econometric perspective and complicate the following multivariate analysis of the link between government ideology, economic pressure, and retrenchment in unemployment insurance systems.

6 The Ideological Complexion of Government and Retrenchment

I proceed in five steps. First, I discuss the research design and the test strategy, in particular the cabinet design, the control variables, and the fixed-effects model. Second, the main effects of the ideology indicators representing different explanations – arguments based on group representation as represented by party labels and the framing argument by programmatic positions – are assessed as regards the two explananda: the generosity and the conditionality of unemployment insurance. This section also includes regressions with alternative dependent variables for generosity and conditionality as a rough first measure for the robustness of the analysis. Moreover, the section discusses the extent to which single cabinets and countries drive the results. In a third step, I investigate whether the results are robust when alternative and complementary aspects such as opposition ideology are considered. Fourth, the specific framing argument, which implies that the effects of (economic) pressures are conditional on government ideology, is investigated via interaction analyses. Finally, the results of the analysis are summarized with regard to the competing hypotheses H₁, H₂, H₃, H₄, H₅, H_{4b}, H_{5b} as well as the three metaexpectations.

6.1 Research Design: Case Selection, Data, and Model Specification

6.1.1 Case Selection: “Ideologically Consistent Quasi Cabinets”

The approach underlying the selection of countries is conventional and leads to a group of eighteen OECD countries, as in most of the reference studies assembled in table 3.1. The general rationale of a most similar systems design, no matter whether in a small-*n* or large-*n* context, is to reduce external variance by choosing a country group as homogenous as possible with regard to factors outside of the theoretical framework (Jahn 2006: 234–235). The universe or population of countries for which the effect of government ideology on retrenchment policies is to be investigated consists of countries that are all highly developed industrial countries, full-fledged established democracies for the entire period under study

(1971-2009), and mature welfare states; although the latter criterion does not further reduce the intersection of countries. The intersection of these criteria (e.g., according to the country groups assembled in Jahn 2006: 225-227) leaves us with Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, Australia, Canada, New Zealand, the United States, and Japan.⁶⁰

It has already been indicated in the discussion of the limitations of existing studies that the unit of observation is more problematic than the selection of countries. Virtually all quantitative studies investigating the partisan effects on welfare state policies employ yearly data (instructive exceptions are Giger 2006; Immergut and Abou-Chadi 2014; Vis 2009). By contrast, I use cabinet data; one cabinet equals one case. New cabinets are identified if an election takes place or the government changes its ideological composition (more than 2.5 points on the left-right scale of the Manifesto Group). I will refer to this in the following as “ideologically consistent quasi cabinets.” There are several underlying considerations. On the one hand, if one would only take into account new governments resulting from popular elections, one would risk missing out on momentous reshufflings regarding the ideological complexion of government and would thus *nolens volens* produce methodological artifacts in the causal analysis. On the other hand, it is implausible to expect that every “personnel casting” in government coincides with an ideological shift. I am thus deliberately refraining from using the popular cabinet definition by Strøm et al. (2008: 6), according to which – apart from elections – any change in cabinet and any partisan reshuffling, even if of secondary importance in terms of the ideological composition, is conceived of as sufficient condition to speak of a new cabinet. My primary sources for the compilation of the data set regarding the political variables are the Comparative Political Dataset (Armingeon et al. 2011) and the data of the Manifesto Research Group

60 It is common practice to exclude Luxemburg and Iceland with combined populations of under 1 million. While this group of countries enjoys great popularity among comparative welfare scholars, the inclusion of a few cases is susceptible to criticism. It is open to debate to which extent it is justified to regard Shintoist-Buddhist Japan as part of this country cluster in cultural, historical, and religious terms. One could also question whether oil-rich Norway has arrived in the era of permanent austerity. In the case of the United States, we should bear in mind that only the taxation of benefits depends on the federal government, while legislation on benefits and conditionality is mainly subject to state legislation. Finally, and in contrast to the other countries, Italy has only recently developed toward a mature comprehensive welfare state (see chapter 2). In order to maintain comparability with former studies, however, I refrain from modifying the conventional selection.

(Budge et al. 2001; Klingemann et al. 2006). In order to determine when precisely the right-left position shifted by 2.5 or more points, quarterly data from the Parties, Institutions and Preferences (PIP) project was useful (Jahn et al. 2010).⁶¹ This adds up to 223 cabinets between 1971 and 2009. By way of illustration, the data on ideologically consistent quasi cabinets has the following structure:

Table 6.1 Structure of the Compiled Data Set

Cabinet	Start	End	Left-Right	Break	Controls	Generosity Change (End-Start)
...
Kohl 2	1983	1987	23.83	1	...	– 2.6 percentage points
...
Schröder 1	1998	2002	–3.82	1	...	+0.4 percentage points

Since I am interested in the effect of ideological affiliation on unemployment insurance changes in times of retrenchment, it is necessary to consider the shift between expansion and retrenchment. As in the reference study of Allan and Scruggs (2004: 505), I employ a dichotomous, country-specific break variable to delimit the period of expansion of unemployment insurance from the period of its retrenchment.⁶² The year in which values on both dimensions reached its maximum is defined as the break point (listed in table 2.1). In most countries, this tipping point in generosity occurs in the years of the deep recession that followed the second oil price shock of 1979/1980; that is, in the early 1980s. Regarding conditionality, retrenchment started – on average – only in the mid-1990s.

The use of cabinet data has a number of important advantages compared to annual data. The general rationale underlying the cabinet approach is that democratic politics is organized in legislative periods rather than years and that the point of reference, for politicians and voters alike, is always the cabinet period. It thus seems reasonable to focus on the policy balance of a cabinet, the simple net difference between the

61 I want to express my gratitude to Detlef Jahn for providing me the then unpublished data.

62 More precisely, the interesting alternative from Allan and Scruggs (2004: 505) to define a cut-off is based on the last year with positive growth or (if growth remains positive) the year after the year with the lowest growth in the first half of the 1980s. However, this option captures more the transition to austerity than the country-specific beginning of retrenchment, as some countries peak before or after the early 1980s.

time when a cabinet took office and its end. But the cabinet approach not only allows for intuitive and more meaningful interpretations; the time span for which change is assessed mainly matters because reforms are not usually implemented within a single year (as shown by Pierson 1996, 2003), which renders pooled time-series cross-section analyses with one-year lags problematic (as has also been pointed out by Kittel and De Deken [2007]). Extreme examples set forth by Pierson include decade-long lags in the case of pension politics, but time lags also apply to legislation in the field of unemployment insurance generosity and conditionality. What is more, for some years and countries, annual data is not available or annualization is based on imputation and extrapolation. This can be inferred from the inspection of Scruggs' codebook for CWED and the sources he consulted. For instance, the data in Social Security Programs throughout the World (SSPTW) of the US Social Security Administration and the International Social Security Association are not consistently gathered on an annual basis. In some cases, the country-specific investigation brings to light that existing data points are a forward projection of older data points. In these and related cases, annual data is pseudo-exact. If we assume a random distribution, inter- and extrapolation should lead to a deflation of coefficients for partisan effects in regression models. Related problems exist with the independent variable of interest, as changes in the ideological complexion of governments – no matter if measured via expert judgments or party positions – do not go hand in hand with calendar years. The treatment of annualized country cases as independent cases, despite a lack of variation regarding the independent variable of interest, will inflate results in terms of alleged statistical reliability. By contrast, the use of the cabinet balance, or more precisely the social policy balance of “ideologically consistent quasi cabinets,” as a dependent variable is consistent with calls for a “pragmatic intermediate solution” and four-year intervals (as voiced, e.g., by Kittel and De Deken [2007: 93]). Nevertheless, the misallocation of political decisions cannot be avoided entirely if time lags are crucial – yet it becomes a less frequent problem than with annual data. Especially in election years, some white noise in the data is unavoidable if the data for the dependent variable does not exist on a subyear scale. However, the cabinet approach also has a more ambivalent feature: The lower number of cases compared to annualized observations makes significant statistical relations less likely. But cabinet balance and cabinet ideology do not vary on an annual basis. Thus, to forgo this “artificial” case inflation via annualization

renders inferences based on cabinet data more conservative and thus trustworthy.

6.1.2 Included Variables and Operationalization

The conceptualization of cabinet ideology and retrenchment has been discussed in detail in chapters 2, 3, and 4. Cabinet shares of left, center, and right parties come from Armingeon et al. (2011). Otherwise, I include a deliberately conventional, widely approved list of rival explanations and control variables. Subsequently, I will discuss their operationalization and hypothesized effects. If not reported otherwise, data is taken from the Armingeon et al. (2011) Comparative Political Dataset. First, apart from the party political explanations, socio-economic pressures are important. The economic context is modeled via the economic growth as a percentage share of the gross domestic product per annum. Crises can be assumed to foster cuts in programs, whereas a favorable economic context should hamper retrenchment and be associated with positive changes. Economic globalization is conventionally measured in terms of imports and exports as the share of GDP. According to the orthodox view among the proponents of the Globalization Hypothesis, measured in this manner, economic openness or trade interdependence leads to a lowering – or even a competition-induced race to the bottom – regarding social protection. As hinted at in the review of the evidence, many scholars detest this negative relationship. The proponents of the Compensation Hypothesis even think that openness has positive effects because the exposure to global trade fosters demands for protection among the losers of globalization. To account for the depth of the budgetary crisis itself as a potential explanation for retrenchment, the annual budget deficit/surplus is taken into consideration. The expected sign of this variable is positive. Positive values – rare as they may be – indicate a budget surplus and negative values a deficit. It is also necessary to include the level of unemployment as a problem indicator and the program-specific demand for benefits. While some doubts exist about the consistency of this indicator over time and across countries, especially before the 1990s, the conventional unemployment quota is used. It is expected to yield negative effects on changes.

In addition to these economic factors and those of a political nature, the inclusion of institutional characteristics is key. To account for the constitutional constraints on the policy-making autonomy of the central government, I rely on Schmidt's (1996) additive index of six institutional

barriers/constraints. The index is composed of six dummy variables, the value 1 indicating the existence of the respective constraint in question and 0 indicating its absence. The index varies correspondingly between 1 and 6; implying that low values are indicative of the significant policy autonomy of the elected central government. The six dummy variables are EU membership, the degree of centralization of state structures (i.e., federalism), the existence of high hurdles for constitutional changes, strong bicameralism, central bank autonomy, and frequent referenda. Should these aspects indeed hamper the policy-making autonomy of central governments in general, they should also correspond to less retrenchment; that is, be positively associated with changes in welfare programs.

The second important institutional factor is the strength and design of corporatist bargaining structures. Corporatism and neocorporatism can be conceived of as the opposite of pluralism, which in turn can be understood as free competition among societal organizations over interest representation. This competition is thought of as leading to the lower assertiveness of interest organizations. By contrast, in highly integrated corporatist or neocorporatist systems of interest representation, interests are concentrated in few big umbrella organizations, which ultimately leads to more cooperative behavior and the greater influence of the respective organized interests (Kenworthy and Streeck 2005: 448; Siaroff 1999: 198). In this study, corporatism is measured via Siaroff's well-known Integrated Economy Index (1999). The declared aim of the index is to capture the cooperative behavior of the actors involved in processes relevant to questions of economic policy in four time periods. In his widely cited "Corporatism in 24 Industrial Democracies" (1999), Siaroff has criticized that corporatism is often conceived of in terms of social partnership, the power resources of employees, and a consensual orientation; which are partially countervailing phenomena. To illustrate this point, he draws on the Japanese case, which must indeed be categorized differently according to all three criteria. Nevertheless, he concedes that his Integrated Economy Index correlates strongly with the means he calculates for these three dimensions. Pearson's correlation coefficient r is higher than 0.9 for all four time periods (ibid.: 199). The index is based on eight indicators calibrated between 1 and 5 and belonging to one of three dimensions, based on the three aspects listed above as constitutive of corporatism: "aspects of social partnership" include the strike level, the nature and goals of trade unions, and legal and state support for unions; "industry-level coordination" encompasses the public coordination of industry and the

extent of codetermination in the workplace; and “overall national policy-making patterns” include indicators of the nature of conflict resolution (e.g., concerning wage setting), the consideration of industry bodies in policy-making processes, and the nature of public-private interactions in more general terms (*ibid.*: 194). Social insurance can be expected to be more resilient in a highly cooperative (or integrated) system. The causal effect of corporatism on changes in insurance generosity and conditionality should therefore be positive.

On closer inspection, however, the effects resulting from institutional barriers and corporatist arrangements are theoretically more ambivalent. It is obviously plausible to stick with the argument that these institutions inhibit and decelerate efforts to change the social policy status quo in general and to cut generosity and tighten the conditionality of unemployment insurance in particular. On the other hand, from the blame-avoidance perspective popularized by Pierson, complex bargaining structures and various institutional frictions provide exactly the kind of environment in which politicians may “spread the blame” and are therefore able to reduce the political costs of unpopular retrenchment. I will return to the theoretically ambivalent strategic implications of very complex decision-making structures when discussing the policy impact of the fragmentation of government.

There is a panoply of other factors that are not commonly included in regression models on the determinants of retrenchment policies yet have a lengthy history as potential explananda. To live up to the potential importance of these factors, I take them into consideration in section 6.3. Here, I am also considering the potential effects of opposition ideology.

6.1.3 Method/Regression Model(s)

In this section I will restrict the discussion solely to the baseline model(s) and leave the specifics to the respective section(s). Figure 6.1 summarizes all of the variables discussed thus far and the respective hypothesized causal effects. The overview also shows all of the hypotheses that have been derived in chapter 3 and summarized in section 4.2 regarding the impact of the ideological complexion of government on changes in unemployment insurance generosity and conditionality. I will first justify the choice of a fixed-effects (vector decomposition) framework. Subsequently I outline the steps of the analysis as a whole and conclude with a few cautionary remarks on levels of significance.

Figure 6.1 Basic Model and Hypothesized Effects

Y	X	H1	H2	H3	H4	H5	Meta-Hypotheses
Δ Unemployment Insurance	$= \alpha$						
Conceived of as Change in:	$+\beta_1$ Cabinet Ideology	+	/	-			weak
	I. Left Labels	-	/	+			weak
Dimension 1) Generosity	II. Right Labels	-	/	+			medium
Dimension 2) Conditionality	III. RILE						strong
	IV. Welfare		/			+	strong
	V. Market		/		-		strong
	$+\beta_2$ Economic Growth	+	+	+	+	+	conditional on Ideology
	$+\beta_3$ Annual Budget Balance	+	+	+	+	+	
	$+\beta_4$ Economic Openness	-	-	-	-	-	
	$+\beta_5$ Unemployment Ratio	-	-	-	-	-	
	$+\beta_6$ Institutional Constraints	+	+	+	+	+	
	$+\beta_7$ Corporatism	+	+	+	+	+	
	$+e$						

Notes: + indicates a positive effect, - a negative effect, and / means that no effect is expected according to the respective hypothesis.

The study relies on fixed-effects models, only falling back on pooled models – i.e., models drawing on within-country and between-country variance for the estimation – when technically unavoidable. Fixed-effects models and pooled models both have advantages and disadvantages, but the former is clearly favorable against the background of the research question of this x-centered investigation. First and foremost, I am concerned here with the question if and how the ideological complexion of government and their variations in a given country make a difference in terms of risk privatization.⁶³ It is more instructive to know whether politics matters in a given national context than to know that politics matters under the assumption that the context is stable, knowing that this is counterfactual, as social policy-relevant country idiosyncrasies abound. Technically, fixed effects simply means the inclusion of a full list of country dummy variables, implying that countries have different intercepts. The idea is to exclude – in econometric jargon to *absorb* – the idiosyncratic part of the variation stemming from country-specific characteristics that are theoretically meaningless, thus to ensure that the *ceteris paribus* assumption is met. The violation of this assumption that all other characteristics are indeed equal due to unobserved unit heterogeneity in models that pool within- and between-unit variation not only further complicates the – in any case intricate – substantive interpretation of pooled regression results, but may at worst actually lead to erroneous inferences. In the context of comparative welfare research, Kenworthy (2009) has recently provided a clear illustration of the danger to misinterpret effects of pooled models driven by between-country variation. He scrutinized the pooled regression results that show public opinion to drive changes in welfare generosity.⁶⁴ Following Pierson (1996), Brooks and Manza (2006) have argued on this basis that public support deters policy makers from social policy retrenchment. Kenworthy does not argue against this; however, he shows that positive bivariate associations within countries to support this hypothesis exist in five out of fifteen countries (figure 5, page 733, suggests that the United States and Australia drive the results).

63 While the Hausman test indicated that the more demanding assumptions underlying random effects estimates are also fulfilled, the more conservative option, fixed effects, is chosen for theoretical reasons. Moreover, there is evidence from simulations that indicates that the Hausman test is only reliable under certain assumptions and often underestimates the unit-predictor correlation, especially when, as in this analysis, the number of cases is rather modest (as argued, e.g., by Clark and Linzer 2012).

64 Although the actual measurement occurs in the form of public social expenditures as a share of GDP.

The primary advantage of fixed effects is that it also absorbs the unobserved unit-heterogeneity, which is advantageous inasmuch as we are never able to include all of the confounding factors in our models. But fixed-effects models also come with strings attached – primarily, they make it difficult to identify the impact of factors that hardly vary over time within a country, typically institutions.⁶⁵ For this reason, I use fixed-effects models with vector decomposition (FEVD), a strategy developed and extensively described by Plümper and Tröger (2007). Vector decomposition is an extension of the FE specification that allows for the analysis of characteristics that are invariant or hardly varying within a unit over time. It is called decomposition because the fixed effects are decomposed in a three-step procedure. First, the unit fixed effects are calculated excluding the time-invariant factors. In a second step, the unit fixed effects are regressed on the time-invariant or hardly varying variables to distill the unexplained part of the fixed-effects estimator. This part is then included in a third regression, which estimates the time-variant and hardly/not varying variables in a single common pooled model. One could thus say that FEVD is a fixed-effects model for which between-country variance is added for the factors that do not or hardly vary within countries. Here, these variables are institutional constraints and corporatism. Plümper and Tröger demonstrate the suitability of FEVD via Monte Carlo simulations. While institutions are not the central concern of this study, the VD extension of FE is used to avoid depressing the more stationary variables corporatism and institutional constraints by design. However, the FEVD and the normal FE models – with or without heteroskedasticity-consistent standard errors – yield virtually the same results (as shown in annex 8). Even based on FEVD, however, the institutional variables consistently fail to achieve conventional levels of statistical significance.

6.1.4 Steps of Analysis

The analysis departs from the obligatory bivariate assessment of all of the involved variables to detect multicollinearity, because it would later resurface in the analysis in the form of a lack of robustness. I then assess the extent to which the evidence from the main effects is supportive of right retrenchment (H1), the ineffectiveness or marginalization perspective (H2),

65 The inclusion of variables that do not or hardly vary within countries over time is obviously not without problem in pooled models either, as they soak up the country variance and become quasi-country dummies.

or left retrenchment (H₃). I first use the shares of left and right parties in government based on party labels and then the dynamic Right-Left index (RILE) as the independent variable. I then assess the impact of market (H₄) and welfare ideology (H₅). The marginalization perspective suggests that both should be rejected. If partisan effects are still grounded in the representation of group interests, we should expect the party labels that capture these alignments to be good postdictors of retrenchment policies. The effects of welfare and market ideology in the hypothesized direction would indicate support for the (cognitive) framing argument. I start with the generosity dimension as a dependent variable and then proceed with conditionality. Then, to assess the context-sensitivity of partisan effects (Kittel and Obinger 2003: 36), I test the robustness of the results by using alternative dependent variables by delimiting the leverage effects of single countries and considering rival and complementary explanations. In the final step of the quantitative analysis, the framing argument is tested in its specific sense. Only via interaction analyses is it possible to determine whether the negative effects exerted by economic pressure are, as hypotheses H_{4a} and H_{4b} suggest (subsumed under metahypothesis MH₃), conditioned by cabinet ideology. At the same time, I expect no conditioning effect for government ideology when conceived of in terms of left and right party shares in government measured via labels. I visualize the interactions for all ten indicators for the ideological complexion of government used in the previous analyses (share of left parties, share of center parties, share of right parties, RILE, welfare ideology, welfare norms, welfare ontology, market ideology, market norms, market ontology). Finally, the large-n evidence is complemented with case evidence from German, British, and Swedish cabinets. For each country, I sum up and discuss the context, ideas, and positions, and then the policies. Based on a close reading of party sources, the overall aim is to decipher what interpretative frameworks and economic ideas government parties used and how they affected crisis perception and policy reactions. I match the findings with the scores for market and welfare ideology to further assess their face validity. I will also elaborate on the extent to which electoral incentives and group representation mattered vis-à-vis convictions. Finally, an important aspect of any triangulation is to spot omitted variables.

6.1.5 Of Substance and Significance: A Short Note on Significance Levels

A few remarks regarding significance are necessary. I concur with Bergman et al. (2008) that results with a margin of error (for the rejection of the null

hypothesis) of 10-20% should not be rendered irrelevant per se; I thus assign a circle (°) to coefficients with p-values smaller than 0.2 but greater than 0.1 (Bergman et al. 2008: 104). Note that this nondogmatic way of proceeding is not due to the predicament of the researcher: All of the findings central to the book hold at traditionally accepted levels of significance. Rather, I agree with those comparativists who caution against an all-too-dogmatic interpretation of statistical significance when a population and not a sample is under investigation. In such cases, significance may still provide orientation regarding the reliability of estimates (Bergman et al. 2008: 104; Jahn 2006: 374), but should not be *the* heuristic shortcut for relevance. The reason why then significance is still indicative even if sample and population are identical – as is arguably also the case here – is encapsulated by Bergman et al. when outlining their research on cabinets in a display of epistemological modesty that is rare among political scientists:

[W]e believe that the notion of statistical inference still applies to our work in the following sense. Although we have data from all cabinets that have actually occurred in the countries and the time period under examination, we recognize that there was an element of randomness present in each of the cabinets we examine. In other words, the dynamics of any particular cabinet might have turned out differently if some chance, random events [...] had been different. In the spirit of developing generalizable explanatory theory, we are thus interested in drawing inferences about the population of potential cabinets that might have occurred in the past and that may occur in the future, recognizing the inherent randomness of social phenomena. (Bergman et al. 2008: 104)

So even if all cabinets in affluent democracies throughout the era of retrenchment are included, the data points that now represent these cabinets could exhibit very different values due to the randomness immanent to social processes. This element of contingency is also characteristic of discrete political decisions in general and retrenchment of unemployment insurance in particular, as evidenced by the percentage of explained variance in the reference study by Allan and Scruggs (2004), with R^2 's at about 0.2.⁶⁶ Significance remains a useful heuristic cue of the robustness of relationships and a guide for the external validity of conclusions, but more

66 This R^2 is lower than in earlier studies that explain differences in social policy levels. The obvious reason is that actual political behavior and decisions, reflected in policy changes and not in levels, are harder to explain.

important than p-values and the causal direction should be to elucidate whether and why a party effect is really substantial.

6.2 Group-Interest Explanations versus the General Framing Argument

I follow the same procedure for the generosity and conditionality dimensions. I report and discuss the results of the baseline models regarding their substance and statistical reliability and what this means with regard to hypotheses H1-H5 and the first two metaexpectations. I then test alternative dependent variables and the “leverage” of individual countries.

6.2.1 Generosity Dimension

Before calculating and reporting the main effects for the ten ideological constellations on generosity and conditionality changes, an important part of pre-diagnostics is to assess the bivariate relationships between the main independent and dependent variables. Correlations between all of the independent variables are checked in order to avoid multicollinearity, meaning that one independent variable or column in the regression matrix is largely a function of another, which leads to estimators that are not BLUE (best linear unbiased estimators), which would later resurface in the form of drastic changes in the estimated effects after minor changes in the model.

The only variables corresponding at traditional levels of criticalness ($>.4$, underlined in table 6.2) are the various ideology measures. For instance, unsurprisingly, the share of left parties is strongly inversely related to the share of right parties ($-.68$) and the RILE index ($.52$). Notably, associations of the share of left and right parties are relatively modest ($<.4$). But these measures for cabinet ideology are tested in separate, though otherwise identical, models. The control variables used simultaneously are either not or only weakly correlated. The strongest correlation (by far) of $-.36$ is found between corporatist arrangements and the unemployment ratio. Thus, based on the correlation matrix, multicollinearity can be assumed to not disturb inferences. As regards the explananda, we can see from the correlation matrix that generosity and conditionality are only very modestly positively related ($.1$). Also interesting with regard to the analysis, we find modest associations of generosity with the left party share ($.9$), right party share ($-.12$), the RILE ($-.10$), and market ideology ($-.14$), as well as even weaker correlations in the case of conditionality, where the share of left parties in government exhibits a positive coefficient of $.8$.

Table 6.2 Correlation Matrix, Variables of the Baseline Model(s)

	Generosity Change	Conditionality Change	Left Party Share	Center Party Share	Right Party Share	Right-Left Index/RILE	Welfare Ideology	Market Ideology	Economic Growth	Budget Deficit	Globalization	Unemployment	Institutional Constrains	Corporatist Structures
Generosity Change	1													
Conditionality Change	.10	1												
Left Party Share	.09	.08	1											
Center Party Share	.01	-.04	-.36	1										
Right Party Share	-.12	-.04	-.68	-.41	1									
Right-Left Index	-.10	-.02	-.52	.03	.46	1								
Welfare Ideology	.07	.05	.37	-.09	-.28	-.66	1							
Market Ideology	-.14	.04	-.36	-.06	.38	.62	-.38	1						
Economic Growth	.07	.10	.10	-.05	-.04	-.10	.11	-.08	1					
Budget Deficit	-.06	.01	.13	-.17	-.01	-.16	.20	-.13	.25	1				
Globalization	-.05	.02	.03	.15	-.11	-.13	.09	-.09	.04	.21	1			
Unemployment	-.05	-.06	-.13	.16	-.03	.29	-.18	.13	-.05	-.15	.19	1		
Institutional Constraints	.04	-.01	-.13	.22	-.03	.30	-.39	.02	.08	-.09	-.09	.10	1	
Corporatist Structures	-.03	.04	.26	-.06	-.18	-.22	.16	-.08	-.10	.18	.34	-.36	-.15	1

Table 6.3 reports the fixed-effects models 1-10(a) for generosity changes, each model entails a different indicator for the ideological complexion of government and a full set of control variables. Let us first look at models 1, 2, and 3, which capture the impact of government ideology as measured via left, center, and right labels to scrutinize the evidence for hypotheses H1-H3, when controlled for growth, the budget deficit, globalization, unemployment, the degree of institutional constraints, and corporatism. While the directional hypotheses of right (H1) and left retrenchment (H3) are not supported, the lack of significant or substantial results supports hypothesis H2 (which is the null hypothesis for hypotheses H1 and H3), according to which the composition of governments in terms of ideology no longer exerts a crucial influence in the era of retrenchment. By way of illustration, a shift in the right party share in the cabinet composition of one standard deviation (39.73) implies a – non-significant – reduction of generosity of 0.08 percentage points. Even the scenario of a full switch from a non-right (0%) to a right cabinet (100%) is associated with a marginal 0.2 percentage point cut in generosity, *ceteris paribus*.

A different conclusion regarding hypotheses H1-H3 must be drawn when the role of left-right is assessed via the time-variant RILE. The highly significant negative effect shown in model 4 indicates that right positions are, *ceteris paribus*, associated with generosity cuts, which supports hypothesis H1. Yet such a conclusion is valid only insofar as the impact of the multidimensional RILE is actually substantial. By way of illustration, a cabinet change of ten points on the Right-Left scale shifts the postdiction for the averaged replacement rate by a modest 0.55 percentage points and a shift of one standard deviation (17.36) implies a 0.95 percentage point shift in the net replacement rate, which is considerable, not only when compared to the generosity cut of 0.08 resulting from a one standard deviation hike in government ideology as measured by the share of right-labeled parties.

Looking at models 5-7 to assess the impact of welfare ideology, expected to be positive according to hypothesis 5, results are ambivalent. Only the ontological dimension has a modest positive effect (*ceteris paribus*, a change of one standard deviation of 3.67 leads to a 0.74 percentage point change) that is also marginally beyond traditional significance levels. One standard deviation change in aggregate welfare ideology (8.41) implies a 0.54 change in generosity, yet insignificant.

The most substantial and most significant ideological determinant of retrenchment policies is clearly a cabinet's market ideology. The highly significant coefficients indicate substantial negative effects. For the overall

Table 6.3 Fixed-Effects Vector Decomposition, Generosity Change, Models 1–10a

Dimension 1/a	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Generosity	Left	Center	Right	RILE	Welfare	Norm.	Ont.	Market	Norm.	Ont.
Ideology	.009 (.01)	-.021° (.02)	.002 (.01)	-.055** (.03)	.064 (.06)	.035 (.06)	.201° (.15)	-.200*** (.07)	-.707*** (.24)	-.181** (.08)
Econ. Growth	.429** (.21)	.448** (.20)	.469** (.21)	.414** (.20)	.428** (.20)	.442** (.21)	.472** (.20)	.421** (.20)	.446** (.20)	.430** (.20)
Deficit	-.166 (.14)	-.178° (.14)	-.173 (.14)	-.182° (.14)	-.172 (.14)	-.178 (.14)	-.133 (.14)	-.163 (.14)	-.174° (.13)	-.163 (.14)
Globalization	.038° (.03)	.036° (.03)	.034° (.03)	.037° (.03)	.032° (.02)	.034° (.03)	.030 (.02)	.037° (.03)	.039° (.02)	.036° (.03)
Unemployment	-.120 (.19)	-.093 (.19)	-.134 (.19)	-.054 (.19)	-.088 (.19)	-.115 (.19)	-.101 (.19)	-.041 (.19)	-.094 (.19)	-.060 (.19)
Inst. Constraints	.360 (.35)	.458 (.36)	.325 (.35)	.504° (.35)	.426 (.35)	.373 (.36)	.356 (.34)	.300 (.35)	.382 (.35)	.287 (.35)
Corporatism	.013 (.58)	.162 (.55)	.140 (.57)	.051 (.55)	.176 (.54)	.129 (.55)	.228 (.54)	.167 (.56)	.011 (.56)	.189 (.56)
Constant	-5.44* (2.78)	-5.51** (2.76)	-5.32* (2.99)	-5.89** (2.74)	-6.69** (2.99)	-5.82** (2.93)	-6.22** (2.80)	-4.58° (2.81)	-4.55° (2.79)	-4.80* (2.80)
R2	.138	.146	.134	.160	.141	.135	.147	.188	.193	.167
N	155	155	155	155	155	155	155	155	155	155

Notes: Standard error in parentheses. Significance levels: ° p < 0.20, * p < 0.10, ** p < .05, *** p < .01 (two-tailed test). Vector Decomposition: Variables defined as invariant/rarely varying in FEVD: Institutional Constraints, Corporatism.

market ideology, an increase by one standard deviation (6) leads to a decrease in the replacement rate of unemployment insurance generosity by 1.2 percentage points (as $-.200 \times 6.00 = -1.2$). The same applies to the market norms and market ontology for market ideology normative: $-.707 \times 1.64 = -1.16$; for market ideology ontology: $-.181 \times 5.39 = -.98$). These consistently strong effects support hypothesis H4. Models 8-10 for market ideology and its subdimensions are also the models with the highest degree of explained variance of the ten models.

Most of the controls show the hypothesized signs. The notable exception is the positive coefficient for globalization measured as economic integration, which confirms the widespread skepticism toward the *International* or *Globalization Hypothesis* among scholars and speaks in favor of the rival *Compensation Hypothesis*. Across the fixed-effects regression models 1-10a, the impact of a one standard deviation change in openness (30.71) implies an increase varying between 0.92 and 1.20 percentage points, yet consistently somewhat beyond orthodox levels of significance. The negative effects of unemployment and the positive effects of institutional constraints and corporatist arrangements point in the hypothesized direction but are consistently insignificant.

What stands out is the highly significant and substantial positive impact of economic growth measured as GDP growth as a share of the current GDP across all ten models. This seems to support functionalist arguments in general and the reasoning that endogenous economic pressure undermines partisan effects in particular. By way of illustration, if the economic context changes by one standard deviation of 2.20% of GDP growth, unstandardized effects (B) oscillating around .45 across models lead to a postdiction of a 1% change in generosity, respectively. Whether this impact of the economic context is conditional on ideology is assessed in section 6.4.

By and large, results not only speak to H1-H5, but support the general expectations formulated as quintessence of the theory chapter, labeled metahypotheses MH1 and MH2. According to them, the explanatory relevance of labels is slight, whereas the dynamic measures, in particular the issue-specific ones, welfare and market ideology, provide strong(er) evidence that the ideological complexion of governments still has momentous effects in the era of welfare state retrenchment. Note that the main findings – no effect of left and right partisanship in terms of labels and a persistently strong negative and significant impact of market ideology on generosity changes – are not bound to a particular model specification and also hold when using robust standard errors.

6.2.2 Using an Alternative Dependent Variable: Transfer Spending

These results will later be subjected to complementary and alternative explanations as well as robustness tests. But the most significant robustness test concerns the consideration of an alternative dependent variable to ensure that patterns are not merely resulting from the idiosyncrasies of one data set. This is an endeavor beset by inherent problems, however, especially if – as in the case in this book – much intellectual energy has been spent to justify the conceptualization and operationalization of the data used in the first place and to delineate the limits of alternative approaches. I have pointed out the various disadvantages of spending ratios as a proxy for the welfare state, particularly when compared to entitlements, if the theoretical concern is actual political behavior and not budgetary questions per se (the disadvantages are: relative independence of actual social protection developments, even more so when the demand and/or the GDP fluctuate, no consideration of taxes and social contributions and thus progressivity/regressivity of the system, incoherent categorization of spending types, low proximity to influential theoretical concepts, and low significance in terms of individual life chances). Yet spending data provides an interesting external validity test. That said, table 6.4 summarizes the fixed-effects models for social security transfers as a percentage of the GDP as the dependent variable. This OECD measure (from Armingeon et al. 2011), which has been plotted per country and described in chapter 2, figure 2.2, is more specific than social spending as a share of the GDP because it is focused on transfers. Yet it is aggregating transfers for social programs beyond unemployment insurance (also including social assistance, sickness, old-age, and family allowances) and therefore less specific than the measure for unemployment insurance generosity used above. Still, regarding hypotheses H1-H5, the conclusions are essentially the same: Neither left nor right partisanship is substantially or significantly related to retrenchment. The RILE exerts a negative impact, although narrowly failing the traditional 0.1 significance level. Again, we find a highly significant negative impact of market ideology and the same positive, albeit insignificant, effect of welfare ideology. By way of illustration, an unstandardized and highly significant coefficient of -0.048 for market ideology indicates that the average spending on social transfers as a share of the GDP of a government decreases by 0.29 percentage points for any increase in market ideology, *ceteris paribus*, by a standard deviation (of 6). This decrease would be greater still if we were able to differentiate between discretionary and non-discretionary transfer spending.

Table 6.4 Fixed-Effects Vector Decomposition, Generosity via Transfers, Models 1-10b

Dimension 1/b	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Transfers/GDP	Left	Center	Right	RILE	Welfare	Norm.	Ont.	Market	Norm.	Ont.
Ideology	.000 (.00)	.001 (.00)	-.001 (.00)	-.012° (.01)	.021 (.02)	.023 (.02)	.009 (.04)	-.048** (.02)	-.051 (.07)	-.057** (.02)
Econ. Growth	-.198*** (.06)	-.198*** (.06)	-.200*** (.06)	-.208*** (.06)	-.210*** (.06)	-.212*** (.06)	-.198*** (.06)	-.209*** (.06)	-.200*** (.06)	-.209*** (.006)
Deficit	-.063° (.04)	-.062° (.04)	-.062° (.04)	-.065* (.04)	-.063° (.04)	-.067* (.04)	-.061° (.04)	-.060° (.04)	-.063° (.04)	-.060° (.04)
Globalization	.011 (.01)	.011 (.01)	.011 (.01)	.011 (.01)	.010 (.01)	.011 (.01)	.011 (.01)	.011 (.01)	.011 (.01)	.011 (.01)
Unemployment	.432*** (.05)	.430*** (.05)	.432*** (.05)	.448*** (.06)	.446*** (.06)	.444*** (.05)	.433*** (.05)	.454*** (.05)	.435*** (.05)	.455*** (.05)
Inst. Constraints	-.747*** (.28)	-.747*** (.28)	-.749*** (.28)	-.725** (.28)	-.728** (.28)	-.740*** (.28)	-.741** (.28)	-.783*** (.28)	-.753*** (.28)	-.783*** (.28)
Corporatism	-1.435° (.97)	-1.459° (.98)	-1.464° (.98)	-1.464° (.96)	-1.319° (.97)	-1.361° (.97)	-1.413° (.98)	-1.569° (.95)	-1.419° (.97)	-1.613* (.95)
Constant	17.95*** (3.47)	18.02*** (3.50)	18.06*** (3.54)	17.89*** (3.45)	17.15*** (3.52)	17.35*** (3.49)	17.82*** (3.51)	18.67*** (4.42)	17.93*** (3.47)	18.82*** (3.41)
R2	.478	.480	.480	.490	.490	.490	.480	.501	.482	.501
N	155	155	155	155	155	155	155	155	155	155

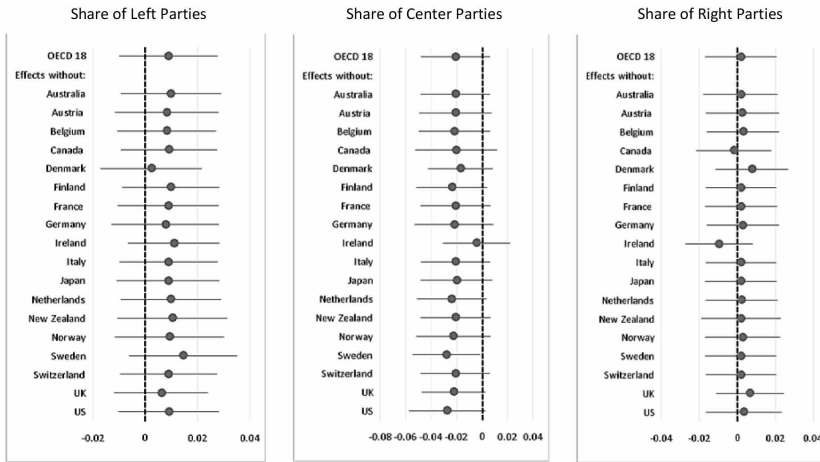
Notes: Standard error in parentheses. Significance levels: ° p < 0.20, * p < 0.10, ** p < 0.05, *** p < 0.01 (two-tailed test). Vector Decomposition: Variables defined as invariant/rarely varying in FEVD: Institutional Constraints, Corporatism.

Regarding the controls, the inherent weaknesses of using structural rather than behavioral variables as a dependent variable when investigating determinants of political behavior unsurprisingly take their toll. Economic growth is inversely related to transfer spending as a share of the GDP mainly because the denominator of the dependent variable transfers as a share of the GDP increases when the economy grows, reducing the ratio even when the volume of social transfers remains stable. For the same technical reason, higher unemployment is positively associated with transfer spending. This is not because employment crises lead to more generous laws but rather because the numerator of the dependent variable transfer spending increases with the number of unemployment insurance and unemployment assistance beneficiaries when unemployment rises. While these relationships are interesting per se, they tell us little about political behavior. Even for this problematic and broad indicator of spending on social transfers as a share of the GDP, however, the results regarding the effects of labels, the RILE, and welfare and market ideology are confirmed.

6.2.3 Assessing the Impact of Single Cabinets and Single Countries

An integral part of any comparative empirical analysis should be to examine the robustness of results by ensuring that they are not driven by single observations. In the framework of this book, this means the impact of single cabinets. Using so called jackknife routines by cluster variables – in this case the cabinet identifier variable – allows us to test for this possibility. Basically, the jackknife method means that regressions are rerun with $N-1$ cases, respectively, for all cases (Jahn 2006: 385). The results for the generosity dimension prove to be stable when cabinets are successively excluded. But in a fixed-effects framework – that is, an analysis in which causal inferences are based entirely on within-country changes – a criterion that seems more instructive and is indeed more demanding is the robustness of the results when one of the eighteen countries is excluded. This assessment also allows me to draw conclusions regarding the leverage effect of single countries. The dotplots in figures 6.2 and 6.3 show how coefficients and confidence intervals for models 1a (share of left parties), 2a (share of center parties), 3a (share of right parties), 4a (RILE), 5a (welfare ideology), and 8a (market ideology) change if one country is excluded from the fixed-effects regression, respectively. For comparison, plots start with the basic model including all eighteen countries.

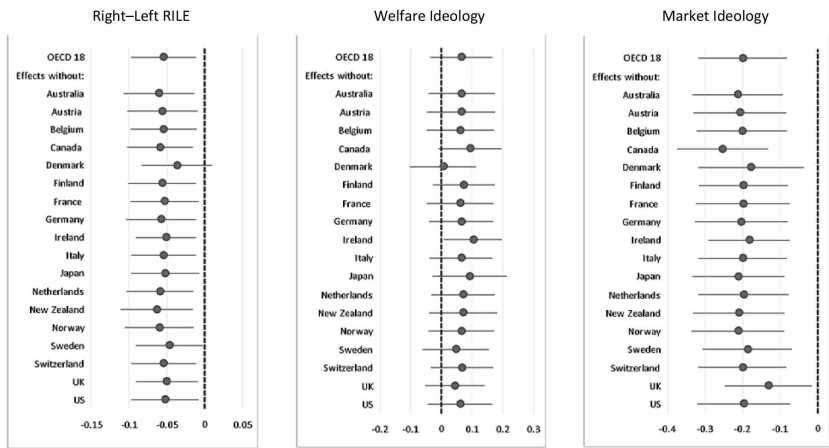
Figure 6.2 Dotplot, Leverage of Countries: Cabinet Shares and Generosity



The dotplots for the share of left, center, and right parties show that the lack of systematic effects emanating from these measures is not due to a specific country suppressing hidden effects. None of the recalculated effects with N-1 countries is significantly different from zero, as indicated by the overlap between the dotted zero line and the 90% confidence interval. Note also that the already marginal estimates would be lower still without the inclusion of two countries: Denmark in the case of the share of left parties and Ireland in the case of the share of center and right parties.

A different picture emerges when considering figure 6.3. As in the baseline model for eighteen OECD countries, the RILE exerts a significant negative effect for seventeen out of eighteen omissions. Effects are driven by the Danish case, although the chart also suggests that the concurrent omission of the Netherlands or New Zealand, which contribute relatively little to the RILE effect, would offset the exclusion of Denmark. The picture is inverted for welfare ideology: The positive effect on generosity remains below conventional levels of statistical robustness when we disregard seventeen of the eighteen countries. But excluding the Irish case – known for a party system in which economic divides are overshadowed by questions of nation building (as already diagnosed by Budge and Robertson [1987] in their assessment of dimensionality) – would render the positive effects of welfare ideology on generosity significant. By implication, this means that welfare ideology is a particularly ineffective postdictor for generosity changes in Ireland. A less ambivalent picture emerges with regard to market ideology; here, significant negative effects on generosity remain consistently robust.

Figure 6.3 Dotplot, Leverage of Countries: RILE, Welfare, Market, and Generosity



This effect is somewhat suppressed by the inclusion of Canada and, in contrast, elevated by the consideration of the United Kingdom, where negative effects on generosity are pronounced. Overall, it seems fair to say that the main results and nonresults reported from models 1-5 and 8a proved robust when faced with the demanding test of the successive exclusion of cases.

6.2.4 Conditionality Dimension

I will now apply the same framework used to investigate the effect of the ten measures of government ideology on generosity changes to conditionality changes – or more specifically, changes in the duration/qualification ratio – and afterwards in the “rights versus obligations” or “workfare balance” (both indicators have been introduced and plotted over time in chapter 2⁶⁷). While examining the reported results and the following summary, keep in mind that negative changes regarding both indicators – exactly as in the case of generosity changes – indicate retrenchment, here conceived of in terms of tightened conditionality for the benefit recipients.

The investigation of the ideological determinants of reforms regarding the conditionality of social insurance reveals a strikingly different pattern (table 6.5) compared to the generosity dimension. The signs for the first three models are consistent with the Left Retrenchment Hypothesis of the “beyond left and right” perspective (H3), although they are not significant at conventional

67 Note that the results presented in the following also hold for the newest generation of CWED (CWED 2).

levels. The negative coefficient for left partisanship of -0.022 , narrowly beyond the level of $p < 0.1$, means that a one standard deviation change toward a left cabinet (38.40) leads to a reduction of the conditionality ratio of 0.84 . Positive effects for right and center parties are small and insignificant.

The same substantial conclusion that can be drawn based on the usage of left-center-right party labels – support for the Left Retrenchment Hypothesis H_3 and a rejection of H_1 and H_2 , accordingly – evolves from the positive coefficient of the Right-Left index (RILE), although (like left partisanship) narrowly failing the $p < 0.1$ significance level. A decrease of one standard deviation on the scale (17.36), indicating a left shift, *ceteris paribus* caused a worsening of the conditionality ratio by 1.02 .

However, the most substantial effects stem from the more specific welfare and market ideology. While it is difficult to assess whether a shift in the conditionality ratio is substantial *per se*, reductions resulting from a one standard deviation increase in welfare ideology, as summarized in models 5-7, are significant and comparatively large ($-0.215 \times 8.41 = -1.8$), particularly for welfare ideology norms ($-0.293 \times 6.96 = -2.04$), whereas welfare ontology is insignificant and has no substantial effect ($-0.013 \times 3.67 = -0.05$). As this negative impact of welfare ideology and in particular its normative sub-index suggests, it would be a premature, *ad hoc* explanation to attribute the results in models 1 and 4 on a programmatic renunciation to the progressive project. Rather, these results, which point in the direction of “left retrenchment,” may be the consequence of a subtler semantic shift in the meaning of “social justice” and “fairness” toward a neoliberal *quid pro quo* logic. Market ideology (models 8-10) has smaller yet tangible effects on conditionality and fails to achieve conventional levels of statistical significance. For example, a shift in market ideology of one standard deviation leads to a change of 0.71 (0.119×5.99). This means that according to the ten models for the duration/qualification ratio as proxy for conditionalization, the traditional ideological frontiers have reversed, although only the negative impact of welfare ideology is beyond doubt in terms of its statistical significance and effect size.

Another deviation from the formulated expectations and the results for generosity that deserves attention is the negative relationship between growth and the conditionality ratio. Yet, the substantial implications – a standard deviation shift of 2.20% in growth, leads to a shift in the conditionality ratio varying between 0.60 and 1.10 (depending on the precise model coefficients) – are more modest than of welfare ideology and welfare norms; and only in five out of ten models moderately significant. These results must therefore not be overinterpreted. With these cautionary remarks in mind, the negative fixed-effects coefficients of economic growth may suggest the

Table 6.5 Fixed-Effects Vector Decomposition, Conditionality Change, Models 1-10c

Dimension 2	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
Conditionality	Left	Center	Right	RILE	Welfare	Norm.	Ont.	Market	Norm.	Ont.
Ideology	-.022° (.02)	.012 (.02)	.014 (.02)	.059° (.04)	-.215* (.12)	-.293** (.13)	-.013 (.28)	.119° (.09)	.362 (.31)	.123 (.10)
Econ. Growth	-.399 (.34)	-.501° (.34)	-.402 (.34)	-.417 (.33)	-.365 (.33)	-.314 (.33)	-.482° (.35)	-.470° (.33)	-.487° (.34)	-.468° (.33)
Deficit	.076 (.17)	.076 (.17)	.075 (.17)	.040 (.18)	.035 (.18)	.092 (.19)	.073 (.17)	.080 (.17)	.102 (.17)	.071 (.17)
Globalization	.051° (.04)	.051° (.04)	.049 (.04)	.059° (.04)	.067° (.04)	.073° (.04)	.049 (.04)	.049° (.04)	.052° (.04)	.048 (.04)
Unemployment	-.084 (.29)	-.149 (.29)	-.110 (.29)	-.214 (.29)	-.317 (.31)	-.366 (.31)	-.147 (.29)	-.213 (.28)	-.176 (.29)	-.205 (.28)
Inst. Constraints	.507 (.56)	.530 (.58)	.668 (.55)	.549 (.57)	.486 (.61)	.458 (.64)	.640 (.54)	.634 (.53)	.656 (.54)	.629 (.53)
Corporatism	-1.137° (.77)	-1.234° (.76)	-1.233° (.76)	-1.358* (.79)	-1.682* (.91)	-1.695* (.92)	-1.259° (.79)	-1.209° (.73)	-1.229° (.75)	-1.216° (.74)
Constant	.475 (3.75)	.514 (3.75)	-.440 (3.82)	.827 (3.80)	5.288 (4.21)	5.331 (4.27)	.757 (3.80)	.205 (3.65)	-.033 (3.75)	.434 (3.65)
R2	.216	.195	.200	.226	.251	.273	.189	.220	.210	.213
N	65	65	65	65	65	65	65	65	65	65

Notes: Standard error in parentheses. Significance levels: ° p < 0.20, * p < 0.10, ** p < 0.05, *** p < 0.01 (two-tailed test). Vector Decomposition: Variables defined as invariant/rarely varying in FEVD: Institutional Constraints, Corporatism.

explanation that, in a positive economic context, conditionalization is more legitimate than in the midst of an economic crisis. This is in line with what we know from survey research on deservingness attributions: perceived control over one's situation (here: unemployment) is inversely related to support. Moreover, a negative relationship may reflect the fact that governments sometimes increase benefits periods during recessions to stabilize overall demand, withdrawing such looser qualification rules when the crisis is over. This aspect may be underestimated by the data set as *temporary* extensions of the duration of unemployment benefits, for instance in the United States as reaction to the post-2007 stagnation in the aftermath of the subprime lending crisis, are excluded. Overall, as regards the metahypotheses, the results of the duration/qualification ratio confirm the impression from the generosity analysis. Effects for party labels are modest in terms of significance and effect size; among the dynamic measures, the more specific indices for welfare and market ideology of the government are more conclusive than the multidimensional RILE index. In particular, welfare ideology exerts a substantial and significant negative effect on conditionality.

6.2.5 Using an Alternative Dependent Variable: Workfare Balance

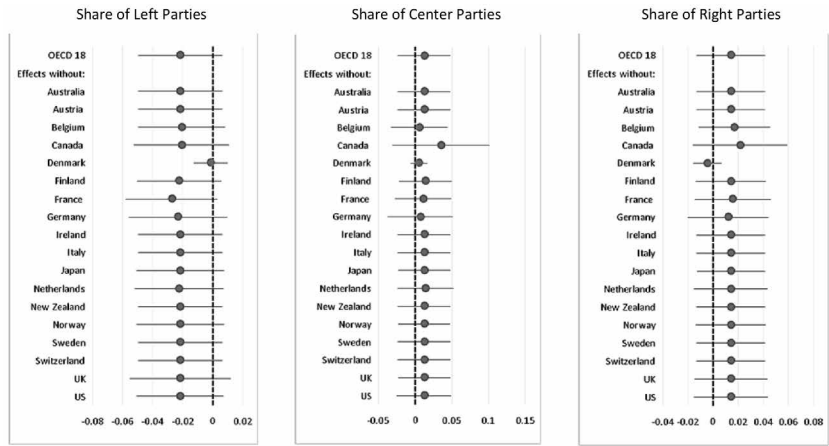
Again, the above findings are exposed to a test with a related yet different dependent variable for insurance conditionality. Instead of the duration/qualification ratio, the workfare balance between rights and obligations as coded in chapter 2 based on the International Social Security Agency and additional sources is used. Again, negative changes indicate retrenchment. In this case, the introduction of (new) obligations for beneficiaries, positive changes imply a loosening of restrictions. The ten models are run for the for the time 1990-2009, as the databases consulted to code workfare reforms do not include prior reforms. The negative impact of welfare ideology, and especially its normative sub-dimension on conditionality found for the duration/qualification ratio, is again confirmed for workfare reforms. These results suggest that governments increase conditionality to sustain the welfare state. This time, the discrepancy between positions and labels is more pronounced, as left-labeled parties have tilted the balance in the favor of rights, whereas an emphasis on normative dimension of welfare ideology led governments to introduce new workfare obligations in line with the legitimacy or deservingness argument. While the interpretation of the count variable that is used to assess changes in the workfare balance of a country as a continuous variable is in line with common practice, it risks producing artifacts. This is because this partly violates the linearity assumption underlying ordinary least squares

because there are data points along the bound of zero (Grace-Martin 2012).⁶⁸ However, modifications in the specification of the model – for instance, the use of more suitable logistic and Poisson models, variations in the time frame, or the additional consideration of active labor market policies (OECD data in Armington et al. [2011]) – show that the negative effect of welfare ideology on the rights-versus-obligations/workfare balance is not particularly robust; that is, the negative effect of welfare ideology depends on the concrete model specification. This can be regarded as a first indication that the robustness and external validity of models 1-10c for conditionality changes is more limited than for the models 1-10a on generosity changes, even before models 1-10c are exposed to alternative and complementary explanations. The next subsection on the dependence of the results on the leverage of individual countries also points in this direction.

6.2.6 Assessing the Impact of Single Cabinets and Single Countries

As with the generosity dimension, inspection of the dotplots in figure 6.4 shows that the non-results for the share of left, center, and right parties do not depend on the inclusion or exclusion of single countries. In all cases, the 90% confidence intervals overlap with the dotted zero line.

Figure 6.4 Dotplot, Leverage of Countries: Cabinet Shares and Conditionality

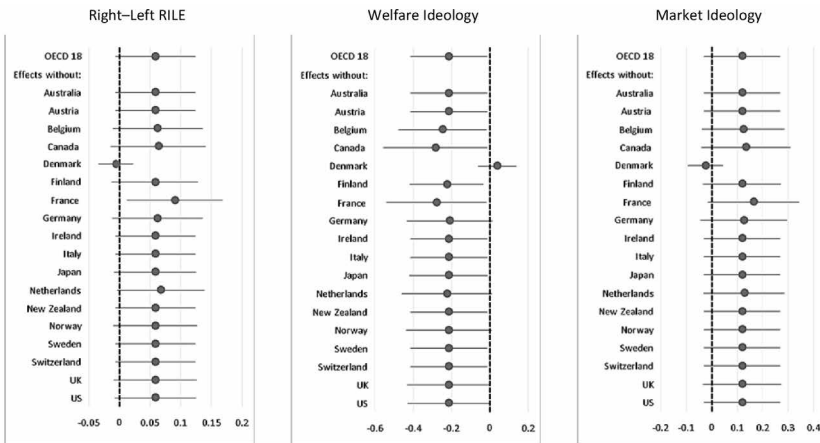


68 The histogram indicates that the distribution of the workfare variable looks more like a dummy (cut or no cut) than a metric variable. For quasi-dummy variables the distribution of the error terms is not normally distributed and the variation of the error term is not constant, as assumed in OLS (Fox 2008: 337-339). In such cases, it is advisable to use methods based on the maximum likelihood principle, e.g., logistic regression.

Again, the already weak effects disappear once Denmark is excluded from the regression analysis. As revealed by the dotplots in figure 6.5, the policy effects of government ideology measured via time-variant measures on conditionality changes are less robust than in the case of generosity changes. On the one hand, the positive effect of the RILE, the negative effect of welfare ideology, and the positive effect of market ideology remain relatively stable for the successive omission of seventeen out of eighteen countries, although the significance levels fluctuate slightly. Without the Danish case pulling the results, however, these three relationships are nullified. The estimates become virtually zero and even the signs of the unstandardized coefficients change: from positive to negative for the RILE, from negative to positive for welfare ideology, and from positive to negative for market ideology (as hypothesized). Obviously, one could also argue that the concurrent omission of country cases which suppress the initially found effects (e.g., France and Canada) would offset the exclusion of Denmark and lead to the confirmation of the relationships found in eighteen OECD countries.

This confirms the above-expressed concerns about the meaningfulness of the conditionality results. Therefore, and because the generosity dimension is clearly the main battleground for the “politics matter” discussion, the generosity dimension receives priority in the following analysis.

Figure 6.5 Dotplot, Leverage of Countries: RILE, Welfare, Market, and Conditionality



6.3 Testing Robustness, Alternative and Complementary Explanations

Without further qualification, it would be premature to draw the conclusion that the above results suggest that partisan effects have been crucial for the privatization of unemployment insurance in OECD countries, at least if the ideological complexion of government is accounted for via welfare and market ideology. This section seeks to specify and challenge the results presented for the impact of the ideological complexion of governments on retrenchment policies in three ways:⁶⁹

- 1 I assess the role of the ideological constellation and the ideology of the opposition. This is the first time the effect of opposition ideology on governmental retrenchment policies is addressed in a large-n study with actual data on the positions of the opposition, although the opposition ideology is widely regarded as a strategic constraint on social policy making in general and the ability of governments to implement unpopular curtailments in particular.
- 2 I examine the extent to which the results on partisan effects are universal and robust to the regrouping of countries by testing whether the results hold for each of the “three worlds of welfare capitalism” (i.e., *universal*, *conservative*, and *liberal* welfare states).
- 3 I take into consideration some of the “usual suspects”; that is, potentially important explanatory factors that have already been prominent in research on the determinants of welfare state expansion but are not part of the standard models in retrenchment research: unionization (as an attempt to cover the societal power resources of labor), the growth to limits theorem (to include the impact of former levels), and, finally, the fragmentation of government coalitions.

The modus is the comparison of the modified and extended models with the baseline models. When examining the role of the opposition ideology on a government’s social policy, I illustrate results via dotplots and predicted generosity changes at different values of opposition ideology. As for the examination of country groups, I rely on the visual inspection of partial regression or AV plots. For some of the non-results, I refrain from detailed discussion and depiction of the evidence.

69 This must not be mistaken as an introduction of auxiliary hypotheses or an attempt to immunize the results against rival arguments. Rather, I seek to differentiate and complement the results and highlight limitations.

6.3.1 Ideology of the Opposition and the Ideological Constellation

The potential impact of opposition ideology has long inspired political scientists to hypothesize about its effects on government policies. The two most important versions are the “contagion” arguments, which can be traced back to the work of Duverger (1954: xxvii)⁷⁰ and more recently the “credible protector” argument popularized by Kitschelt (2001). According to the contagion argument, right parties make greater welfare state efforts if they face a strong left opposition and strong right opposition parties wield a moderating influence on the social policies of left incumbents. According to the credible protector argument, unpopular social policy reform is unlikely to occur when a party with strong welfare credentials is in opposition. In both cases, the underlying assumption is that considering the opposition stances helps the government to retain its competitive position and eventually to remain in office. However, one could also hypothesize that in some cases rejection rather than attraction is the behavioral maxim of the government that follows from strategic considerations when crafting social policies. One could argue that uniform ideological orientation among government and opposition may lead to reinforcement effects as parties from the same ideological camp struggle over representation of the “true faith” and defy “heretics.” The common rationale underlying these arguments for the consideration of the role of the opposition and its ideology is that the opposition is an important part of the strategic context that is allegedly shaping (social) policy choices. Thus, the consideration of the opposition allows us to introduce a proxy for the constraints on social policy originating from electoral/party competition to the models of comparative welfare research. These claims have not been sufficiently tested in a large n-context thus far, although opposition ideology is commonly agreed to be a potentially important source of variation in retrenchment. For instance, in their discussion of the avenues for future research and omissions of their own contribution, Amable et al. notice that “the interaction between government partisanship and the ideology of the opposition should be carefully explored, as one would like to have information on their mutual influence in recent welfare-state development” (2006: 441). This crucial omission is most likely due to the lack of readily available suitable data. In principle, the integration of this hitherto neglected factor could yield three different results regarding partisan effects: First, the opposition ideology could have

70 See also Hicks and Swank (1992), who call contagion of left governments by a right opposition *embourgeoisment*.

no effect on government policies. Second, the partisan effects of government ideology could merely turn out to be a spurious relationship driven by the ideological positions of the opposition or the position of government ideology relative to opposition ideology. Third, the impact of government ideology on policies could be moderated by opposition ideology. In order to measure the ideology of the opposition, I extended the data set with positions for the largest opposition party for each cabinet on the right-left/CMP-RILE, welfare-market ideology, and the normative and ontological dimensions of welfare and market ideology. The effect of opposition ideology is assessed via main effects from country fixed-effects models. First excluding and then including cabinet ideology as measured in models 1-10a, 1-10b, and 1-10c. The models that assess only opposition ideology (i.e., without government ideology) but include the list of economic and institutional control variables considered in models 1-10a/b/c do not yield significant results for generosity or conditionality changes (from the moderate 0.8-level upwards). These (non)results are thus not visualized here.

The next step is to examine what happens to the documented partisan effects as reported in the baseline models when ideology parameters for government and opposition are *concurrently* included. The dotplots in figures 6.6 and 6.7 summarize and compare the resulting coefficients and confidence intervals (0.9 level) with baseline models 4a/c, 5a/c, and 8a/c. For each of the three ideology indicators considered here, there is a block with three rows of “dot-plotted” coefficients. The first two coefficients plotted in rows 1 and 2 for “opposition” and “government” ideology stem from the same model; the plotted coefficient in row 3 represents the baseline model. As for the generosity changes depicted in figure 6.6, the comparison of the “government model” in the second row – which includes the opposition ideology variable the effect of which in the same model is shown in the first row – with the “baseline model” listed in the third row indicates that the negative and significant impact of the RILE and market ideology remain stable when the opposition ideology is controlled for. Welfare ideology again exerts a positive yet insignificant effect. As indicated by the overlap of confidence intervals with the zero line and the proximity of the estimates to 0, opposition ideology does not by itself exert an influence on generosity.⁷¹ The strong significant positive association of generosity changes with the economic context measured via annual GDP growth documented in the

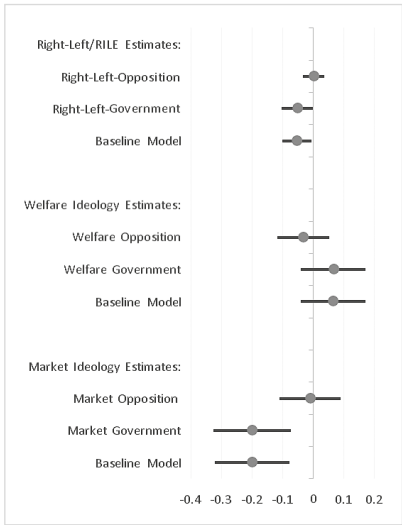
71 The marginal role of cabinet ideology when measured via labels based on expert judgments is also clearly confirmed when consecutively including the right-left, welfare, and market ideology of the opposition.

baseline models is confirmed (not included in the dotplot). Regarding the second dimension of conditionality (figure 6.7), the results from the baseline models are also largely stable, although the negative impact of welfare ideology is marginally weaker in terms of substance and significance when controlling for the welfare ideology of the biggest opposition party in the fixed-effects model. Both with and without the inclusion of opposition ideology, the RILE and market ideology have a positive effect but narrowly fail to reach conventional p-values. As in the case of generosity, opposition ideology has no main effects on benefit conditionality.

This negative finding is important but does not imply that the ideological constellation between government and opposition does not matter. Most arguments supportive of the importance of the opposition are not focusing on isolated main effects of opposition ideology vis-à-vis government ideology. Rather, the emphasis is on how the stance of the opposition changes and shapes the strategic context for the realization of cabinet positions, suggesting an interactive relationship.

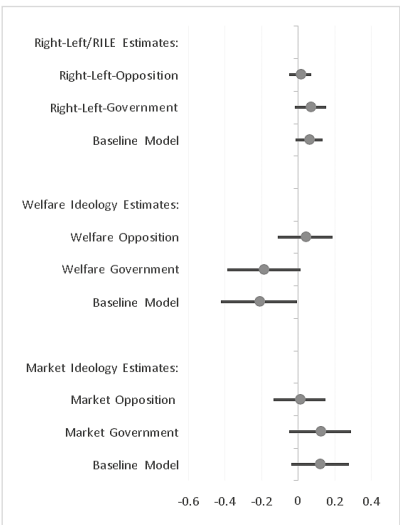
One admittedly simple way to try do justice to this interactive conception is to consider the ideological distance between the government and the biggest opposition party regarding right-left, welfare, and market ideology as an independent variable, controlling for government ideology. In dotplots 6.8 for

Figure 6.6 Opposition Ideology Effects on Generosity



Note: Government and Opposition effects from same model.

Figure 6.7 Opposition Ideology Effects on Conditionality

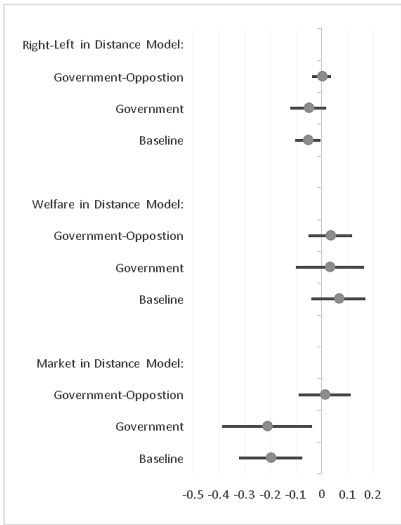


Note: Government and Opposition effects from same model.

generosity and 6.9 for conditionality, opposition values are subtracted from government values to generate a distance variable. This means that positive values on the distance variable for the RILE, welfare, and market indicate that the government is more to the right, more welfare-friendly, and has higher market affinity than the opposition. Coefficients are “dot plotted” for models in which distance and government ideology are considered simultaneously. *Baseline* again refers to models 4, 5, and 8a/c for the RILE, welfare, and market ideology, respectively. The results are similar to those found for the previously reported opposition ideology models. With the distance between the government and the opposition being partly a function of government ideology, slightly wider confidence intervals are unsurprising. In substantial terms, changes are modest and qualify as non-results despite two interesting gradual deferrals. The positive effect of welfare ideology on generosity and the negative effect of welfare ideology on conditionality calculated for the baseline model become weaker if the ideological distance between government and opposition is considered. By contrast, the negative effect of a government’s market ideology on generosity becomes even somewhat more pronounced when ideological distance is controlled.

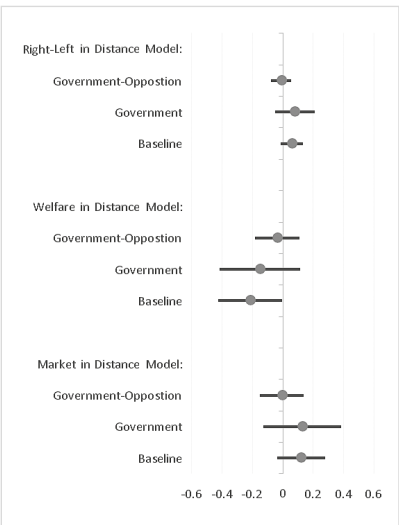
A more targeted and theoretically interesting way to approximate potentially interactive relationships is to test more specifically the concrete

Figure 6.8 Ideological Distance and Generosity



Note: “Government” includes Cabinet Ideology and the Distance.

Figure 6.9 Ideological Distance and Conditionality



Note: “Government” includes Cabinet Ideology and the Distance.

empirical implications of the three initially introduced arguments of 1) ideological “contagion,” 2) “credible protection” of the welfare state, and 3) “true faith”/“camp competition” via interaction analyses. A range of concrete questions regarding the robustness of results can be grouped along the lines of these three arguments.

6.3.1.1 *“Contagion” Argument*

First, with regard to contagion effects, the question arises as to whether the negative effect of right incumbency positions as established in model 4a is moderated by a leftish opposition. The idea of an interaction is that for different levels of a mediator variable z (here: opposition ideology), the relationship between x (government ideology) and y (benefit generosity changes or conditionality changes in unemployment insurance systems) is different. Technically, x and y are multiplied. One commonly acknowledged drawback of interaction analysis is that the substantial interpretation of the resulting multiplicative coefficients is rather difficult beyond the significance levels as a simple heuristic for statistical robustness. But this disadvantage can be sidestepped by using the visual inspection of the changing slope for x on y at different levels of z as a complementary criterion for the assessment of interactions. Subsequently, I will present conditional-effects plots/predictive margins plots, which include multiple regression lines for different combinations of the independent variables (x and z) in order to allow for an intuitive visual interpretation. In models without valid interaction effects, the multiple regression lines in the conditional effects plot are parallel to all of the calculated values of the moderator variable z (see Kohler and Kreuter 2008: 231–235); that is, the slopes for z^k , with k being the number of values/scenarios for the mediator z for which y is calculated, do not differ in a statistically significant manner. To operate with realistic values, I use the 10th and 90th percentiles (hereafter P10 and P90) of the ideological distribution as intuitive representation for relatively low (P10, represented by a solid line) and relatively high values (P90: dashed line) existing in the population of ideology scores of the biggest opposition parties. As the predicted effects plots in figures 6.10 and 6.11 show, neither for generosity changes (6.10) nor conditionality changes (6.11) does the slope of the right-left position of the government vary substantially between the scenario with a left opposition ideology (P10/solid line) and a right opposition ideology (P90/dotted line).

The congruent confidence intervals confirm that the substantial interpretation of these results is futile. If anything, the negative effect of the RILE

Figure 6.10 Interaction RILE \times RILE, Generosity

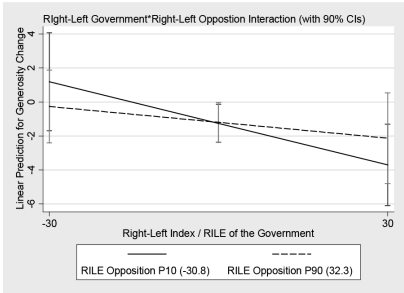
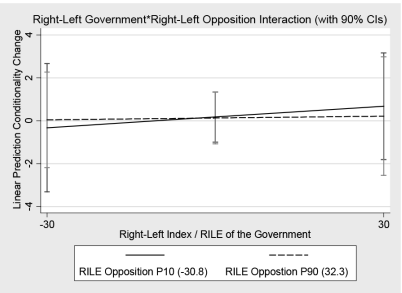


Figure 6.11 Interaction RILE \times RILE, Conditionality



on generosity and the already modest positive effect on conditionality are further weakened when the opposition has a high(er) RILE value. These results suggest neither a social policy contagion effect stemming from a right opposition nor a moderating effect of a leftish opposition ideology on the policies of cabinets with right positions.

6.3.1.2 “Credible Protector” Argument

Second, concerning the credible protection argument, it can be asked whether the welfare affinity of the opposition mitigates or nullifies the negative effects exerted by the RILE and market ideology. A comparison of the solid line representing P10 and the dashed line representing P90 in figure 6.12 reveals that the slope for right-left positions is not significantly altered and that the confidence intervals overlap. As for the potential shielding influence of opposition welfare ideology against a government’s market ideology, the result of the visual inspection of figure 6.13 is equally negative. In stark contrast to the idea that emphasis on welfare ideology within the ranks of the opposition may deter a

Figure 6.12 Interaction RILE \times Welfare, Generosity

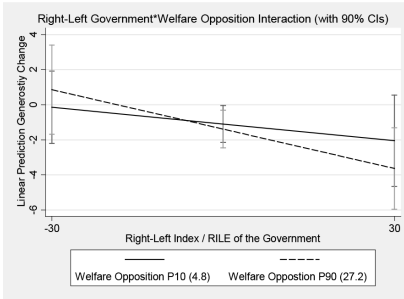
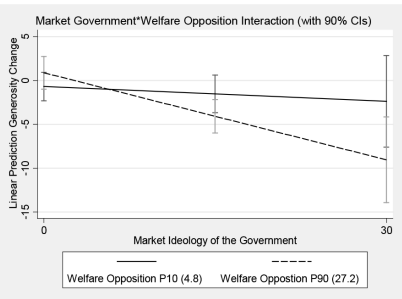


Figure 6.13 Interaction Market \times Welfare, Generosity



government with high market ideology from implementing retrenchment policies, the negative effects of government market ideology are actually somewhat stronger the more the biggest opposition party embraces welfare ideology in its party manifesto, although this amplification is far from statistically significant, as indicated by the overlap in the 90% confidence intervals.

6.3.1.3 “Camp Competition”/“True Faith” Argument

Finally, a camp competition about the representation of the true faith should find its expression in stronger policy effects from government ideology in cases of an ideologically uniform opposition. But what is the outcome if this is tested for welfare and market ideology (as for the RILE index, figures 6.10 and 6.11 already indicated that such an amplifier effect does not exist for the RILE)? Here, I constrain myself to the two constellations that yielded significant and substantial effects in the baseline models: the negative effect of market ideology on generosity changes and the negative effect of welfare ideology on conditionality changes. Figure 6.14 shows how the negative effect of market ideology on generosity changes depends on the market ideology of the opposition. The solid line indicates that for low values of market ideology in the opposition, the effect of incumbent market ideology is negative. The nullification of this negative effect for high values of market ideology within the ranks of the opposition represented by the horizontal dashed line is not significant; yet this result disconfirms the idea of a retrenchment race to the neoclassical top (or rather, to the bottom in terms of program generosity) in a uniform ideological context in which both government and opposition expose high market ideology. If this were the case, the slope for governmental market ideology would become steeper for higher values of opposition market ideology. Figure 6.15

Figure 6.14 Interaction Market × Market, Generosity

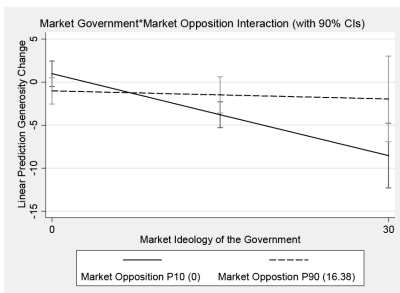
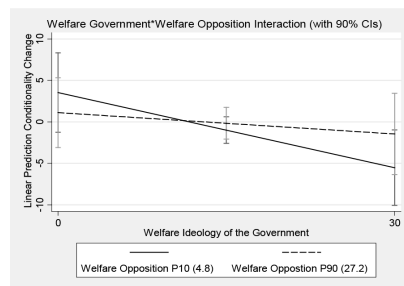


Figure 6.15 Interaction Welfare × Welfare, Conditionality



indicates a modest and statistically insignificant mitigation of the negative slope of welfare ideology for conditionality changes. The approximation to zero with increasing welfare ideology of the opposition could be interpreted in line with the previously assessed credible protector idea. Yet the strongly overlapping confidence intervals advise against any far-reaching interpretations of this easing effect.

Overall, the slopes for previously diagnosed relationships between government ideology and risk privatization policies hardly change, even when much higher values for opposition ideology are considered to assess the impact of ideological moderator variables (z), for not to mention the broadly overlapping confidence intervals which indicate that a substantial interpretation is unwarranted.

6.3.1.4 *Conclusion*

This subsection largely underscores the robustness of the findings in 6.2 and does not attest to the oft-assumed general importance of the ideology of the opposition as strategic constraint on social policy. No matter if opposition ideology effects are investigated in separate models, in conjunction with government ideology, or in terms of the ideological distance to the cabinet, no support could be found for the idea that the opposition ideology has a systematic policy impact. Even when looking at specific scenarios, opposition ideology exerts only a very modest conditioning influence on the effect of government ideology on retrenchment policies; and these moderating effects are also consistently outside of conventional confidence intervals. But while the analysis does not confirm the social policy effects arising from competitive or strategic constraints, this conclusion is accompanied by an important reservation. There is a danger that the apparent mismatch between the hypotheses on “contagion,” the “credible protector,” or “true faith” and empirical reality merely reflects the proxies used in this test. Future analyses should include all of the opposition parties to draw more nuanced inferences. This would allow for a more precise examination of the more configurative and subtle arguments. Finally, we are shooting at moving targets. There are indications that the strategic importance of opposition ideology for government policies has increased over last decades due to dealignment (Horn and Jensen 2016).

6.3.2 **Regrouping Test: Partisan Effects in the Three Worlds of Welfare Capitalism**

Space is obviously not a theoretically relevant category in comparative welfare research per se. Still, it is important to assess whether the findings that

apply to the OECD as a whole are actually universal or whether they might be driven by pronounced effects in some group of countries while absent elsewhere. Here, in order to test this possibility, I utilize the aggregated “decommodification” scores from 1980 that were the main determinant of Esping-Andersen’s country classification in social democratic, conservative, and liberal welfare states. Yet it is important to keep in mind that the rank order resulting from the combined scores for “decommodification” (Esping-Andersen 1990: 52, table 2.2), understood as the degree to which a person can sustain their material well-being when not commodifying one’s labor in the labor market (*vulgo*: the degree of market income replacement), includes important deviations from a geographically inspired grouping, especially with regard to continental versus northern Europe:

Social Democratic:	Austria, Belgium, Denmark, the Netherlands, Norway, Sweden
Conservative:	France, Germany, Italy, Japan, Finland, Switzerland
Liberal:	Australia, Canada, Ireland, New Zealand, United Kingdom, United States

6.3.3 Added Variable Plot/Partial Regressions Plot

Here, I use partial regression plots, also called added variable plots (avplots) or partial regression leverage plots. In principle, this is a scatter plot between the dependent variable Y and the core independent variable X (or their residuals alternatively), except that the scatter is devoid of the part explained via the other regressors X^k (here, as in the baseline model, these other regressors are: annual economic growth, annual budget balance, globalization/international economic integration, unemployment, institutional constraints, and corporatism) (Jann 2009: 98-99). Visualized slopes are simply those from the regression line of the fixed-effects models. But the visual inspection of slopes can be misleading in rare circumstances; for instance, when the range on the y-axis is very small, miniscule effects may at first glance look like substantial trends in the avplots. To guard against such misjudgments, the plots are complemented not only with B-coefficients for the respective ideology indicator and the standard error, but also with the respective t-values resulting from these two parameters (for degrees of freedom df typically oscillating around 30df, if t approximates |1.7| or is higher, then the p-value $P > |t|$ is 0.1 or lower). The partial regression plots are organized in table 6.6 for

generosity changes and table 6.7 for conditionality changes. Subsequently, I will report and compare the fixed-effects results for the social democratic countries (column 1), the conservative welfare states (column 2), and the liberal regime (column 3) for government ideology accounted for via the share of left parties, the share of right parties, left-right positions measured using the RILE, as well as welfare and market ideology. It may be helpful to briefly eyeball the avplots prior to reading the following interpretation.

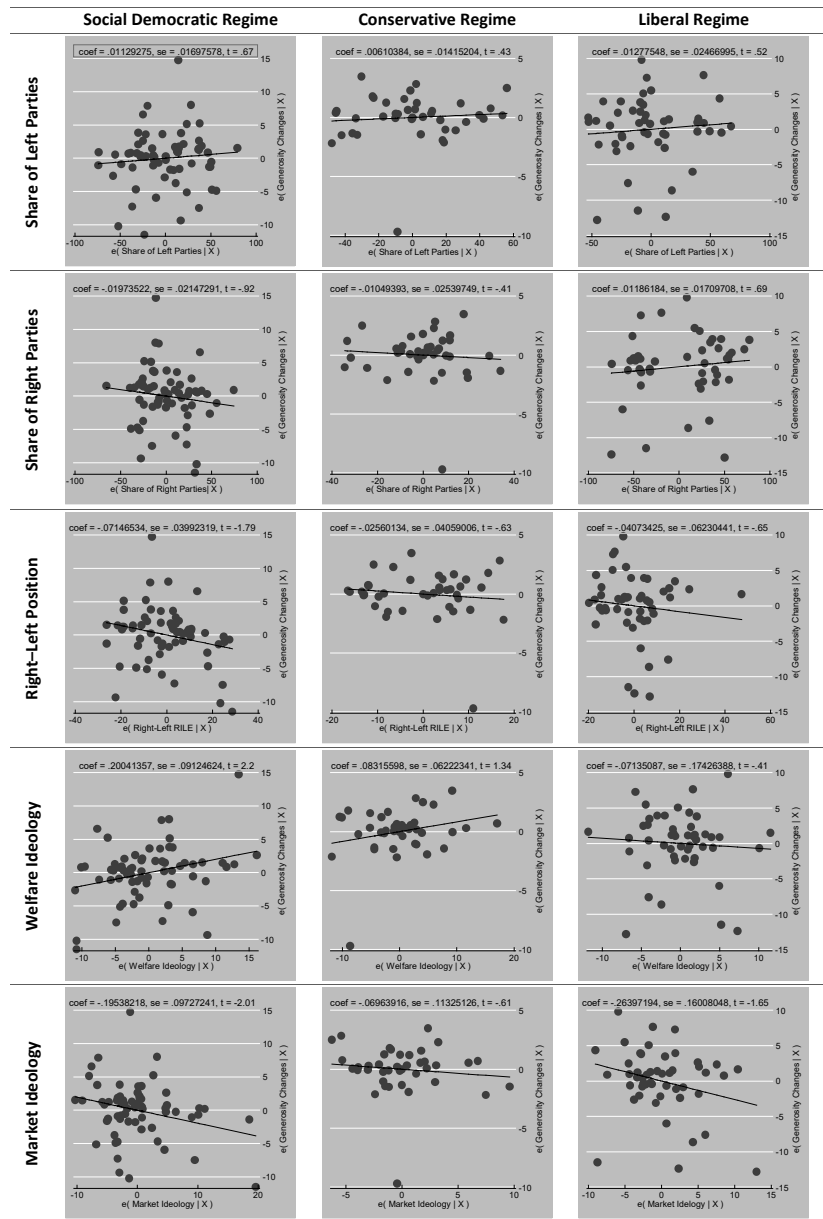
6.3.2.1 *Generosity Dimension*

The results for the effects of the share of left and right parties in the three country groups are all in line with the lack of substantial and significant effects in the previous analyses of policy effects of government ideology in the OECD as a whole. T-values consistently below $|1|$ indicate insignificance (with the degrees of freedom oscillating around 50df, t-values of $|1.299|$ upwards imply a level of significance 0.2 in a two-tailed test, whereas the t-values of $|1.676|$ and upwards signal that results are within the more conventional bounds of the 90% confidence interval). Previously, in model 4a, we found a negative effect on generosity of the right-left positions of the government measured via the RILE for the OECD as a whole. This tendency is significant and substantial in social democratic countries but less pronounced and not statistically robust in liberal countries and neither substantial nor significant in conservative welfare states. Likewise, the positive effect of welfare ideology on generosity is strong and highly significant in the social democratic regime but less pronounced and less robust in conservative and especially in liberal welfare states. As for market ideology, the significant and substantial negative effects are confirmed for social democratic and liberal regimes, but no such relationship exists within conservative welfare states where the slope is horizontal. It would be an exaggeration to state that diametrically opposed causal relationships exist in the three country clusters regarding generosity.

For the labels, non-results from models 1a and 3a are confirmed for all three groups. But it is also true that the findings of baseline models 4a (right-left), 5a (welfare ideology), and 8a (market ideology) are more characteristic of the social democratic country cluster. Living up to its name, the conservative country cluster consistently exhibits the weakest evidence for partisan effects on generosity change. This adds fuel to the idea that this group, largely consisting of the continental European countries, can be characterized as a “frozen” welfare state landscape” (Esping-Andersen 1996: 24). The changes in generosity and conditionality documented in chapter 2 are not only more modest in the conservative countries – especially in Switzerland, Italy, and

France – but to the extent that retrenchment took place, it is less a result of genuine political decisions attributable to party ideology. The absence of partisan effects in the conservative cluster also exerts an attenuating

Table 6.6 Generosity Dimension in Different Country Groups



influence on the most important aggregate finding regarding generosity changes reported earlier, as the negative effect of market ideology is pronounced “only” within the countries grouped by Esping-Andersen (1990) as liberal and social democratic or universal welfare states.

6.3.2.2 *Conditionality*

Turning to the avplots for the conditionality dimension smacks of déjà vu. The results for the fixed-effects models for the OECD as a whole are once again driven by the social democratic country block. The magnitude of the B-coefficients as well as the t-values for right-left positions (positive effect), welfare ideology (negative effect), and market ideology (positive effect) are higher than within the conservative and liberal country groups, where either no effects can be found or the sign of the regression is actually reversed. The countervailing slopes in the conservative regime for welfare ideology (positive rather than negative as in the social democratic countries and the OECD as a whole) and the RILE (negative rather than positive as in the social democratic countries and the OECD as a whole) initially give the impression of a spectacular discrepancy between the partisan effects of government ideology for the conditionality dimension in the conservative and social democratic blocks. However, this is merely a visual artifact. We are faced with a weakly significant non-effect in substantial terms, as revealed by a look at the scaling of the y-axis and the size of the Bs, as these are miniscule in comparison with the B-coefficients in the fixed-effects models for the RILE and welfare ideology for the social democratic welfare states. Again, the largely continental European conservative countries exhibit weaker partisan effects.

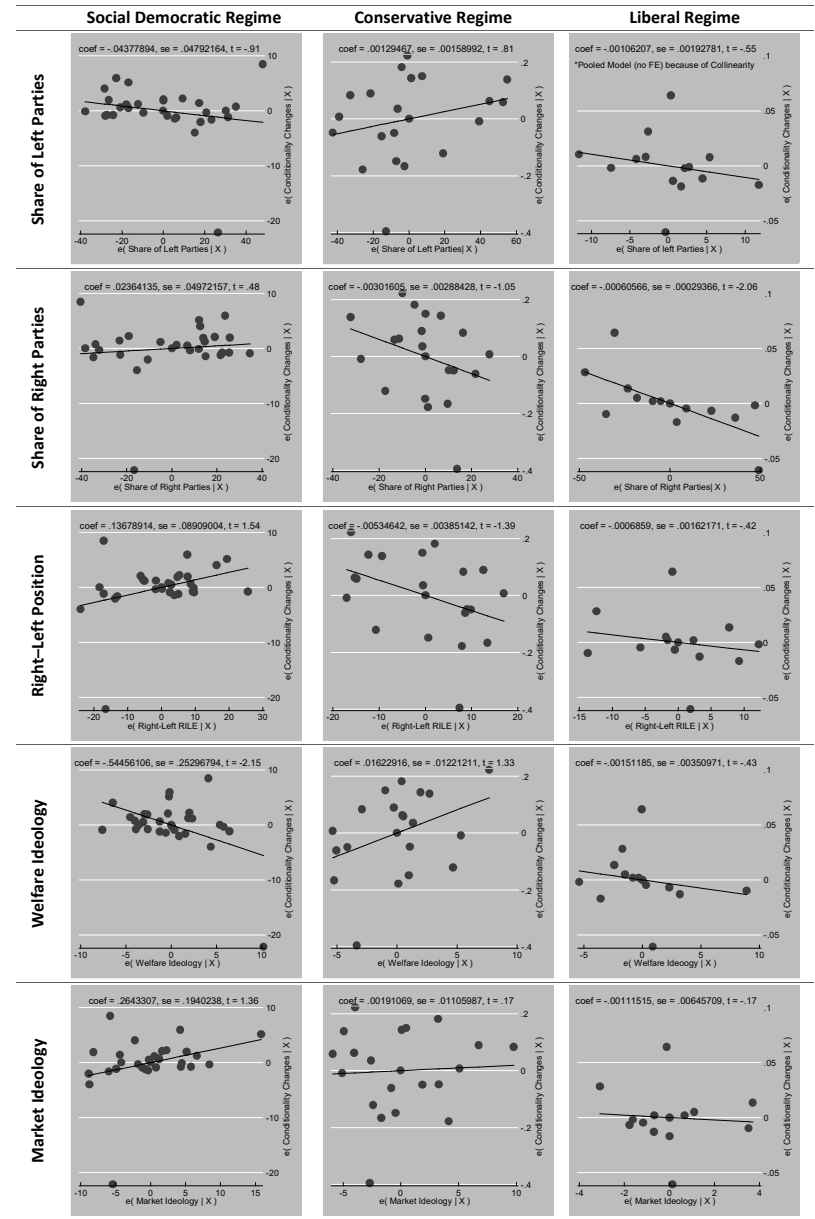
6.3.2.3 *Conclusion*

The reassessment of the baseline models for the three welfare state groups from Esping-Andersen's typology of welfare regimes was primarily an exemplary pars pro toto for testing the vulnerability of the results to regrouping and less due to a genuine interest in the groups as approximations to welfare state ideal types. This would also be an unwarranted perspective, given the mounting evidence and criticism brought forward against a typology based on cross-sectional data from 1980 (which is by no means to deny the pivotal heuristic function it rightly had in structuring the debate on welfare states⁷²).

72 Criticisms of the typology include: the misallocation of Japan due to an addition error, its merely cross-sectional empirical basis, tension between articulate conjunctural narrative and a probabilistic test strategy, as well as the categorization of Mediterranean welfare states, such as Italy, as conservative welfare states.

It is a striking finding, however, that government ideology exerts strong and significant policy effects in the high decommodification countries Denmark, Norway, Sweden, the Netherlands, Austria, and Belgium, whereas

Table 6.7 Conditionality Dimension in Different Country Groups



such influences are weaker in liberal and absent in (other) conservative welfare states. Given this constellation, one might attempt to explain cross-group differences regarding the funding structure and argue that tax-funded insurance schemes, prevalent in the liberal and universal welfare states, are easier to scale back for ideologically committed governments than the quasi-contractual, contribution-based schemes that continue to dominate the conservative cluster. The next section considers more potential factors.

6.3.4 Other Factors: Unionization, Growth to Limits, and Cabinet Fragmentation

This section discusses whether the variables that are often seen as the “usual suspects” in comparative welfare research can account for or add to the documented differences in partisan effects: the degree of unionization, the growth to limits theorem, and the fragmentation of cabinets. The question is if and how the inclusion of those aspects affects the impact of ideology.

6.3.4.1 Unionization

One potential criticism of the previous results is that societal power resources, the labor movement in particular, are not sufficiently covered and that their consideration may render political power resources and the ideological complexion of government less momentous regarding retrenchment. For instance, Kwon and Pontusson (2010) have argued that the effect of political power resources depends on union strength/decline. The previously discussed Integrated Economy Index (Siaroff 1999), which builds on eight items grouped in three dimensions commonly used to capture corporatist arrangements – “aspects of social partnership,” “industry-level coordination,” and “overall national policy-making patterns” – only partially covers this crucial aspect and displays limited variation over time.⁷³ In order to approach this potentially important omission, I complement the models with data on “net union membership as a proportion of wage and salary earners in employment” (calculated by Visser, from Armingeon et al. 2011), often referred to as *union density* or *degree of organization*.

To be sure, there are severe problems with using unionization as proxy for the societal power resources of labor. The power of organized labor, and more specifically the credible threat to organize large-scale strikes and protests, does not necessarily depend on unionization per se. France, for

73 Here, I refrain from repeating the discussion of the *integrated-economy index* and refer to section 6.1.2.

instance, has the lowest unionization ratio in the eighteen OECD countries under examination, below 8% according to most estimates, actually lower than the United States or Switzerland (see annex 9 to compare union density across and within countries), yet its small, often fragmented unions are powerful, especially regarding unemployment insurance. The independent body that has determined benefit-generosity and duration since 1958 (UN-EDIC) does so in direct negotiations with unions.⁷⁴ In more general terms, the sustainable long-term trends – or lack thereof – characteristic of the unionization variable arouse concerns about the substantial interpretation of the potential effects of this variable in a fixed-effects within-country model in which the core independent and dependent variables and the other controls vary considerably between cabinets.

The effects on the reported results are negligible when considering the union density in models 1-10a and 1-10c despite these serious reservations, no matter if as a substitute variable for Siaroff's corporatism variable or in conjunction with it. As for the generosity dimension, the results remain stable after the respecification, market ideology and its constitutive indices remain significant (at conventional levels) and substantial postdictors of retrenchment measures. The same is true for the persistently significant and substantial positive association with economic growth. As for the conditionality dimension, the moderate negative influence of welfare ideology is confirmed in substantial terms yet is now narrowly below the conventional significance level of 0.1. Again, the shares of left, center, and right parties in government remain inconsequential despite the modified model specification. Counterintuitively, union density itself is negatively associated with both changes in generosity and changes in conditionality. However, these effects are not statistically significant. Overall, it seems fair to say that the effects and non-effects on retrenchment stemming from the measures used to assess the policy impact of the ideological complexion of governments are not a function of societal power resources but remain robust when this aspect is considered.

6.3.4.2 *Growth to Limits*

Another classic topos of the literature on the determinants of welfare state expansion is the “growth to limits” hypothesis, according to which the

74 See also The Economist (2006). It is telling that former conservative French president Sarkozy (from the center-right Union for a Popular Movement) wanted to ease what he saw as (too) conflictual labor relations by encouraging wider and less fragmented representation in unions, and especially in the work councils (*comités d'entreprise*), that have an important statutory role in companies with more than 50 employees.

initial levels in generosity and conditionality possibly codetermine the extent and probability of retrenchment (Flora 1988: xi-xxvii). Here, I pursue an orthodox *and* a more instructive modified test of this hypothesis.

The orthodox version of the argument, according to which the initial levels have an explanatory power of their own, is difficult to assess in the given fixed-effects framework, as the maximum values used as initial levels (see table 2.1 in chapter 2) are constant across all of the observations in each country. In order to avoid perfect collinearity, a normal pooled model (which pools between-country and within-country variation) is therefore used as a best possible test, despite the laxer basis for inferences. Neither for generosity changes nor conditionality do the initial levels have a substantial and/or significant effect. The negative effect of welfare ideology on conditionality remains robust and the negative effects of the RILE and market ideology on generosity even gain in significance and substance, although this is most likely not due to the initial levels per se but the looser specification.

In addition to this orthodox test, one might argue that it is more interesting for scholars ultimately interested in the autonomy of politics to assess how the level at the start of each cabinet, bequeathed by the previous cabinet, influences the inclinations of new cabinets to expand or retrench. Indeed, in a bivariate setting, both the changes in generosity and conditionality are significantly inversely related to the former levels in the time period $t-1$, both in the pooled and fixed-effects models (as stated before, I deem the latter more instructive for drawing causal inference). This can be read as provisional confirmation for the intuitive (floor effect) argument that formerly high levels of generosity and a high duration/qualification ratio leave more room for (further) steps toward risk privatization. But this negative relationship between changes with previous levels turns statistically insignificant once tested in the *ceteris paribus* environment of the baseline model.

6.3.4.3 *Fragmentation of Government*

Another important scope condition for the ideological complexion of government to manifest itself in social policy in general and the privatization of labor market risks in particular is arguably the structure of government. One indicator commonly used to evaluate government fragmentation is the number of cabinet parties. The problem with indicators related to the heterogeneity of governments is certainly that the theoretical expectations with regard to the politics of retrenchment are ambivalent, if not arbitrary. In terms of decision-making, the expansive or contractive direction of legislation notwithstanding, one could expect less fragmented cabinets to be more productive legislators simply because they should be more ideologically cohesive.

Yet ambivalent strategic considerations come into play. On the one hand, the argument in the literature on spending is that fragmented governments, measured as the number of parties, suffer from a so-called *common pool resource problem* and distribute “without taking into account the full tax implications of their spending,” rendering them inclined to spend more (Bräuninger 2005: 419; see also Roubini et al. 1989).⁷⁵ On the other hand, on the basis of Pierson’s idea that the politics of retrenchment is dominated by a logic of blame avoidance as opposed to the imperative of credit taking in the previous politics of welfare expansion, one could argue that multiparty governments provide the ideal habitat for electorally unpunished unpopular retrenchment measures, as coalitions create room to diffuse responsibility and shift blame. Multiparty approaches possibly also render more plausible the need to frame reforms as a matter of necessity, and a consensual cross-party approach not only reduces electoral risks but also the longevity of the respective measures in future legislative terms. Unfortunately, this means that the same circumstance – the high fragmentation of government as measured via the number of parties – could be regarded as an adverse or favorable strategic environment for making “hard choices” or “tightening the belt” (to use the policy jargon commonly used when talking about state retreat). Other plausible and more nuanced arguments for and against positive and negative effects exist, but our data only allows for a rough test and, as in the case of the theoretically undecidable debate on the net effects of globalization on taxation and social protection, the prospects for settling the debate theoretically are rather dim.

The evidence confirms the ambivalent theoretical status of broad coalitions in the politics of retrenchment. As regards the generosity dimension (models 1a–10a), the negative relationship between the number of parties in government and generosity changes is clearly statistically insignificant and substantially modest. By way of illustration, each additional party in government leads to a maximum of a 0.27 percentage point cut in income replacement. Other coefficients are lower. Importantly, the negative effects of the RILE and market ideology once again remain robust. With regard to the conditionality dimension, the effect (which is positive this time) of the number of parties oscillates around the conventional 0.1 p-level for the modified models 1–10c. The consideration of the number of parties in the models that explain conditionality changes also leads to a slight drop in the significance and magnitude of the negative effect of welfare ideology.

75 By contrast, Siegel (2001) finds that single-party governments have a negative effect on welfare efforts.

6.4 Specific Framing Argument: Ideology Moderates Economic Pressure

The evidence from the main effects presented in the previous sections attests to the importance of welfare and market ideology and, albeit to a lesser extent, dynamic left-right positions for the privatization of unemployment insurance within the OECD in the last four decades. At the same time, no such evidence could be found for the share of left, center, or right partisanship in terms of traditional party labels. This can be regarded as “confirmation” (or failure to falsify the null hypotheses) for hypotheses H4a and H5a and more broadly for the cognitive framing argument in its general sense. However, the framing argument discussed in section 4.2.3/4 specifically emphasized the importance of ideology as cognitive frame vis-à-vis problem pressure, implying that the policy reactions to problems are conditional on ideology. It therefore constitutes the litmus test for the framing argument as to whether the crucial impact of economic pressure that has been documented in 6.2 is independent of cabinet ideology. Recall that economic growth exhibited a strong positive effect, consistently significant throughout models 1-10a. In other words, economic downturns are associated with generosity cuts and a thriving economy with expansionary reforms (or rather, in a general context of retrenchment, comparatively fewer generosity cuts). This finding appears to support functionalist arguments that expansion and retrenchment are primarily driven by economic pressure, whereas the causal effects of unemployment and the budget balance were unimpressive both in terms of statistical significance and substance. Trade globalization was even positively linked with generosity changes. This speaks in favor of the Compensation Hypothesis that globalization induces higher political demand for social policy rather than a fierce race to the bottom in provisions. The framing argument in its specific sense as opposed to the framing argument in its general sense – which merely implies main effects as witnessed in models 4-10 – indicates that the consistent effect of economic growth/recessions on generosity changes should not be independent of the ideological constellation. This specific version of the framing argument has been dubbed Metahypothesis 3 and found its expression in a reformulation of hypotheses H4 and H5, according to which welfare and market ideology channel the impact of economic pressure:

- H4b** The impact of economic pressure on risk privatization is conditional on (high) market ideology.
- H5b** The impact of economic pressure on risk privatization is conditional on (low) welfare ideology.

Interaction terms are therefore introduced into the country fixed-effects models to test whether the slope of the economic growth variable depends on cabinet ideology. The idea of an interaction is that for different levels of a mediator variable z , the relationship between x and y is different. Technically, x and y are multiplied. One commonly acknowledged drawback of interaction analysis is that the substantial interpretation of the resulting multiplicative coefficients is rather difficult despite the opportunity to utilize significance levels as a simple heuristic for statistical robustness. Fortunately, this disadvantage can be sidestepped by using the visual inspection of the changing slope for x on y at different levels of z as a complementary criterion for the assessment of interactions. Subsequently, I will present so-called conditional effects plots/predictive margins plots, which include multiple regression lines for different combinations of the independent variables (x and z) in order to allow for an intuitive visual interpretation of the modified models 1-10a. In models without interaction effects, the multiple regression lines in the conditional effects plot are parallel for all calculated values of the moderator variable z (see Kohler and Kreuter 2008: 231-235). One crucial question related to the visual assessment of the plots concerns the values used to demonstrate interaction effects. Here, values for the 10th and 90th percentiles for any of the ten measures of ideology are visualized as realistic approximations for low and high ideology values to ease comparability across indicators, the solid lines representing low values (the 10th percentile, P_{10}) and dashed lines representing high values (the 90th percentile, P_{90}). This is a rather conservative strategy. Naturally, the differences would look more dramatic and confidence intervals would be further apart if the suggestive strategy of using minima and maxima or even hypothetical values were used. For the models including left and right party labels (models 1 and 3, figures 6.16A and 6.16C), however, the values of the 10th and 90th percentiles are identical with the minima and maxima of the actual and theoretical distributions (0% cabinet share of left-center-right parties in government or percent). This implies that the visualization strategy, or more specifically the choice of values for the moderator z , can hardly be charged as suggestive or opportunistic in the sense that it favors the theoretically cherished dynamic measures RILE, welfare, and market ideology, because the values for these three indicators as well as their four sub-scores for the normative and ontological dimensions can (and often do) attain much higher values. In terms of scaling, the same recourse to the actual distribution inspired scaling regarding the values chosen for annual economic growth as a share of the GDP between -5 and +10% growth. Following these explanatory

preludes, let us now visually inspect the interactions for the extended models 1-10a. Of all the models, only the interactions for market ideology are significant at conventional levels, whereas right-left positions and welfare ideology narrowly fail the 0.1 threshold for p-values. All other models also fail to pass the F-test for the model as a whole at conventional p-values. The confidence intervals depicted in figures 6.16 to 6.19 are at 90%. The same controls as in the previously discussed regression models (1-10a-d) apply.

6.4.1 Share of Left, Center, and Right Parties in Government

Figure 6.16 presents the interactions of the economic context with government ideology measured as the share of left parties (A), center parties (B), and right parties (C) from the modified models 1-3a. When studying 6.16A-C, the first thing to notice in the conditional effects plots is the positive slope of economic performance, indicating the positive relationship between the economic context and generosity changes consistently documented in the analysis of the main effects in the fixed-effects models 1-10a. In figure 6.16, the comparison of slopes for high and low values of ideology within and across margins plots leads to the same conclusion. The slope of economic growth exhibits virtually the same angle for left, center, and right governments, regardless of whether we examine the solid slope indicating low values (10th percentile/1st decile) or the dashed slope indicating high values (90th percentile/1st decile). The confidence intervals for P10 and P90 are largely coextensive. Even if one considers a drastic scenario in which a cabinet of 100% left ministers is replaced entirely by right ministers, *ceteris paribus*, the slope of economic growth representing the predicted linear positive effect of economic growth on generosity does not change. This means that economic crisis translates into retrenchment and prosperity into benefit expansion (or, in the general context of retrenchment, relatively fewer curtailments), regardless of what the political landscape looks like, at least when the texture of this landscape is charted via the share of left, center, and right parties in government.

6.4.2 Right-Left Positions of the Government/RILE

Let us now look at the same model but with the simulation for the 10th and 90th percentiles of right-left positions in terms of time-variant RILE from the Manifesto Project (former model 4a). Recall that the interpretation for

Figure 6.16 Effect of Economic Growth on Generosity as a Function of Cabinet Shares

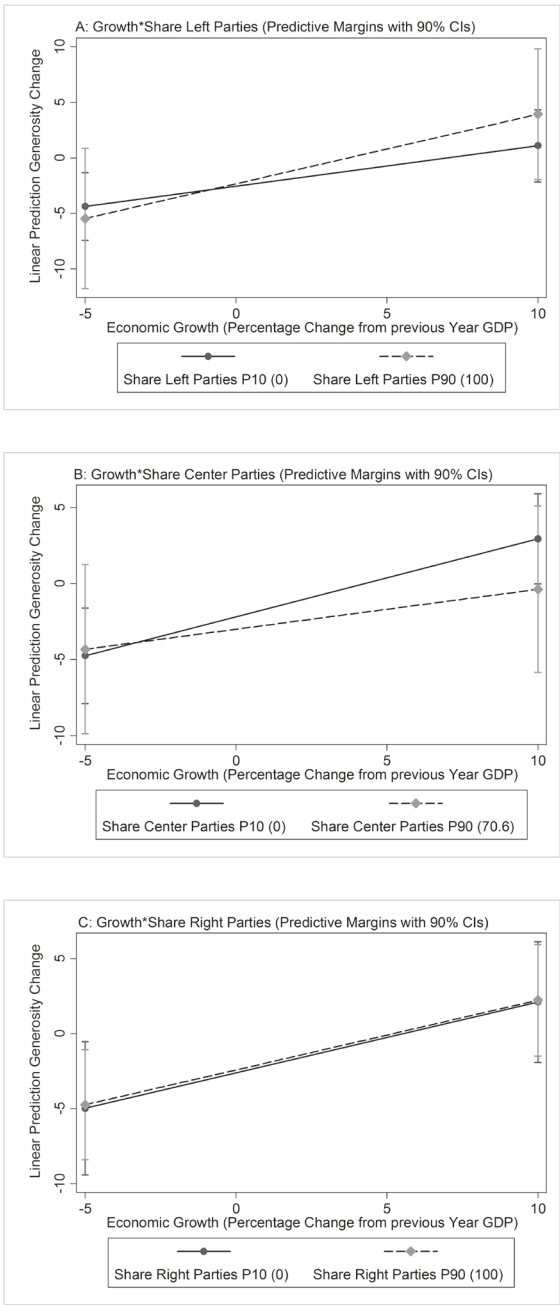
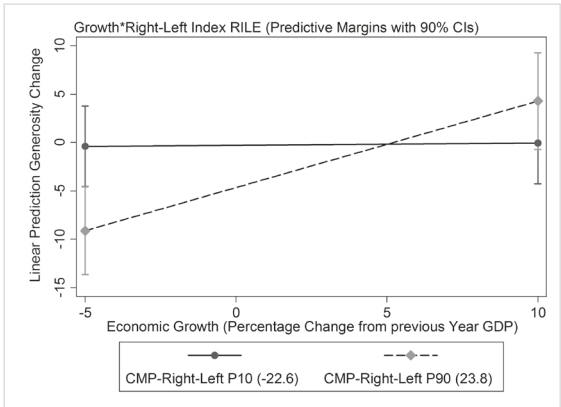


Figure 6.17 Effect of Economic Growth on Generosity as a Function of the RILE



the dynamic Right-Left index is more intricate than for the other measures, as negative values indicate left positions and positive values indicate right party positions. As can be inferred from the solid horizontal line indicating low values in the margins plot in figure 6.17, the positive relationship in the fixed-effects models between growth and generosity changes is altered and even nullified if governments are leftish on the RILE index, whereas the slope is clearly positive for right governments, as indicated by the dashed slope. The difference between the 10th and 90th percentiles obviously has to be treated with caution due to the considerable confidence intervals (CIs), suggesting that the difference is only statistically significant at conventional levels for relatively drastic yet historically recurring macroeconomic scenarios. On the other side, it is worth bearing in mind that the right-left values of governments have occasionally been much more polarized than the values in this illustration. For instance, the 99th percentile value is 37.46 and the 1st percentile value -36.6.

6.4.3 Welfare Ideology of the Government

Figure 6.18 illustrates how economic growth affects the predicted generosity change at different levels of welfare ideology: low versus high welfare ideology (A), low versus high values of the normative dimension of welfare ideology (B), and low versus high values of the ontological dimension of welfare ideology (C). The slope representing the effect of economic growth remains positive in all three plots, regardless of whether the government ranks relatively low (solid line) or high (dashed line)

on welfare ideology. This is particularly true for the welfare norms – variations in the normative dimension of welfare ideology do not alter economic effects, as witnessed by the virtually congruent positive slopes for both the 10th and 90th percentiles with largely congruent confidence intervals. However, a mediating impact can be diagnosed for governments that rank relatively high on the ontological dimension of welfare ideology, although confidence intervals still overlap. There are, however, 21 governments in the entire data set that exhibit a value exceeding the 90th percentile value of 9.1, and still 9 in the era of retrenchment. From slightly higher values of 12 on up, the impact of the economic context is fully leveled and then reversed, with only modestly overlapping uncertainty corridors at the lower end of the economic growth spectrum. Unsurprisingly, aggregate welfare ideology as a result of both the normative and ontological dimensions of welfare ideology exerts only a comparatively modest and statistically insignificant moderating effect on the positive slope of economic growth.

In sum, hypothesis H5b, according to which the impact of economic pressure on risk privatization is conditional on (low) welfare ideology, is not fully supported by the interaction analysis as a whole. Welfare ideology exerts a moderating effect as expected, but a full conditioning of the growth generosity relationship depends on very high welfare ideology or extreme economic contexts.

6.4.4 Market Ideology of the Government

The most important moderating factor is market ideology with its two subdimensions. The significance levels for the multiplicative interaction terms are clearly below traditional thresholds: $P < |t| = .000$ for the multiplicative term of economic growth and overall market ideology in 6.19A, $P < |t| = .007$ for the interaction of growth with the normative dimension of market ideology (B), $P < |t| = .003$ for the interaction of growth with the ontological dimension of market ideology (C).

More importantly, the statistically significant differences of the effects for growth on generosity at different levels of governmental market ideology are also substantial differences, as the comparison of the solid and dashed slopes for the 10th and 90th percentiles of market ideology show. If governments are attached to market ideology (P90), the positive relationship between economic growth and changes in unemployment insurance generosity is amplified, as evidenced by the particularly steep diagonal dashed regression line. By contrast, in the absence of

pronounced market ideology (P_{10}), the relationship between economic growth and changes in the generosity of unemployment insurance is nullified, as evidenced by the solid horizontal line. This shows how the change in the generosity of unemployment insurance in the P_{10} scenario, that means low market ideology, is not significantly different from 0 in recessions *and* booms.

This confirms the expectation that governments respond to the same economic challenges differently depending on their ideology. It also suggests that the more specific assumption that low growth leads to retrenchment only if the cabinet exerts high market affinity, while governments refrain from risk cutbacks as a reaction to low economic growth if market ideology is low. For the sake of completeness, it must be added that the moderating effect at the upper bounds of the economic growth variable, confirming a tendency we already found for the two subdimensions of welfare ideology, is statistically more robust for the ontological dimension of a government's market ideology when compared to the normative dimension of governmental market ideology.

Overall, however, it can be concluded that hypothesis H4b, according to which the impact of economic pressure on risk privatization is conditional on (high) market ideology in the ranks of the government, is clearly confirmed by the evidence from the interaction analyses, both in terms of the substance of the moderating effect on economic growth and regarding its statistical significance.

6.4.5 Conclusion

Generally speaking, the inspection of the interaction between the economic context and the ten cabinet ideology measures suggests that whether economic parameters translate into retrenchment indeed depends on the ideological complexion of governments, although the condition-alization by cabinet ideology depends on the concrete indicators used to account for the ideological complexion of government. The results are in line with the specific cognitive framing argument, according to which the perceived appropriateness of social policy reactions depend on the respective ideological frame. More specifically, Metahypothesis 3 stated that welfare and market ideology do not merely exert main effects, they operate as conceptual lenses through which cabinets perceive problems, their causes, and the respective solutions. Thus, the effects of economic pressures should be conditional on ideology. Market ideology emerged as the single most important ideology variable – the impact of economic

Figure 6.18 Effect of Economic Growth on Generosity as a Function of Welfare Ideology

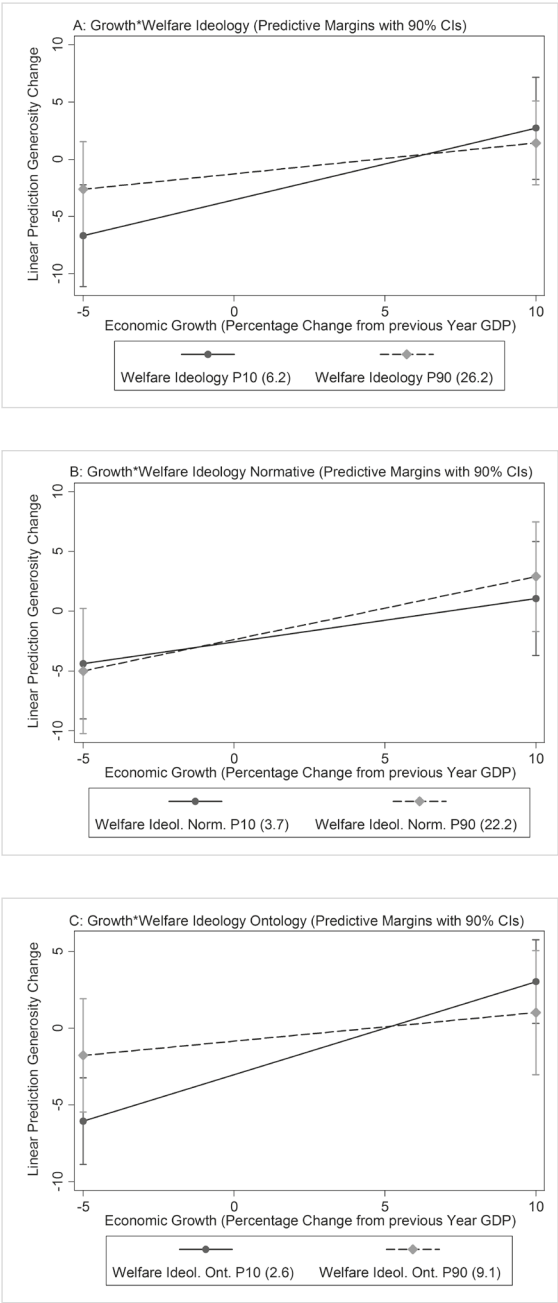
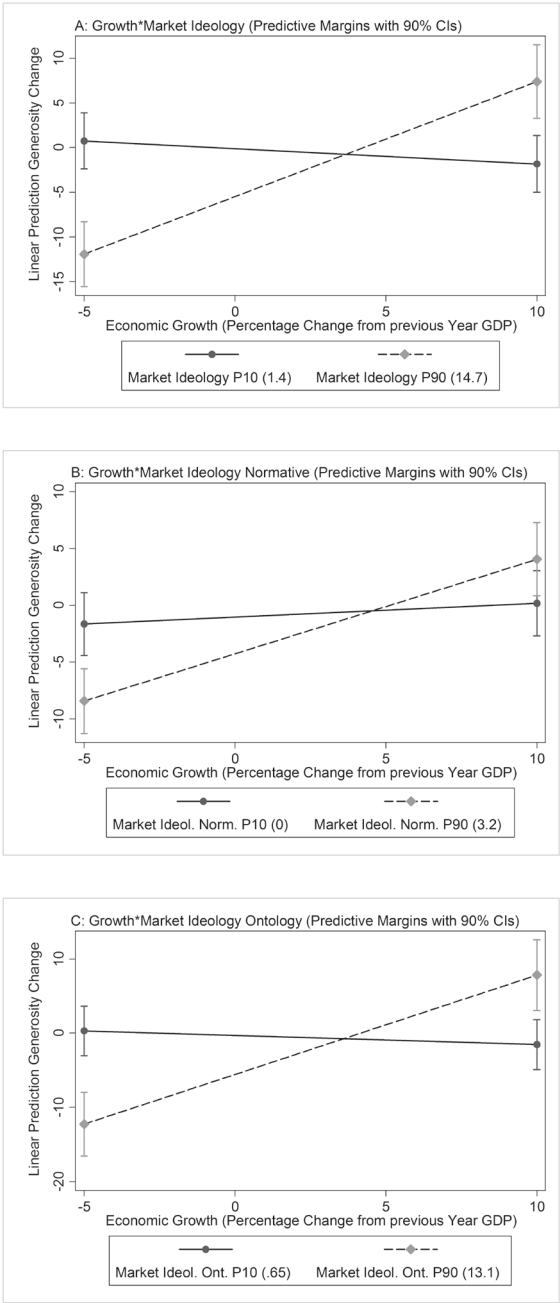


Figure 6.19 Effect of Economic Growth on Generosity as a Function of Market Ideology



context on generosity, even in times of economic crisis, is conditional on high market ideology and even reversed if market ideology is low, whereas the moderation effects of welfare ideology are weaker and less statistically robust.

Differentiations are also necessary with regard to the measures for left, center, and right partisanship. For the right-left positions measured by the RILE, I find that the positive relationship between the economic situation and generosity changes levels off for left-leaning cabinets and is only valid for governments with right positions, even though the confidence intervals overlap to some degree. By contrast, if ideology is conceived of in terms of left, center, or right parties' share of the cabinet portfolios, measured via expert judgment-based party labels, a very different, misleadingly defeatist conclusion emerges: The significant and substantially positive relationship between economic context and risk privatization policies is the same at all levels of left, center, and right partisanship in government, which would suggest that party politics is indeed marginalized.

6.5 Crisis, Ideology, and Retrenchment in Germany, the United Kingdom, and Sweden

The quantitative analysis has established that governmental market ideology exerts a strong negative effect on unemployment insurance schemes. More important still with regard to the cognitive framing argument, it depends on pronounced market ideology and the absence of strong welfare ideology if economic crises lead governments to react with curtailments in the generosity of unemployment insurance programs. As I have stated when discussing the limitations of existing research, however, it is necessary to complement these large-*n* results with more case-sensitive evidence. The nested analysis (Lieberman 2005) idea is more often praised than practiced; it creates considerable complexity and is not always advisable (Rohlfing 2007). Yet if we were to rely on statistical evidence alone without further case-specific information, it would be very hard – even impossible – to identify three kinds of potential validity problems of the analysis regarding:

- 1 The measurement of the core concepts, in particular market ideology and welfare ideology. Based on the assessment of parties' respective problem perceptions and discourses, it is necessary to assess the extent to which they correspond with the two ideology indices that I have developed.

- 2 The soundness of the causal inferences. Here, the basic question is whether the political narrative fits the cognitive framing argument. To address this question, I will look more closely at how the government parties conceived of the economic situation and economic problems and whether and how their assessment(s) of the role and the impact of the welfare state in general and unemployment insurance in particular affected their policy responses.
- 3 Potentially neglected context variables. Are there non-idiosyncratic factors that are relevant for the crisis reactions of cabinets that have been neglected in the quantitative analysis?

The goal is thus not to repeat the causal analysis. I concur with Collier et al. (2010) that triangulation does not mean carrying out the analysis twice but instead that we should “adjoin” qualitative and quantitative strategies so that they complement each other and compensate for each other’s limitations (e.g., the potential “spuriousness” of statistical results [Lieberman (2005: 450)]). The overall aim here is to illustrate the framing argument and reduce the uncertainties regarding the validity of the measures and inferences inherent to purely quantitative macro-analysis. To address said three aspects and allow for more confident and specific inferences, this section complements and substantiates the quantitative results further with illustrative case evidence from three paradigmatic welfare states: Germany under Helmut Kohl (Christian Democratic Union [CDU]), the United Kingdom under Margaret Thatcher (Conservative Party), and Sweden under Ingvar Carlsson and Göran Persson (Social Democrats [SAP]). The cabinets and their welfare ideology, market ideology, and the net generosity change in unemployment insurance is summarized in table 6.8:

The same structure is applied to Germany, the United Kingdom, and Sweden. First, the political and economic context is described. Then,

Table 6.8 Overview: Ideology and Generosity Change in Six Cabinets

Cabinet, Prime Minister	Welfare Ideology		Market Ideology		Generosity Change	
GER 1983-1987, Kohl		10.1		15.8		-2.6
GER 1994-1998, Kohl		8.6		4.7		0.9
UK 1979-1983, Thatcher		3.9		25.2		-22.6
UK 1983-1987, Thatcher		3.6		13.1		-4.15
SWE 1988-1991, Carlsson		39.7		6.3		1.7
SWE 1994-1998, Carlsson		11.7		19.4		-9

Notes: Bars are relative to the highest value of the six cabinets (= 100). For ideology scores, see section 4.2.

the economic worldview of the government and shifts in this economic worldview are assessed and compared with the two quantitative scores for welfare and market ideology. More specifically, I draw on the discourse within the cabinet parties and a close reading of the relevant party and election manifestos. I also contextualize the positions and ideas into the ideational *longue durée* of the respective parties. Finally, I describe the policy output(s) that these ideas and positions have led to concerning unemployment insurance. Yet given that the latter aspect, the description of the policy changes, is covered in detail in existing studies, the focus is on the impact of worldviews, problem perceptions, and policy discourse. Before I elicit the general rationale behind the case selection, let us briefly zoom in on the three countries:

Germany under Kohl: In 1982–1983, Helmut Kohl and the new coalition composed of the Christian Democratic Union and the Liberals propagated that a “respite in social policy” is needed, in line with its economic ideas and beliefs. Those beliefs were markedly more pro-market and more skeptical of the welfare state than those of previous cabinets. The comparison with the ideologically more indifferent last bourgeois coalition under Kohl – with modest welfare and low market ideology – is equally instructive to understand why the Kohl government(s) that started in 1982 and 1983 adopted cutbacks, while the last Kohl cabinet became a synonym for “reform gridlock,” although GDP growth suggests that the economic pressure was similar in the early 1980s and the mid-1990s.

The United Kingdom under Thatcher: The Thatcher-led cabinets from 1979 on are a clear case for the importance of “conviction politics” in the realm of economic and social policy making. It is also instructive to compare the Thatcher cabinets to its predecessors and successors. Despite comparable economic problem pressure, the Labour government that ruled from 1974 to 1979 did not curtail the benefits, although it crossed swords with the trade unions (e.g., regarding wage moderation). Contrary to the Thatcherite problem diagnosis, it saw no link between benefit generosity, benefit conditionality, and benefit expenses on the one hand and the incentives to work and invest on the other. The comparison with other conservative governments after Thatcher clearly confirms the exceptionally strong role of market ideology as a cognitive frame.

Sweden under Carlsson: The Swedish case merits the analysis because the comparison of the legislative periods under Social Democrat Ingvar Carlsson (1988–1991, 1994–1998) demonstrates that economic worldviews and changes in these worldviews are decisive for the social policy reaction to an economic crisis even for pro-welfare left parties that – as in the case of SAP – remain

pro-welfare. After the relatively modest crisis adjustment of the bourgeois government during the deep recession, observers of the Swedish model would have expected SAP to undo the cutbacks after its return to power in 1994 (Wintermann 2005: 15-16). However, SAP continued on the (programmatic) retrenchment path, although the structure of unemployment protection was formally preserved. In order to understand this ambivalent reaction, one must factor in the profound changes in the SAP problem analysis.

While the governments in focus were all faced with economic crises, the three cases otherwise cover a wide range of theoretically relevant variation. Most importantly, the governments that I look at consist of or are dominated by parties that have very different traditional affiliations, historical roots, and party labels (left-center-right). The British Conservatives are widely regarded and coded as an archetypical right party. The German Christian Democrats have confessional origins and are labeled as centrist by most scholars. The Swedish Social Democrats are a classic mass mobilization and labor movement party with a left label. Apart from this variation at the government party level, the cases also vary regarding the institutional context. It has (rightly) been pointed out that comparative welfare studies tend to reproduce – unproductively – the “three worlds of welfare capitalism” (Van Kersbergen and Vis 2015). Yet, it remains uncontroversial that Germany, the United Kingdom, and Sweden still constitute very different welfare state contexts, no matter how (proto)typical conservative, liberal, and social democratic they may be. The case selection is also guided by the fact that Kohl, Thatcher, and Carlsson all presided over multiple cabinets, which creates additional opportunities for comparing the relevance of positions not just within-country but even within the same party constellation in government. The ideology scores in table 6.8 show that this is a promising strategy with regard to Kohl (1982/83-1987 vs. 1994-1998) and Carlsson (1988-1991 vs. 1994-1998), as we can find clear shifts in market and welfare ideology. By contrast, market ideology by far exceeds welfare ideology in the two cabinets led by Thatcher alone between 1979 and 1987. A final rationale underlying the case selection is that Kohl, Thatcher, and Carlsson have been relatively outspoken about their deeper motives during, before, and after their time in office.

6.5.1 A “Breathing Pause in Social Policy” – Germany under Kohl

6.5.1.1 *Economic and Political Context*

The sixteen years of the ruling coalition of the CDU/CSU (the Christian Democratic Union and the Christian Social Union) and the liberal FDP

(1982-1998) were preceded by the last FDP-SPD government under Chancellor Helmut Schmidt of the SPD. Apart from the growing dissatisfaction within the ranks of his own party over Schmidt's eagerness to push through the unpopular "NATO double track decision" (*NATO-Doppelbeschluss*), the end of the social-liberal coalition was characterized by ever more severe positional spats with the liberal FDP regarding economic, social, and fiscal policy (Dittberner 2010: 47-48; Zolleis 2008: 198-199). Deeper reasons for the growth of the factions within the two parties critical of the coalition were that the projects that once united the partners, such as the liberalization of society and a more conciliatory policy toward the Soviet Union and the socialist German Democratic Republic, were already implemented, and that the electoral rise of the Greens threatened the traditional role of the FDP as the kingmaker in the center of the party system (Dittberner 2010: 51). Finally, in September 1982, the FDP ministers collectively resigned, thereby breaking with the coalition partner with whom they had campaigned in 1980. Helmut Kohl, who varied and repeated the notion that an intellectual and moral turn was necessary, became chancellor for the first time after the successful constructive vote of no confidence on 1 October 1982 against Schmidt. In March 1983, after an early election, his first regular term started. The growing disagreement regarding the appropriate course of action in the areas of social, economic, and fiscal policy between FDP and SPD must be seen against the background of rising economic problem pressure in the aftermath of the second oil crisis (1979). In 1981, GDP growth rates were falling, 1.27 million people received unemployment insurance benefits, and it was predicted that the social insurance agencies, in particular the Bundesanstalt für Arbeit (Federal Agency for Employment), which was responsible for unemployment insurance, would no longer be able to compensate the drop in contribution-based revenues and the increasing demand for benefits without any increase in the federal subsidies (Adamy and Steffen 1982), so the FDP demanded drastic cuts in unemployment benefits (Clasen 2005: 64). Such actual and prospective funding deficits are particularly important in the German context, as the debates on public finances in Germany are often particularly program and fund specific (Clasen 2005: 33). Another particularity of the German case is that the welfare state (and not so much the tax system) had to carry the costs and level the stark inequalities accompanying German reunification in 1990. While economic problem pressure was low from the mid-1980s on after the period of high problem pressure during Kohl's first years in office, problems resurfaced from late 1992 on in the form of sluggish growth and rising unemployment after a short-lived postreunification boom (Clasen

2005: 43-44, 69), prompting debates about non-wage labor costs and the competitiveness of the *Standort* (location) Germany.

6.5.1.2 *Positions and Ideas*

In 1983, the influential Annual Economic Report outlined the consolidation of the budget and the strengthening of German competitiveness as the primary challenges facing the new governments. These concerns were not independent, given the then pronounced fear that public debt and thus higher interest rates for bonds would render investments in public bonds more attractive than private investment (JWB 1983: 5, 12). Such crowding-out arguments were also prevalent in the political discourse. Less state public meddling – so the argument went – would lead to lower interest rates, thereby strengthening private sector investments and – ultimately – strengthening economic growth (Zohlh  fer 2001: 68). As in the case of the British Conservatives, labor market rigidities and the principle that benefits must be (significantly) lower than wages (*Lohndifferenzierung*, *Lohnabstandsgebot*) were at the heart of the problem analysis of the black and yellow coalition partners. But what precisely did the FDP and the Union signal in terms of their economic worldview? What was their analysis of the problem? Here I will focus on the ideological convictions of the first Kohl years and contrast them with the more indifferent final legislative term; a contrast that is well captured by the two main ideology measures of this book.

The last government of Helmut Schmidt (1980-1982) was decisively pro-welfare (17.7) and expressed little enthusiasm for market ideology (3.7), similar to the two former social-liberal governments. Accordingly, the indicators employed in previous sections – generosity, conditionality, the workfare balance, and social transfer spending – show no signs of expansion or retrenchment. By contrast, both the transition government and the first regularly elected Kohl government showed a stronger commitment to the market than to the welfare state, partly reflecting the shift of Liberals (15.2 market ideology versus 9.9 welfare ideology for 1982-1983, 15.8 versus 10.1 for 1983-1987). The early Kohl cabinets were also significantly to the right on economic terms when compared to other governments, as the average market ideology score is 7.7 and the average welfare ideology score 16.2). With more time in office, however, the ideological commitment of the coalition dropped sharply. The coalition party platforms from 1994 indicate below average commitment to market ideology (4.7) and welfare ideology (8.6).

Nevertheless, governments – especially coalition governments – are by no means unitary actors. As shown in the following, based on primary documents and the outputs of the cabinet parties, these scores match the

programmatic debates and problem perceptions of the Union and FDP at the beginning and end of the sixteen-year period often labeled the “Kohl era.” Let us first zoom in on the positions taken by the CDU/CSU in 1982–1983. The main points of departure for the discussion of its economic beliefs must be as follows: a welfare state-skeptical position paper called the “Albrecht Paper” (together with the discussions it evoked), the ideas voiced by Kohl in speeches, particularly during his first inauguration speech in 1982, and the positions taken by the Union in its election manifestos.

In terms of economic and social policy, the CDU in the late 1970s and early 1980s still saw itself as a cross-class peoples’ party with the “social market economy” as its central tenet (Zolleis 2008: 180, 198). This conception popularized by Ludwig Erhard, who as minister for the economy presided over the economic miracle (*Wirtschaftswunder*) in the 1950s, is based on the state as the provider of a necessary frame for the market and otherwise emphasizes subsidiarity and market conformity. At a party congress in Hamburg in 1982 the CDU started to refocus on economic incentives and supply-side economics under the rubric “renewing the social market economy” (*die Soziale Marktwirtschaft erneuern*). However, there was no full consensus within the party when the Union came to power in October 1982 what this notion specifically stands for. The Albrecht Paper addressed that programmatic and conceptual deficit and channeled the discussion in the party during the “silly season” of the summer of 1983 (Werfarth 2014). The paper was written by Ernst Albrecht, the premier of the very influential state of Lower Saxony and member of the CDU program commission. Inter alia, his paper outlined the following theses relevant for the welfare and social policy nexus (Zohlh  fer 2001: 47–49): Most importantly, the reasons for unemployment were seen as structural. The social security system was deemed too expensive and not economically viable/inefficient and the incentives wrong/not pronounced enough. Finally, the factor labor was seen as too expensive, the non-wage labor costs too high. These theses shaped the discussion in the Union and had great impact on the program commission in 1983 and finally the Stuttgarter Leits  tze (Stuttgart Principles) in 1984. However, the discussion of the Albrecht Paper illustrates one important difference between the CDU in Germany and the Conservatives in the United Kingdom or the FDP post-1983 – the existence of influential within-party opposition and susceptibility to the concerns of unions. The proposals that ended up in the Stuttgart Principles were watered down as a result of the opposition of its employee wing, organized in the Christian Democratic Employees’ Association (led by Minister for Labor and Social Affairs Norbert Bl  m), and the trade unions to the frank wording and

economic ideas presented in the papers. In that sense, we can only speak of a reaccentuation of the market vis-à-vis the welfare state rather than a fundamental programmatic change, although the groups that supported the Albrecht Paper still found themselves in the Stuttgart Principles (Zolleis 2008: 194, 201-203).

The inauguration declaration of the new coalition, given by Kohl, provides an alternative source, even though the economic analysis of problems and proposed solutions are discussed less explicitly than in position papers. Nonetheless, Kohl's inauguration speech in the German Bundestag on 13 October 1982 illustrates why the early Kohl is sometimes seen as a – albeit much more centrist – protagonist of the conservative revolution that Thatcher and Reagan proclaimed in the United Kingdom and the United States. He sets the tone in the opening sentence when he claims that the Federal Republic would be in the “most severe economic crisis since its inception” (Kohl 1982). In sum, the word comes up sixteen times in his inauguration speech. In the first part of the speech under the rubric “economic and intellectual-political crisis,” Kohl runs through the numbers for bankruptcies, investment, and unemployment. He regards a too-high level of (social) contributions (*Abgabenlasten*) as the reason for lacking economic dynamism and points out that national debts are on the rise nonetheless. At the current level of contributions (“this way”), he concludes, “as everybody knows, no growth can be created.” To address this state of crisis, characterized by the twin challenges of a lack of economic dynamism and an escalating fiscal crisis, the new coalition must react with tough but “necessary adjustment,” “emergency measures,” and “sacrifices.” The three pillars listed for the so-called “emergency package” are 1) “less state, more market,” to 2) “move away from collective burdens to individual performance,” and 3) to “shift the focus from crusted structures toward more flexibility, individual initiative and stronger competitiveness.” In order to achieve this shift from the state to self-reliance, contributions and taxes should be lowered and social benefits cut. A related leitmotif emphasized later in the speech is that “work/performance” (*Leistung*) must again pay off. Importantly and in contrast to the mostly economic argumentation of the coalition partner, however, Kohl emphasizes not only the economic but also the moral necessity for what he calls a “breathing pause in social policy” (ibid.: point 2):

The question of the future is not how much the state can do for its citizens. The question of the future is how liberty, dynamism, and self-responsibility can flourish anew [...] Too many have, too long, lived at

the expense of others: the state at the expense of its citizens, the citizens at the expense of other citizens [...] all of us at the expense of future generations. [...] If we continue on the old path without reflection, we expose people to a new kind of alienation of an anonymous, bureaucratic welfare state, just when the social market economy has freed them from the alienation of unfettered capitalism. (Kohl 1982)

These convictions have implications beyond usual inauguration speeches, as the speech also marked the *de facto* start of the campaign for the 1983 election. It is therefore unsurprising that the general convictions outlined in the inaugural address also resurface in the 1983 CDU/CSU party program. It repeatedly calls for “more self-reliance and less state,” emphasizes subsidiarity (CDU/CSU 1983: 15), and, more specifically, announces the necessity of “more self-reliance of citizens also in social policy” and a stronger focus of social benefits on the “really needy” (*ibid.*: 8).

By contrast, the 1994 manifesto was vague in terms of welfare and market ideology, and it was only slightly more concrete than the reunification manifesto in 1990, which included some references regarding the social market economy. The 1994 program mentions a reduction of the public spending ratio as well as the level of contributions (taxes and social security contributions). However, the program explicitly qualifies the increase in the share of social contributions (from 17.2 to 17.9% between 1982 and 1993) and the economic burden associated with it as insignificant (CDU 1994: 38). Furthermore, as indicated by the reversal in priorities measured by my quantitative indicators (welfare ideology was now more pronounced than market ideology), these concerns are marginalized by the dominant topic of reunification and the challenges related to it. While Kohl’s inauguration speech in 1982 and the 1983 manifesto began with the “terrible legacy of the SPD” and the thus necessary “renewal of social market economy” (CDU 1983: 2-3), the point of departure in 1994 was the realization of the “inner union” (*innere Einheit*). Another important issue regarding the 1994 manifesto is that it lacks the moral impetus of the early 1980s. Overall, it is hardly controversial that Kohl and the Union lost their ideological drive of the early 1980s, confirming what the quantitative scores for welfare ideology and market ideology used in this book suggest. When combined, the sources paint a picture of a party (rhetorically) devoted to a less market-interventionist and more welfare-skeptical approach when compared to the early 1980s. Based on my quantitative scores and the party outputs cited above, this interpretation is in line with the expert judgments that attest to the CDU in the 1990s having lost its vision of the future to the

extent that it even appeared to be lethargic (Walter and Dürr 2000: 123ff.), particularly so regarding economic topics (Zolleis 2008: 223, 227). The party that was among the most reformist Christian democratic parties in Europe in the early 1980s, when it pledged to renew social market economy, suffered from programmatic exhaustion. The reasons for this programmatic exhaustion are beyond the scope of this book, but some authors suggest that – apart from the adversities and challenges associated with German reunification – organizational changes in the party are to blame. During Kohl's sixteen-year chancellorship, he and his closest allies in the cabinet became ever more powerful (creating the “system Kohl”), at the expense of the party's central office, which used to be the CDU's ideational center and “idea exchange” (Zolleis 2008: 189–191, 222–227).

Let us now look at the Union's liberal coalition partner: the FDP. In the early 1980s, the party was already more similar to CDU/CSU in terms of social, fiscal, and economic convictions than to its old coalition partner SPD (Dittberner 2010: 47–52; Zolleis 2008: 199). The SPD adhered to full employment as the aim and Keynesian demand management as the means. The FDP prioritized (a monetarist focus on) a stable money supply and supply-side policies (*ibid.*). The provocation (for the then coalition partner SPD) of the Lambsdorff position paper set the tone for the FDP and its positions in fiscal, economic, and social policy matters in the 1980s. Otto Graf Lambsdorff was already minister for economic affairs under Helmut Schmidt and remained in charge of this portfolio under the new chancellor, Kohl. The position paper was drafted in the ministry and entitled “Policy Concept to Overcome Low Growth and to Fight Unemployment” and reprinted in the most important weekly *Die Zeit* under the title “A Manifesto for Succession” (Lambsdorff 1982). Graf Lambsdorff and his staff made excessive social contributions and too comprehensive benefits responsible for a lack of economic incentives and private investment, low growth (*Wachstumsschwäche*), and mass unemployment. The Lambsdorff position paper suggests, among other things, lower unemployment insurance benefits and tighter eligibility rules. The paper rightly anticipates that its proposals would not be perceived as socially balanced, especially by labor unions. It is argued, however, that there is no alternative to lowering the non-wage labor costs if the aim is to fight low growth and, thus, high unemployment, which constitutes the greatest “social imbalance” according to the position paper (Lambsdorff 1982: 6). Clearly, the repeated emphasis of the FDP's increasingly dominant right wing (as opposed to the social-liberal wing solidary with Schmidt and the coalition with the SPD) on the necessity of drastic and blanket cuts in benefits in general, and

unemployment insurance in particular, contributed to the split between SPD and FDP (Clasen 2005: 64).

These arguments and thoughts were then partly reflected in the manifesto for the election in March 1983. When listing the most important challenges facing Germany in the 1980s, unemployment and the employment crisis are at the top of the list (FDP 1983: 4). More specifically, the FDP prioritizes limits on public spending and consumption and the consolidation of public finances also suggests various tax cuts (*ibid.*: 6, 7). With regard to social security, the manifesto calls for a restructuring of the system and emphasizes the necessity to “drive back the role of the state in the social security system” (*ibid.*: 6). The wording is not as frank as in the Albrecht Paper or the Lambsdorff position paper, and the FDP manifesto avoids all too sweeping conclusions regarding the welfare state. In particular, there are fewer signs of the moral furor that accompanied the economic analyses of Thatcher, Reagan, and the early Kohl (i.e., explicit claims that a paternalistic welfare state creates a “dependency culture”). However, it is clearly the position of the FDP that the balance between incentives and solidarity has shifted too much to the latter (*ibid.*: 10). This is remarkable, given how the FDP was in government with the SPD from 1969 to 1982 (and in fact, for almost the entire postwar era), and reflects that the social-liberal wing that supported the SPD has lost the factional battle. The shift away from welfare ideology (in the 1970s) to market ideology (in the 1980s) is clearly visible in (the previously introduced) figure 4.4. The figure also documents that the reversal of the once social-liberal ideological profile of the FDP becomes even more pronounced in the 1990s and 2000s. This ideological reorientation toward market allocation partly offsets the opposing trend in the Union and peaks after Guido Westerwelle becomes secretary-general of the party in 1994. As with the CDU/CSU, the ideological profile of the quantitative scores aligns well not only with the above-cited sources, but also with expert judgments on the FDP’s dominant economic worldviews. The faith in Keynesian demand management was shared by the social-liberal coalition before the monetarist and orthodox economic views gained the upper hand in the FDP in the late 1970s and early 1980s under the impression of the increasingly difficult economic climate (Dittberner 2010: 47). One reason why the ideological pendulum never swung back to the left pole is that the FDP paid a (predictably) high price for the shift to CDU/CSU, as it was widely perceived as betrayal. Apart from regional elections (with results clearly below the crucial 5% threshold), the FDP lost most of its social-liberal politicians and member base, mostly to the SPD (*ibid.*: chapter 2).

To sum up, both within the Union and the FDP, the crystallization point for the debate of economic problems in the early 1980s was a discussion about an inflation of demands toward the state, abuse, and even overprovision of public goods, benefits, and services. It is also noteworthy that the particular importance of unemployment insurance for this discussion was also characteristic for the social democratic problem perceptions. Here, it was argued that unemployment insurance represents a crucial buffer for those with a weak labor market position (the “industrial replacement army” [Adamy and Steffen (1982)]). It seems as though the key actors, particularly so in the FDP, were convinced that there was indeed no alternative (e.g., higher budget deficits and/or a stimulus package) and that they were merely implementing what the objective economic problem pressure, namely the twin challenges of high unemployment and high fiscal deficits, demanded of them. This is all the more noteworthy when considering that it was clear that the programmatic and coalitional shift of the FDP could lead the party to an existential crisis (and *did* lead to a pull test) (Der Spiegel 1983a, 1983b). Likewise, it was foreseeable that cutbacks between the constructive vote of no confidence 1982 and the May 1983 election would not increase the popularity of the CDU/CSU.

6.5.1.3 *Intellectual Roots*

The deeper convictions underlying the economic problem analysis among the coalition partners do not represent a break with the ideational legacies of CDU/CSU and the FDP. Particularly when compared to the stark shift among the British Tories from Keynesianism to monetarism under Thatcher (aptly described by Hall 1993), the prevailing impression is one of continuity rather than change. The CDU/CSU was still guided by the ordoliberal convictions of the Freiburg School, which former chancellor and finance minister Ludwig Erhard popularized in the 1950s under the rubric “social market economy.” In this conception, the state provides (only) a necessary frame (in Latin: *ordo*) for market participants and a minimum of social balance, but any state interference must align with the principles of subsidiarity and market conformity. Carrying with it the historical fragmentation of German liberalism, the FDP was divided between social liberals, national liberals, and market liberals since its inception (Wolfrum 2006: 63, 64, 229, 235, 353–355). This also explains the FDP’s sometimes very erratic position changes. With the Lambsdorff position paper and the collective cabinet resignation, the market-liberal faction prevailed over the less neoclassically minded factions in the party that wanted to continue the coalition with the SPD. This essentially split the party. The social-liberal wing still

supported the social-liberal and less market-liberal ideas agreed upon in the “Freiburger Thesen” from 1971, which came under pressure from the more market-liberal forces that had dominated the party in the 1950s and 1960s and again from the late 1970s on with the “Kieler Thesen” in 1977 (Dittberner 2010: 52, 84, 283).

6.5.1.4 Policies

The weapon of choice for the government to implement its agenda was not the annual budget (or the annual budget law). Rather, the legislation that accompanied the budget (*Haushaltsbegleitgesetze*) became the legislative vehicle for cutbacks and conditionalization measures in social insurance (Zohlnhöfer 2001: 69), mostly because the budget left little leeway for policy decisions (Horst 1995: 351). The Gesetz zur Wiederbelebung der Wirtschaft und Beschäftigung und zur Entlastung des Bundeshaushalts (Law on the revival of the economy and employment and the discharge of the federal budget, *Haushaltsbegleitgesetz* 1983, Bundesdrucksache 9/2074) was passed directly after the former chancellor, Helmut Schmidt, was ousted via a constructive vote of no confidence. This law reflects the economic convictions within FDP and the Union at the time: It is necessary to contain the budget and foster an economic recovery (Zohlnhöfer 2001: 69–73). Particularly noteworthy is the shared sense of urgency (*Notoperation*) that led them to introduce unpopular policy measures in the midst of the election campaign for the upcoming election in March 1983. Accordingly, the new coalition implemented a series of cuts. The German legislation concerning benefit generosity and benefit conditionality is described and discussed in detail elsewhere (Alber 1986; Clasen 2005, 2011; Clasen and Clegg 2007; Dingeldey 2011; Jochem 1999, 2009; Zohlnhöfer 2001), so I only summarize the most important changes here.

In line with the publicly voiced sentiments, one focal point was on stronger conditionality; so the benefit duration was more strongly tied to the previous contribution period. Seen from the beneficiary perspective, the ratio between the qualification period and the duration period worsened from 2:1 to 3:1 (Bundesdrucksache 9/2140: 112ff.). This was then labeled a strengthening of the insurance principle (Bundesdrucksache 9/2290: 17). Harsher measures, like cutting the standard benefit or the introduction of more waiting days (*Karenztage*), were discussed but first fended off by the employee wing of the Union against the FDP. The existence and resistance of this still influential more “workerist” faction within the Union, surrounding Minister for Labor and Social Affairs Blüm, is a main reason why Kohl’s drastic rhetoric of a necessary “U-turn” and pleas that “performance must

pay (off) again” was not fully reflected in terms of (social) policy outputs (Clasen 2005: 24-26) and, thus, disappointed some liberal economists. Instead, the supply-side measures were complemented with increases in the value added tax, higher social contributions in general, and higher social contributions to the unemployment scheme in particular (increase from 4 to 4.6% of wages). However, the more incisive measures of the new bourgeois black-and-yellow coalition were only implemented after the early election of 1983.

The auxiliary budgetary law of 1984, after the new government secured a full legislative term in office in the March 1983 elections, was less restrained with regard to program cutbacks. Primarily, the generosity of unemployment insurance benefits was cut. From 1984 on, recipients without children received 5 percentage points less of their former wage (63% instead of 68%), and unemployment assistance rates were reduced from 58 to 56% (Alber 1986; Dingeldey 2011). In addition, the benefit entitlement periods were reduced for unemployed persons with less than twelve months of continuous contributions, as well as for those aged 50-55 (Clasen and Clegg 2007: 192). The coalition's justification for these cuts to core programs was very much in line with the rhetoric in its manifestos, according to which curtailments are without a viable alternative (Alber 1986: 31-33). Yet these programmatic cutbacks to unemployment protection were still more modest than that which – now strictly market-liberal – FDP demanded (Clasen 2005: 66).

As with the ideology scores, the historical narrative confirms what the quantitative scores for the dependent variable used in this book suggest. Between 1982 and 1987, the Union-FDP government had at least partly implemented its ideological agenda, firstly (1982-1983) by tightening the conditionality criteria and then (1983-1987) lowering the averaged replacement rate generosity of unemployment insurance benefits (-2.6 percentage points). This led to decreased transfer spending. While the transition cabinet (1982-1983) devoted 17.4% of its budget to transfers, this amount decreased to 16.4 and 15.8%, respectively, during the first and second regular legislative terms from 1983 and 1987 on. By contrast, the ideologically more indifferent last Kohl government increased the transfer spending averaged over the cabinet period from 16.1% (1990-1994) to 18% of the overall budget (1994-1998). This was partly due to the fact that the averaged income replacement rate in unemployment insurance again became more generous, albeit the plus of 0.92 percentage points is a modest change.

We must be careful, however, to avoid exaggerating the passivity and the “reform gridlock” (*Reformstau* – word of the year in Germany in 1997),

which has come to be a standard characterization of the last legislative term of the Kohl coalition from 1994 to 1998 (Jochem 1999). Unemployment protection was not at the heart of the cost contagion efforts, and the incentive argument that was emphasized in the 1980s was no longer prominent, except among the FDP (e.g., Lambsdorff publicly questioned whether work incentives were strong enough). To level the social disparities and the mass unemployment emerging in the aftermath of German reunification, social contributions for pensions and unemployment insurance were increased (Clasen 2005: 47-48). More than in the United Kingdom and Sweden, the work-to-welfare approach to take people out of the labor market, often via early retirement, was applied, and it was only in the late 1990s that behavioral job-search or activation criteria were introduced at the federal level (Clasen and Clegg 2007: 179, 184). This is not to say there were no attempts at further privatizing the risk of unemployment, especially at the margins. In 1995 and 1998, for instance, the last Kohl government tried to abolish a lesser-known scheme called *originäre Arbeitslosenhilfe* (original unemployment insurance) that gave unemployed people with very modest contribution periods of at least five months the right to twelve months of unemployment assistance (*Arbeitslosenhilfe*). It had already been reduced to twelve months in 1993 (Jochem 2009: 226, 93). However, both attempts failed in the federal chamber, the Bundesrat, because of the veto from the SPD-led states (*Bundesländer*). The coalition, however, implemented a variety of other rules in 1996 and 1997 that mostly concerned unemployment assistance (called ALH), much less the core program of unemployment insurance (called ALG). These new rules primarily concerned long-term unemployment, as the assistance rate was reduced according to the number of years receiving benefits and stricter work tests were imposed (Clasen 2005: appendix A; Jochem 1999: 45).

6.5.1.5 Conclusion

Such reservations against all-too-sweeping conclusions notwithstanding, the overall conclusion is clear: The early years of Kohl's chancellorship and the rule of the black-and-yellow coalition government were characterized by a clearly defined economic worldview. But this crisis and problem perception then gave way to more ambivalent economic convictions. While the coalition was concerned with restoring economic growth and incentives in the early 1980s apart from – and as a part of – budget consolidation, it was driven by the latter in the mid-1990s. Cost containment was necessary because of the transfer of the German social security system to the east after the reunification, but the “German Model” was still assumed to

be structurally sound (Jochem 1999).⁷⁶ The differences in interpretative frameworks are also reflected in policy outputs, although the changes in the early 1980s may not be quite as drastic as the programs, speeches, position papers, and my indices suggest; a discrepancy that is mostly due to the reluctance of the Union's pro-welfare wing.

6.5.2 "Because there really is no alternative" – The United Kingdom under Thatcher⁷⁷

6.5.2.1 *Economic and Political Context*

Margaret Thatcher is widely recognized for having won the 1979 general election in Great Britain in turbulent times. Since the 1940s, when the United Kingdom had the highest income per capita in Europe, its economic position relative to other countries declined (Glennerster 2007: 225-226). Successive Labour governments under Harold Wilson and then James Callaghan (from 1976 on) had antagonized the trade union movement with limits on wage increases to cope with persistently very high inflation levels. This led to the so-called "winter of discontent" in 1978/79, when the unions reacted to attempts at holding down public sector pay with massive strikes. As elsewhere, Keynesianism came under fire as the British economy was plagued by low growth, high unemployment, and very high inflation. According to the Keynesian mainstream at the time, low growth and high inflation were perceived to be mutually exclusive. "Stagflation," the combination of economic stagnation and high inflation, questioned the notion that governments can control a tradeoff between unemployment and inflation.⁷⁸ In 1975, the year that Thatcher, a devout monetarist, replaced Edward Heath as leader of the Conservatives, inflation exceeded 20% p.a. The British economy again dipped into recession in 1980, and unemployment rates increased from 5 to 12% throughout Thatcher's first term in office (1979-1983). This stimulated social security expenditures and more

76 Most scholars agree with the notion that there was high budgetary pressure in the aftermath of the reunification in 1990. Yet this does not mean that they agree with the strategy to finance the transfer of the existing social security system to the east mostly via higher social security contributions of employees (and not higher taxes). Minister for Employment and Social Affairs Blüm later regretted that persons in separate social security schemes (e.g., civil servants, entrepreneurs) were advantaged (Jochem 1999: 28).

77 In a press conference for American correspondents held in London on 25 June 1980, defending monetarist policy.

78 The underlying "Phillip's curve" and the "modified Phillip's curve" have been discussed in section 3.1.1.2.

specifically social transfer spending. However, it was not the comparatively modest budgetary burden directly related to unemployment but rather the economic analysis of Thatcher and her cabinet that motivated the cuts. A diagnosis focusing mainly on the solution of the budgetary crisis could have been addressed using a host of alternative policy measures – among them a strengthening of the income side of the budget or cuts to other areas. But such alternatives were incompatible with the problem analysis and moral convictions of Thatcher and the hawks in her (shadow) cabinet (e.g., Keith Joseph). As they saw it, the government “jammed a finger in every pie,” the universal welfare state “persuade[d] people of the virtues of dependence,” and, as Joseph – one of Thatcher’s main advisors and education secretary from 1981 on – put it, British politics had become a “socialist ratchet” (Thatcher 1993: 8): While Labour Party-led cabinets pushed the country to the left, they deemed previous Conservative cabinets too centrist and undecided to reverse this trend and to push back the welfare state to restore the “independence and self-reliance” of the people (*ibid.*). The new mantras were: boost incentives, reduce public spending, and limit the money supply.

6.5.2.2 *Positions and Ideas*

Economics are the method; the object is to change the heart and soul.

– Margaret Thatcher, Sunday Times, 1 May 1981

The Thatcherite approach to politics and strategy is often labeled as “conviction politics” (Jessop 2015). This verdict matches Thatcher’s at times missionary rhetoric as well as her self-assessment:

Chatham [the eighteenth-century statesman and prime minister] famously remarked: “I know that I can save this country and that no one else can.” It would have been presumptuous of me to have compared myself to Chatham. But if I am honest, I must admit that my exhilaration came from a similar inner conviction. (Thatcher 1993: 10)

These statements are not atypical. Thatcher’s penchant for words such as “crusade” or “true believer” (in relation to Keith Joseph) attest to a sense of mission and strong convictions about what is necessary (Thatcher 1993: 10, 125). So strong were these convictions that she dissolved the technocratic Central Policy Review Staff (a.k.a. the “Think Tank”) that previous Conservative leader Edward Heath had installed in 1970 and that had advised governments since then, explaining that “a government with a firm philosophical

direction was inevitably a less comfortable environment for a body with a technocratic outlook" (Thatcher 1993: 30).

But what were these convictions, especially regarding the economic problem diagnosis and the welfare state? To start, Thatcherism can be – and often is – characterized by an intersection of neoliberal and neoconservative tenets (Farrall and Hay 2015). This interplay between economic convictions and cultural and normative motifs is also reflected in the (then) contemporary discourse surrounding the British welfare state in general and unemployment insurance or “the dole” in particular. Here, I draw primarily on the public discourse and the positions taken by Thatcher and the Conservatives in their party manifestos in 1979, 1983, and 1987. I also take into consideration the interpretations Thatcher provided in her political memoirs (1993). This strategy, which takes into consideration the party *and* its leader, is inevitable with regard to “Thatcherism.” Already in her first term in office (1979–1983), Thatcher removed dissenters in her cabinet, who she labeled “fair-weather monetarists,” via cabinet reshuffles (Thatcher 1993: 125).

Along with inflation, unemployment was identified in all three conservative manifestos (1979, 1983, and 1987) as the biggest challenge facing Britain. In the conservative discourse, unemployment benefits were seen as crucial because they were at the heart of the “Why work?” question. Under this rubric, concerns about an alleged unemployment trap were discussed. This means that the income differential between those in work and those out of work was conceived of as too small. It has been pointed out that this income differential could have been increased by very different means, including lower taxes for the lowest tax bracket or increasing the minimum wage (Pierson 1994: 106). These alternatives, however, were incompatible with the crisis analysis of the Conservative Party and the role of the welfare state in it. This crisis analysis is described most clearly in the 1979 platform. Thatcher’s foreword stated that “the balance of our society has been increasingly tilted in favor of the State at the expense of individual freedom.” More specifically, in the first substantial part of the manifesto, three problems are made responsible for the enduring economic crisis (and of course blamed on the Labour Party):

- 1 The “politics of envy”/politicization discourages the “creation of wealth” by “setting one group against another in an often bitter struggle to gain a larger share of a weak economy.”
- 2 State expansion and the neglect of individualism have “crippled” enterprise and effort.
- 3 Trade unions have gained too much power and privilege without the responsibility to match.

The causal assumptions behind these points are closely intertwined with the proposed solutions: “The State takes too much of the nation’s income; its share must be steadily reduced. When it spends and borrows too much, taxes, interest rates, prices and unemployment rise so that in the long run there is less wealth.” As regards the welfare state, the implication is to focus on “those who are in real need.” Notably, when listing all of the groups for which the state should provide, the large number of jobless persons is not mentioned. To “restore the incentive to work,” the aim is that “it must pay a man or woman significantly more to be in, rather than out of work.” The abolition of untaxed benefits for short-term unemployed people, the vision of an “original tax credit,” and the stricter enforcement of benefit eligibility rules are the suggested measures. It is also stated that families and local communities should rely more on self-help and self-help groups.

When we came to office in May 1979, our country was suffering both from an economic crisis and a crisis of morale. British industry was uncompetitive, over-taxed, over-regulated and overmanned. The British economy was plagued by inflation. [...] This country was drifting further and further behind its neighbours. (Thatcher 1983)

I came to office with one deliberate intent: to change Britain from a dependent to a self-reliant society – from a give-it-to-me, to a do-it-yourself nation. A get-up-and-go, instead of a sit-back-and-wait-for-it Britain. (Thatcher 1984)

Neither in terms of the problem analysis nor regarding the problem reaction did the Conservative positions shift significantly in the 1983 and 1987 manifestos, although Thatcher and the party anticipated that “more of the same” and “still too much socialism in Britain,” adequate and necessary as this message was in their view, would not be popular with the electorate (Thatcher 1993: 258).⁷⁹ “Honest” and “sound” money (Conservative Party 1983: 289; 1987: 294), competitiveness and profitability, incentives to work and invest (in particular the perceived need to widen the gap between earnings and welfare benefits), and low(er) public spending remained the prerogatives, although the analysis of the status quo was most explicit in the opposition platform 1979. With regard to unemployment policy, the focus on

79 This suggests that even the (self-professed) conviction politician and TINA advocate Thatcher was aware that perpetual change of ideas would be easier to sell at the political market place (Glennester 2007: 192).

economic incentives and the wage gap are of obvious importance. (Timmins [2001: 375] has even labeled this a conservative “obsession” with incentives.)

As in the early years of the Kohl governments in Germany in the early 1980s, however, the above statements go beyond strictly economic problem diagnosis. Rather, they intertwine moral and causal crisis diagnoses and stipulate a causal nexus between state intervention, economic crisis, and moral decay. The conviction that state intervention in general, and the welfare state in particular, lead to behavioral deformations and nurture poverty traps and dependency culture is most drastically articulated in Thatcher's autobiography, where she argues that the “winter of discontent” is partly the consequence of welfare state arrangements:

Welfare benefits, distributed with little or no consideration of their effects on behaviour, encouraged illegitimacy, facilitated the breakdown of families, and replaced incentives favouring work and self-reliance with perverse encouragement for idleness and cheating. The final illusion – that state intervention would promote social harmony and solidarity or, in Tory language, “One Nation” – collapsed in the “winter of discontent” when the dead went unburied, critically ill patients were turned away from hospitals by pickets, and the prevailing social mood was one of snarling envy and motiveless hostility. To cure the British disease with socialism was like trying to cure leukaemia with leeches. (Thatcher 1993: 8)

Thatcher expressed similar views regarding the urban riots in 1981 (Thatcher 1993: 123), arguing that welfare (state) arrangements discourage a sense of responsibility and cultivate dependency.

In light of the above summary and statements on the Conservatives' problem diagnosis, it seems fair to concur with Paul Pierson that the Tories saw the welfare state as a “large part of the problem” and thought of retrenchment “not as a necessary evil but as a necessary good” (Pierson 1994: 1). This source-based summary aligns well with the two ideology indices. The ideational shift to the supply-side economics of the Tories is clearly captured in figure 4.2, which shows the time series of the right-left score, welfare ideology, and market ideology of the party (in line with Hall [1993]). After a period in the 1960s and 1970s in which welfare ideology was consistently much more pronounced than market ideology, this pattern is reversed radically after Thatcher became leader of the party in 1975 and broke with the paternalistic tradition of one-nation conservatism. The gap between market and welfare ideology persisted until the first post-Thatcher election in 1992 under the more moderate John Major as the new Tory leader

and prime minister. The comparison with the much more pro-welfare and much less pro-market stances of the Labour-led government under Wilson (1974-1976) and Callaghan (1976-1979) visualized in figure 4.3 reconfirms how the economic worldviews and positions of the Conservatives in the late 1970s-1980s were very pronounced.

6.5.2.3 *Intellectual Roots*

The continuity in the ideas of the Conservative Party is less pronounced than in the case of the German CDU/CSU. “Thatcherism” was preceded by a milder version of the paternalistic and collectivist “One Nation” Conservatism, which emphasized the organic character of society and state and was not welfare-antagonistic. This programmatic break with the past would not have been possible if the old guard of the party – the “One Nation” Tories criticized by Thatcher, including former PMs Macmillan and Heath – would not have left the main stage (Glennerster 2007: 175). What Thatcher criticized was not merely the “only skin deep” ideological conversion of previous conservative cabinets, but the Conservative changes of heart when in government responsibility. For instance, she regrets that the Conservatives under Heath (with herself in the cabinet as education secretary) implemented a program of “corporatism, intervention and reflation” (Thatcher 1993: 12-13). Later, the same Heath was one of the many critics who claimed that the economic crisis analysis and reaction of Thatcher and her associates disregarded viable policy alternatives.

The intellectual roots of the positions of the Thatcher administration are well documented (Backhouse 2010; Hall 1993). Among these influences were Friedrich A. Hayek, Ludwig von Mises, and Milton Friedman. In 1979, together with his wife Rose, Friedman published *Free to Choose* (accompanied by an influential TV series), in which they argued that government interference with market allocation, for instance in the form of social programs, is the problem – and more market the solution. Friedman rejected the (Keynesian) consensus of scholars like Samuelson or Phillips that there is a permanent tradeoff between unemployment and inflation. Monetarists like Friedman basically adhere to the equilibrium view of the market as stable, but only under the condition that the money supply is stable. To bring inflation to a hold, the state must limit the money supply and cut spending. As in the United States, where the new Heritage Foundation became part of the policy-making process under Reagan (Backhouse 2010: 143), think tanks became increasingly important for the dissemination of economic ideas and their translation into policy proposals. Pro-market think tanks expanded rapidly in the 1970s in the United Kingdom, coordinated for

instance by the Mont Pelerin Society. Examples include the Centre for Policy Studies (1974) that Thatcher and Joseph founded; the Adam Smith Institute (1977), and the Social Affairs Unit (1980) (Backhouse 2010: 142). As in the United States, these think tanks with pronounced pro-market and small-government agendas increasingly gained considerable political influence (Glennerster 2007: 192). For instance, the Institute of Economic Affairs (IEA), whose founding in 1955 was initiated by Friedrich A. Hayek himself and which disseminated the small-government ideas of the Austrian and Chicago Schools, exerted a particularly strong influence on the Conservatives in general and Thatcher in particular (Backhouse 2010: 141), despite her otherwise skeptical attitude toward academic economists (ibid: 151). To call the approach of the Conservatives under Thatcher research- or evidence-driven would be misleading. The insights from the many green and white papers were applied only when the evidence and suggestions were not contradicting Thatcherism. One example of this selective approach concerns the (mostly ignored) finding that the excessive targeting of benefits (via means testing) leads to financial disincentives to work (Glennerster 2007: 183-184).

Other than the influence of (selected) economists and think tanks, Thatcher's Methodist upbringing has been made responsible for her individualistic and voluntarist views on welfare (Sutcliffe-Braithwaite 2013). This voluntarism is exemplified in a speech written by her advisor Alfred Sherman from the new Centre for Policy Studies in 1977 in which she praises self-interest and self-help and states that "[i]t is our duty to look after ourselves and then also to help look after our neighbor."

6.5.2.4 *Policies*

After taking office in 1979, the new chancellor of the exchequer (as British finance ministers are called), Geoffrey Howe, summed up the crisis reaction of the new cabinet in his first budget speech as "increasing personal incentives by reducing direct taxation and reducing the scope of state activity" (Glennerster 2007: 179). But did this problem analysis also translate into retrenchment?

Some have argued that "Thatcher has left the welfare state in healthier condition than one might have expected" (Pierson 1994: 178). Even among the proponents of the Resilience Hypothesis, however, it is not controversial that the Thatcher governments are responsible for a "substantial residualization for the unemployed" (Pierson 1994: 107), even though increasing demands for benefits meant that this residualization did not translate into lower social transfer spending.

After the economic crisis deepened further in 1980, concrete mid- and long-term retrenchment measures concerning unemployment insurance were introduced as a reaction to a “perceived urgency for cutbacks” (Clasen 2011: 17), because the cabinet believed that unemployment benefits “reduced the financial incentive to seek work urgently” (Glennerster 2007: 181), to contain spending, and “in order to deal with the ‘Why work?’ problem (namely, the disincentive to work created by the small disparity between in-work and out-of-work incomes)” (Thatcher 1993: 46).

Three aspects must be pointed out. First, as with sickness, injury, disability, and maternity, the unemployment benefit was already cut by 5% in 1980 and lowered further when the insurance benefits became subject to income taxation in 1982 (Clasen 2005: 77; 2011: 32). Second, and more consequential for the residualization of unemployment insurance, the Social Security Act No. 2 determined that the earnings-related supplements (ERS) of the unemployment benefit was reduced in 1981 and abolished in June 1982 (Glennerster 2007: 181). The surprisingly low public resistance and protest against this change can be attributed to two reasons. The contributory element had only been added to the flat-rate benefit system as late as 1966 and the trade union movement was too occupied fighting government on other frontiers, for instance regarding cuts for striking miners and occupational pensioners (Clasen 2005: 77). The cumulated changes during both of Thatcher’s two full terms in office in the generosity of income replacement documented by the quantitative parameters used here add up to -27 percentage points according to the indicators introduced in chapter 2. Other calculations arrive at similar or even more drastic numbers. Clasen states that “relative to average full-time adult earnings, the value of unemployment benefit dropped from about 20 per cent in the late 1970s to about 14 per cent by 1990” (Clasen 2011: 20), the year John Major replaced Thatcher as party leader and prime minister. This stark decrease, however, is also the result of a multitude of smaller decisions such as omitted adjustments and the changed indexation of benefits (e.g., one way to slow down this “uprating” of benefits was to switch from wage indexation to usually slower increasing prices). This low-profile strategy of “death by a thousand cuts” and “turning the screw” (Atkinson and Micklewright 1989: 17) proved highly effective. For the period between 1979 and 1988, there were seventeen, mostly contractive, measures (Atkinson and Micklewright 1989). One direct consequence was that a growing share of the jobless had to rely on supplementary benefits. By the end of the second Thatcher term in 1987, this concerned three-quarters (74%) of them (Pierson 1994: 107).

Third, benefit conditionality rules have been tightened somewhat, although this mostly affected specific groups (Clasen and Clegg 2007, 183-187

for an overview). Most importantly, the maximum disqualification period was extended (from 6 to 13 weeks), and the partial unemployment benefits (25%, 50%) for those with incomplete contribution records (similar to the German “original unemployment support” scheme) have been abolished. Together, new rules and lower benefits led to reduced beneficiary rates: The share of those who were registered as unemployed and receiving unemployment insurance dropped from 48% in 1980 to 28% in 1985 (Clasen 2005: 59).

Overall, with regard to – and as a result of – the (increasing) benefit conditionality and the (decreasing) benefit generosity vis-à-vis real wages, the 1980s can be regarded as the beginning of a tendency in the United Kingdom that has been labeled “benefit homogenization” (Clasen 2011: 25). Keep in mind, however, that the difference between unemployment insurance and unemployment assistance was never as pronounced as in Germany due to the weaker earnings-related component (flat-rate benefits first became partially wage-related in 1966).

But the preoccupation of the Thatcher government with work incentives and its reformist zeal were by no means constrained to unemployment insurance alone. The focus on work incentives was also consequential in other programs affecting the poor and those with weak(er) labor market positions (Glennerster 2007: chapters 8-9; Pierson 1994: 113-114). In this respect, unemployment insurance can be seen as a *pars pro toto* for the reform ambitions and the ideological determination of the UK Conservatives, although it is in the field of unemployment insurance that their causal and normative convictions have proven particularly consequential.

6.5.2.5 *Conclusion*

Looking at the Conservative manifestos, especially the 1979 manifesto, there were few specific plans to curb the welfare state in general or unemployment in particular, but rather a clear focus on economic incentives and market allocation (Clasen 2005: 24, 76; Timmins 2001: 362). When the economic crisis worsened further in 1980, the Conservatives translated the beliefs and norms expressed in manifestos and speeches into concrete retrenchment. Interestingly, Thatcher was well aware of the fact that differences in economic worldviews are essentially philosophical differences (Thatcher 1993: 59). At the same time, none of the statements cited above leaves any room for interpretation as to whose philosophy was “right.” As Thatcher saw things, everyone would eventually have to face up to the economic realities.

As already discussed in chapter 2, it is very much a question of the empirical yardstick whether the Conservative Party under Thatcher was indeed “unable to implement its rhetoric” as some observers concluded early

on (O'Higgins 1983: 175). If "programmatic" retrenchment is the yardstick, the numbers and laws presented above speak in favor of considerable retrenchment.

Finally, the end of Thatcherism provides further illustration of how the party group linkage must be complemented with the parties' dominant (economic) worldviews to understand government policies, particularly in a political system with few institutional constraints as in the United Kingdom. As soon as Thatcher was replaced by Major in 1990 as party leader and PM, the Conservatives moderated their ideological stances and public spending and borrowing again increased; prompting a disillusioned Thatcher to remark "in Politics, there are no final victories" (1993: 571).

6.5.3 "Classic Values" in "A New Reality" – Sweden under Ingvar Carlsson

6.5.3.1 *Economic and Political Context*

In the early 1990s, Sweden dipped into a deep economic crisis. Between 1990 and 1993 the budget surplus became a deficit of 12.3% of the GDP, unemployment increased from 1.7 to 8.2%, and GDP growth dropped from 1.4 to -2.2% per year. The sharp increase in the debt ratio and the number of unemployment benefit recipients first came to a halt in 1995.⁸⁰ This was remarkable in a country that has been spared mass unemployment longer than any other European country in the postwar period except for Switzerland (Lindvall 2004: 9). These developments toppled the foundations of the Swedish welfare state – stable growth and high employment – thus leading to massive fiscal pressure on the generous social programs (Andersen 2001; Carlsson 2003). As in the German case, the crisis undermined the self-financing capacity of the Swedish labor market fund. The short-term and direct cause for the crisis was the burst of a real estate bubble. The crisis spread from the banking sector to the economy as a whole when previously abundant credit was suddenly withdrawn. That which is more controversial among scientists and politicians, however, are the long-term causes and trends underlying the deep recession:

Even before the crisis, however, Sweden's economic performance was not exemplary. Slow productivity growth had eroded Sweden's position in real per capita income relative to other [...] OECD countries; private-sector

80 For an overview of the economic developments, see Palme et al. (2002), Sjöberg (2011: 215), and Timonen (2002: 59).

employment had not grown since the 1960s; and recurring current account deficits led to currency devaluations. The Swedish model was no longer anyone's envy. (Freeman et al. 2010: 1-2)

Others disagree with this endogenous explanation (as the cognitive framing argument suggests⁸¹):

Critics claim that the welfare state had simply become unsustainable and its cost had sent the budget deficit soaring. Yet shortly before the slump, Sweden still had full employment, a strong welfare state and a hefty budget surplus. To understand what happened, consider [...] the growing power of Swedish business, pressures from globalization and the race to join the European Union. (Ginsberg and Rosenthal 2006: 1)

After a *bourgeois interregnum* under Carl Bildt (1991-1994), a minority government led by the Swedish Social Democrats under Ingvar Carlsson reconfigured and adjusted the "Swedish Model," implementing deep cuts to social insurance programs. Even by the standards of the oft-cited Swedish "principled pragmatism" (Heclo and Madsen 1987), this problem reaction strategy surprised close observers, as it stood in sharp contrast to the previous programmatic history of SAP (Wintermann 2005: 174). Between 1988 and 1991, Carlsson had presided over an SAP-led government with a relatively traditional social democratic worldview. SAP was voted out of office precisely because of its perceived inability to reform in a context of mounting economic and budgetary problems (Wintermann 2005: 121). This section argues that the multifaceted policy reactions of SAP in the 1994-1998 period reflect the parties' complex ideological transformation. SAP embraced supply-side economics and incentives much more than previously, while also emphasizing the necessity to return to the growth path in a solidary way without dismantling the coherence and generosity of the welfare society. Finally, it only became possible to implement the SAP's complex strategy of investment, cutbacks, and revenue increases due to the institutional and historical acceptance of minority governments that

81 The discussion about the economic performance of Sweden and the determinants of the crisis in general and the impact of the welfare state in particular could easily fill a separate book. Some scholars claim that Sweden had been lagging behind for years; others criticize the *swedosclerosis* thesis. Korpi argues 1) that it is not entirely plausible to blame a sudden crisis on long-standing characteristics of the country and 2) that comparisons of economic growth rates with (rapidly growing) poorer OECD countries are unfair (Korpi 2005). Tellingly, even the elites within SAP could not agree fully on what caused the crisis (Lindvall 2004: 108).

govern with alternating parliamentary majorities. This is not to say that SAP underwent a smooth ideological transition without much resistance. Most importantly, the historically very strong ties with the trade union movement atrophied. Until 1990, the members of the main trade union confederation LO (Landsorganisationen i Sverige) were automatically members of SAP (referred to as *kollektivanslutning*). Already in the 1980s, the LO opposed increasing demands from SAP modernizers for wage moderation and decentralized wage setting. Disagreements over tax and social insurance reform were further issues in this so-called “war of the roses” between SAP and the LO (Lindvall and Sebring 2005; Tsarouhas 2008: 113, 178). In the mid-1990s, the unions went so far as to publicly mobilize against SAP’s retrenchment proposals, particularly in unemployment insurance and pensions. This led to a temporary “cooling-off of the SAP-LO relationship in the 1990s” (Timonen 2002: 72-79).

6.5.3.2 *Positions and Ideas*

When the Social Democratic Party celebrated its hundredth anniversary in 1989, some of its modernizers acknowledged the need to experiment with new policy ideas. For instance, European integration – previously regarded as antithetical to the ideas of social democracy and the Swedish welfare model – was increasingly discussed in light of the risks of continued nonintegration (Tsarouhas 2008: 125). With regard to its views on the welfare state vis-à-vis the economy, SAP also underwent a “programmatic reorientation” (Wintermann 2005: 240), mostly during the opposition years from 1991 to 1994. This process started in 1990, when the party increasingly acknowledged factual constraints and started discussing the need for cutbacks in programs (ibid.: 239, 249). But what were the tenets of this programmatic reorientation and what are the continuities in the programmatic development? To address this question, I draw on a close reading of SAP’s programmatic stances, the quantitative scores for market ideology and welfare ideology, and the ex-post characterization of this transformation process by Ingvar Carlsson, who served as prime minister from 1986 to 1991 and from 1994 to 1996 and was leader of SAP from 1986 to 1996.

The quantitative ideology indices suggest that the Carlsson cabinet between 1988 and 1991 had a traditional, if not orthodox, SAP profile, with a very strong welfare ideology (39.7) and – statistically speaking – average market ideology (6.3). The program starts by stressing the importance of improved welfare, does not indicate that more marketization is necessary to sustain the welfare state, and ends with the slogan “Justice First!” (Sätt Rättvisan Främst!) (SAP 1988). The party that returned to government in

1994 was very different. Now, SAP expressed only a moderate pro-welfare ideology (11.7) combined with a strong focus on the market (19.4). SAP adjusted its causal economic beliefs and placed greater emphasis on market allocation. SAP did not, however, abandon its welfare ideology, although it moderated its views. This is also how the shift in positions and ideas was perceived and summarized by SAP's most important figure after the assassination of Prime Minister Palme in 1986, Ingvar Carlsson. In his book *What Is Social Democracy?*, he speaks of a shift toward "new political measures" in order to "uphold the fundamental, classic values" in a "new reality" while not concealing that this was the result of a difficult discussion (Carlsson and Lindgren 2007: 19).⁸² Another way to put this is to say that the party selectively took "new" (e.g., neoliberal) economic thinking into consideration, although most in SAP "were not entirely happy, for ideological reasons, with the ideas that dominated the international economic debate" (Lindvall 2004: 67, 96). A generous and risk-reducing welfare state that fosters solidarity was (still) regarded as beneficial to generate growth (Carlsson 2003). The "Valmanifest" from 1994 is in many ways the result of the difficult discussion between the traditionalists and those stressing that the welfare state must remain competitive and flexible (Sjöberg 2011: 228). By emphasizing the complementarities of a functioning market and a generous welfare state, the program illustrates SAP's ideologically flexible and multifaceted problem-solving strategy.

Between 1991 and 1994, SAP had cooperated with the center-right government parties (the Moderates and the Liberals) regarding some (austerity) laws. Still, the point of departure in 1994 was that Sweden was on the "wrong road" and that the bourgeois government had used the downturn to redistribute "in favor of those who are wealthy," thereby fueling harmful societal divisions (SAP 1994). The economic crisis and unemployment is identified as the driver of budgetary problems and estimated to cost the Swedish state over SEK 100 billion annually. Worse still, this would lead to the postponement of (public) investment and higher interest rates, which would exacerbate the unemployment. To break this vicious circle (*onda cirkel*), SAP called for economic reforms, but with a focus on social solidarity, as divisions between societal groups would further fuel the economic crisis ("Sweden is too small for big conflicts"). The willingness to reach a "careful

82 This interpretation of then party leader Carlsson is in line with the ideology subdimensions for SAP in 1994-1998. Welfare ideology is 11.7 on the normative dimension but 0 on the ontological dimension. Conversely, market ideology is 0 on the normative dimension and 19.4 on the ontological dimension.

balance” (*nogrann avvägning*) can be seen as leitmotif of the following points from SAP’s 1994 General Election Manifesto:

- To return to robust growth and low unemployment, it was deemed most important to strengthen investment in infrastructure and human capital (points 1-6).
- Under the telling rubric “The way out of the crisis must be fair and solidary” (point 2), emphasized the necessity to improve the conditions for firms and entrepreneurs. Lower corporate taxation was mentioned as a concrete policy measure in this regard.
- The chapter on labor market policy (point 5) calls for greater labor market flexibility, more activation measures, and the obligation of the unemployed to search for a full-time job or engage in activation or retraining. This seemed necessary as the search activity of jobless Swedes back then was indeed less pronounced than the search activity of unemployed persons elsewhere, as in the more residual US scheme (Freeman et al. 2010: 12).
- While work incentives are clearly not as prominently associated with the economic problems as in the British or German discourse, it is stressed that benefits come with the obligation to accept a job. This point is singled out in the conclusion (“Vårt Alternativ”), where the program states “We believe in people’s willingness to work and support themselves – instead of continuing mass unemployment and welfare dependency.”
- Policy responses to the crisis should not come at the price of the welfare state consensus, however, as “welfare is not only fair, it is also economically efficient and can be reconciled with the requirements of the economic crisis” (point 2). In line with this, SAP claims that it will not – like the previous bourgeois cabinet – confine itself to spending cuts, but – in order to avoid societal conflicts – ask the well-off to contribute more to increase government revenues (point 6) via an austerity tax. This dual strategy of higher revenue and lower spending is then linked to the preservation of welfare programs.
- At the same time, increases in compensation levels are ruled out and curtailments in some programs are considered necessary. Furthermore, SAP stressed that tax rules must encourage people to work (point 6). Once again, it is stressed that everyone, including the rich and welfare benefit recipients, must make sacrifices.

Overall, the ideological ambivalence of the “torn” Carlsson/Persson cabinet is in line with the quantitative ideology scores mentioned above. SAP emphasizes the necessity of market reforms and restraint while at the same

time emphasizing the importance of solidarity. This multifaceted concept of the appropriate crisis reaction has led some observers to speak of the SAP's programmatic "flexibility" (Wintermann 2005: 235) or "ambivalence" (Sjöberg 2011: 229). Despite the internal discussions in the late 1980s and early 1990s, the dominant factions in SAP did not see the welfare state and a (welfare state-induced) lack of work incentives as the main drivers of the economic crisis. True, some in the party regarded unemployment as the increasingly structural consequence of too high reservation wages and labor market inefficiencies and thus emphasized the transitional character of unemployment insurance (Sjöberg 2011: 210). However, the high wages negotiated by unions and high inflation were regarded as the main threats to the competitiveness of the economy and (full) employment (Lindvall 2004: 70, 112-124; Tsarouhas 2008: chapters 3-4).

6.5.3.3 *Intellectual Roots*

The continuity to the formative yet outdated notion of the social democratic idea of the "people's home" is visible in the many references to solidarity, the collective, and social cohesion; even though SAP moved in the direction of more market orientation in the 1990s (Palme et al. 2002: 339).

Importantly, solidarity is not just regarded as a matter of fairness. Rather, the potential fragmentation of the cohesive welfare society in (rival) groups is perceived as a threat to the economic viability of the consensus-oriented Swedish model. The ideological openness (to neoliberal ideologemes), pragmatism (to combine different ideologies), and flexibility (to govern with parties from different ideological backgrounds) that some observers have made responsible for the problem-solving capacity of Sweden in the 1990s (Wintermann 2005), stands in line with previous characterizations of SAP's approach as "principled pragmatism" (Heclo and Madsen 1987). The Social Democrats in Sweden embraced efficiency and market allocation earlier than its German, British, and French counterparts. While Labor in said countries, especially in the United Kingdom, shifted to the left in the 1980s, even returning to discussions of nationalization in some instances, the SAP cabinets under Olof Palme put average to above-average emphasis on market ideology (yet welfare ideology was always more pronounced until the 1994 cabinet). Another historical antecedent of the Swedish model that makes the SAP shift in 1994 seem less surprising is the Rehn-Meidner Model, developed by LO economists in 1951, which places strong emphasis on efficiency. There are parallels between the threefold 1994 SAP strategy for investments, (fair) cuts, and increased revenues and the combination of the three foci in the Rehn-Meidner Model: active labor market policy,

compensating the losers of a solidary wage policy that crowds out unproductive firms, and combined with very tight fiscal policy (in the anticyclical Keynesian sense) to combat inflation.⁸³

6.5.3.4 *Policies*

In line with its Keynesian economic convictions and its very strong pro-welfare positions, the previous Carlsson cabinet (1988-1991) had increased unemployment insurance generosity (by 1.8 percentage points), refrained from conditionality and workfare reforms, and increased transfer spending levels (from 18.7% of GDP in 1988 to 19.8% of GDP in 1991). The discourse within SAP first shifted toward greater emphasis on the market and less emphasis on welfare toward the end of this term, leading to modest replacement rate cuts to health insurance (Wintermann 2005: 239). The subsequent conservative government under Bildt and the conservative Moderate Party cut unemployment insurance replacement rates (by 6.2 percentage points) but increased the transfer spending ratio to 22.1% of the GDP.

Between 1994 and 1998 under Carlsson and from 1996 on under Göran Persson, SAP further reduced average unemployment insurance generosity (-9 percentage points) and lowered transfer spending to 17.9%. But let us examine the policies implemented by SAP more closely: In order to achieve its dual strategy of consolidating the budget and the economy with cutbacks and increased revenues simultaneously, the minority government used alternating parliamentary majorities (Wintermann 2005: 242, 265). First, the revenue side was strengthened in alliance with the Left Party (Vänsterpartiet). This alliance also undid some measures of the “blue block” that aimed at the “systematic” retrenchment of the unemployment insurance system. Most importantly, the previous bourgeois government had abolished the union membership condition in order to dismantle the union-administered Ghent system of unemployment insurance. The new SAP-led government returned to the former system, thus restoring the control of labor unions over the earnings-related part of the unemployment insurance program (Andersen 2001: 1081-1802; Sjöberg 2011: 217-219; Timonen 2002: 97). This meant that the selective incentives to join a union remained intact. On the other hand, adjusting the party’s worldview to the “new realities” made some “programmatic” retrenchment seem unavoidable. The strategy was to “tighten eligibility rules, retain the waiting days, and reduce benefit levels” (Andersen 2001: 1082), even though this meant a

83 Regarding differences between the Rehn-Meidner model and Keynesianism, see Lindvall (2004: 39, 60-61).

confrontation with traditional ally LO. In particular, the LO was worried about possibly drifting away from unemployment insurance as income replacement to a more flat-rate system (Sjöberg 2011: 222). The Left Party also rejected the cutback proposals, so the cooperation ended in spring 1995. The curtailment of public spending in general and welfare benefits in particular was implemented together with the centrist, agrarian, and ecological Centerpartiet. The nominal income replacement rate for the insurance benefits of singles was reduced to a still generous 75% of the qualifying income in 1996. However, the effective rate became lower for more and more Swedes with average and above-average wages due to the – relative to other social programs and benefits – slower adjustment of the maximum qualifying income underlying the benefit calculation (Palme et al. 2002: 343–344). The gap between nominal and actual replacement rates increased. In this context, it is also relevant that the Social Democrats did not undo the decoupling of benefit ceilings from (high) wage increases in the manufacturing sector, legislated in 1993 by the conservative government. Some estimates suggest that the effect of this end of automatic indexation adds up to a loss of 40% in the spending power of benefit recipients until 2008 (Sjöberg 2011: 221). The qualifying rules became stricter from January 1996 on, meaning that only work qualifies for unemployment benefits and that more stringent sanctions apply in the case of 1) refusal to accept suitable job offers, 2) voluntary quitting of a job, or 3) fraudulent behavior (ibid.: 229–231). In 1997, the government, now under the leadership of Göran Persson, increased the qualification period to six months of labor market participation in the twelve months immediately preceding unemployment (Palme et al. 2002: 342). SAP also suggested a three-year limit to benefits but withdrew this proposal after massive protests from LO and grassroots groups of unemployed people. In the last year before the 1998 election, the SAP cabinet deviated further from its previous course and implemented some reexpansion measures; for instance, it returned to a nominal replacement rate for singles of 80%. As captured in the quantitative data used in this book and as pointed out by various country experts, however, the effective replacement rates for average earners continued to fall as maximum benefits grew slower than the average income (Palme et al. 2002: 343–344; Sjöberg 2011: 221; Timonen 2002: 97).

Overall, the institutional acceptance of minority government as long as no active countermajority evolves must be regarded as a crucial factor to turning the SAP programmatic flexibility into legislative output. The other parties remained less flexible in ideological terms, as exemplified by the austerity course of the Moderates and the staunch opposition to retrenchment

of the Left Party. Some observers have gone so far as to conclude that the programmatic flexibility of SAP in combination with a context that allowed to govern with changing legislative partners was a crucial determinant of the Swedish reform “performance,” particularly in comparison to the German policy (non)response in the early 1990s (Wintermann 2005: 235-250). While one could question the premise that the problem pressure was indeed as high in Germany at the time as in Sweden, the presence of this complementarity (of negative parliamentarianism and programmatic flexibility) was certainly a favorable context for the SAP cuts to the Swedish insurance programs.

With the (contested) exception of the duration discussion in 1997,⁸⁴ another important scope condition for the reform course was the relative neglect of organized interests (Jochem 2003: 304). This is remarkable given the long-standing concertation culture of Swedish labor market corporatism in general and the close SAP-unions ties in particular. But SAP was less willing to adjust proposals to the preferences of the blue-collar and white-collar union associations LO and TCO than previously. Especially the measures in 1995 and 1997 were inspired by the conviction that they are economically necessary, even though the confrontation with historical ally LO increased the already considerable danger of defeat in the 1998 general election (Wintermann 2005: 240) – and SAP in fact lost 8.9 percentage points compared to 1994 (mostly to the Left). This TINA perception among the ranks of SAP, the strong mandate SAP received in 1994 with its strongest election result since 1982, together with the fact that the economic climate improved (stock prices and GDP growth started rising), calls into question whether a “losses domain” was the primary driver for the welfare reforms (as suggested by Vis [2010: 171]). As with the Thatcher and the first two Kohl cabinets, the convictions concerning what was deemed necessary and unavoidable to overcome the economic crisis also played a crucial role in SAP. In the case of the Carlsson/Persson government, however, these convictions were more nuanced, as suggested by my indices for economic worldviews (welfare norms: 11.7% of the manifesto; welfare ontology: 0%; market norms: 0%; market ontology: 19.4%).

6.5.3.5 *Conclusion*

Both in terms of its normative and causal convictions concerning the economy-welfare state nexus and regarding the welfare policies it implemented,

84 Lindbom (2007: 139-140) claims that the effect attributed to the LO in the benefit duration debate is greatly exaggerated and that the revisions demanded by LO were compensated by SAP otherwise.

the Swedish cabinet 1994-1998 was “torn.” Of course, ideological ambivalence must not be confused with ideological indifference (then we would expect low scores on welfare and market ideology, as seen for the last cabinet of Helmut Kohl in Germany). In order to defend the traditional pro-welfare SAP norms, selective programmatic retrenchment was deemed necessary, but the institutional attack on the Ghent system launched by the previous conservative government was fended off. In effect, SAP “formally preserved” voluntary state subsidized unemployment insurance with its earnings related component but continued the “gradual deterioration of average and maximum unemployment benefits” (Sjöberg 2011: 223, 229). In sum, the ambivalent adjustment trajectory in Swedish unemployment protection mirrors SAP’s programmatic flexibility and ideational ambivalence.

6.6 Summary Regarding the Hypotheses: Why Ideology Still Matters

This section seeks to provide a consolidated summary of the evidence presented in the causal analysis as regards the three theoretical perspectives that marked the point of departure for this book. These theoretical perspectives were translated into hypotheses H1-H3 concerning the role of party ideology. Then, based on the criticism(s) of the common theoretical assumptions and the predominant operationalization of the ideological composition of government, I deducted and added hypotheses H4 and H5 on the effect of market and welfare ideology and the metaexpectations MH1-MH3.

The tenor of the discussion of the Independent Variable Problem was that the traditional political categories of Left and Right are not expected to make a difference regarding retrenchment; mainly in view of a group agency-based causal chain undermined by dealignment processes and the related problem of wrongly “imputed” party preferences regarding the welfare state and social policy. These theoretical problems are aggravated by measurement and validity problems. By contrast, the ideological complexion of government should still turn out to be momentous regarding retrenchment when conceived of in terms of more (welfare-)specific cognitive frames, like welfare and market ideology. The latter expectation is grounded in an understanding of government ideology as a belief system consisting of normative and ontological convictions that shape the evaluation of the status quo. This understanding contrasts with the prevailing view that partisan differences should result from affiliation with groups. More

precisely, as argued in section 4.2, welfare and market ideology capture the nexus between a) the normative divide between the competing core values of equality and (negative) freedom and b) the ontological divide between market allocation on the one hand and state intervention and redistribution on the other. An alternative way to conceive of this distinction would be to think of the market and welfare state as (institutional) manifestations of the different norms underlying the left-right dichotomy.

Based on the baseline fixed-effects models for the effect of left, center, and right cabinet shares, the expectation derived from Power Resources and the Partisan Hypothesis, according to which retrenchment is a mirror image of the expansion period, could not be confirmed. Rather than right retrenchment and left protection effects (H1), the evidence points in the direction of the inefficiency or marginalization perspective (H2). This implies that results do not confirm ideas of “left retrenchment,” either (H3). However, this null hypothesis (H2) regarding partisan effects can be rejected when the RILE Right-Left index is used to assess hypotheses H1-H3. If the positions as emphasized in manifestos – rather than party identity – are the guiding criterion for the categorization as left, centrist, or right government, right cabinet stances do indeed result in generosity curtailments. By contrast, left positions – although the evidence here is less robust – issue tighter benefit conditionality. But the most important rejection of the null hypothesis (H2) if significance levels and effect size are the criterion were found for the cognitive frames welfare ideology and – above all – market ideology. Market ideology exerts a highly significant and substantial negative effect on generosity changes. The positive effect of welfare ideology on generosity was not significant and substantially modest, but welfare ideology, especially welfare norms, led governments to tighten the conditionality of unemployment insurance benefits. While the negative effect of a government’s market ideology is in line with the theorized effects (H4), the less robust negative effects of welfare ideology on benefit conditionality are unexpected (and falsify H5). This counterintuitive result could be rationalized as the preemptive adjustment of the pro-welfare parties out of concerns about the legitimacy of a generous welfare state. A related explanation is that a reinterpretation of welfare norms along the lines of a neoliberal *quid pro quo* logic has taken place: Social rights have become more conditional than previously and/or that cabinets trade off the generosity against the conditionality of unemployment benefits.

Overall, metaexpectations MH1 and MH2 are confirmed by the analysis. The political identity of the cabinet according to the traditional party labels is not reflected in different inclinations to privatize unemployment

insurance, whereas the positive effects emanating from the dynamic Right-Left index indicate that this by no means implies that the ideological complexion of government no longer matters. This confirms metahypothesis MH1. But in particular, defeatist conclusions based on these nonresults for left- and right-labeled governments stand in even starker contrast to the more considerable negative effects found for market ideology on generosity changes as well as the positive effects of welfare ideology on conditionality changes, as assumed in metahypothesis MH2.

It has been correctly noted that partisan effects can be highly unstable; that is, context-sensitive (see, e.g., Kittel and Obinger 2003: 36). For that reason, I deemed it particularly important to test the extent to which the findings depend on the operationalization of the dependent variable for retrenchment or the inclusion or exclusion of individual countries. The marginal role of partisanship in terms of left, center, and right ascriptions was unaffected by choosing transfer spending and workfare reforms as alternative retrenchment proxies or the result of the – potentially effect suppressing – impact of specific countries; neither was the significant negative effect of dynamic left-right positions or market ideology. However, findings proved less robust concerning the negative effect of welfare ideology on conditionality, which proved sensitive to the precise model specification. In particular, I found that Denmark exerts strong leverage regarding the findings. The marked negative effects of market ideology on generosity, by contrast, were also confirmed for transfer spending as the explanandum and did not depend on individual countries. This robustness is particularly noteworthy if we recall (from table 3.1) that few former findings apply to social rights or entitlement data *and* the welfare state efforts measured via spending data.

In an effort to complement and challenge the substantial causal conclusions, a range of additional explanatory factors and scenarios were taken into consideration. As regards the least explored among these aspects, opposition ideology, often assumed to constitute an important strategic constraint on governmental (social) policy making, the results indicated that this aspect does not systematically influence policies. An opposition effect was thus absent regardless of whether a) government and opposition ideology are considered concurrently, b) the ideological distance between both aspects is the independent variable, or c) the mediating effect of opposition ideology is tested via interactions that attempt to capture arguments based on “contagion” effects on the government, the threat of a “credible protector” of the welfare state in the opposition, or “camp competition” over the representation of the “true faith” that may reinforce ideological

inclinations of the government in case of ideological congruence with the opposition. One avenue for future research is to investigate the temporal variation in the role of the opposition, as its strategic importance has likely increased with dealignment (Horn and Jensen 2016).

The disaggregation of the eighteen OECD countries into the three groups of liberal, conservative, and social democratic countries brought to light that the findings are somewhat less indicative for the continental European conservative cluster than for the liberal and in particular the universal or social democratic welfare states. Lastly, factors such as union density, the impact of initial levels in generosity and conditionality in a country, and the fragmentation of government were tested. As with opposition ideology, the effects remained robust and the substantial conclusions stood firmly.

In the next step of the analysis, I investigated whether the persistent and substantial effects of the economic context are unconditional, as the functionalist Cassandra cries would have it, or whether the translation of the economic parameters into (social) policy responses depends on cabinet ideology, as the (cognitive) framing argument in its specific version suggests. While the identification of the government as left, center, and right did not alter the positive slope of the economic context in the interaction analyses, the Right-Left index exerted a conditioning effect. Welfare ideology as mediator variable has been shown to be a buffer against the negative effects of economic crises, even though it does not completely nullify economic effects (this partly confirms H5b). Most importantly, the effect of the economic situation is entirely conditional on the prevalence of high market ideology and is even absent if market ideology is weak (which confirms H4b). This finding that economic crises translate into retrenchment only in the absence of welfare ideology and the presence of pronounced market ideology is pivotal, as this conditioning effect lends further credence to the proposed framing argument (metahypothesis MH3). This shows that retrenchment is not merely a function of economic problem pressure when we take the Independent Variable Problem seriously and complement measures of party identity with measures for political ideology.

In a final step of the analysis, I have scrutinized the economic beliefs and the crisis diagnoses of German, British, and Swedish cabinets and how they affected social policy responses. The illustrative case evidence gathered is mostly reassuring for my “cognitive framing argument.” One thing that has become clear is that the core independent variables welfare and market ideology have high face validity when compared to the contemporary (problem and policy) discourses within the parties comprising the government. More specifically, in the case of the Kohl and Carlsson governments in Germany

and Sweden, it has been shown that the measures also pick up the relevant variation over time and “within party” (here CDU/CSU and SAP). This confirms recent results based on the new CMP “corpus data.” Recoding welfare-related items at the level of individual statements suggests that the data is valid (Horn et al. 2017). Market and welfare ideology covariate with the retrenchment activity in all three countries in the hypothesized direction and in line with the quantitative results in 6.4. The governments of Thatcher (1979-1987), Kohl (1982-1987), and Carlsson (1994-1998) followed a TINA interpretation. Despite the electoral pressure, ruptures within their party and with traditional allies, there was a sense of urgency and the conviction among party elites that cuts are necessary. The guiding idea was that the public sector in general and the welfare state in particular create disincentives and crowd out private initiative and investment or even diminish the “will to work.” The latter aspect was more pronounced in the policy statements and discourse of the Conservative Party, but the “Why work?” question was also important for the CDU/CSU, FDP, and SAP. While the case evidence confirms the importance of interpretative frameworks and ideas, also attesting to the crucial role of unemployment (insurance) policies in crisis discourses of left, center, and right parties, the discussion, particularly of the multifaceted Swedish crisis reaction, is also a reminder of how policies concerning the unemployed are oftentimes a piece in a bigger policy puzzle.

In the conclusion to follow, I will more generally discuss how the findings reverberate with the ongoing controversy between “old” and “new” politics about the social policy impact of government ideology, summarize the way of preceding, and discuss the strengths and weaknesses of the book.

7 Ideology Still Matters: Findings, Limitations, and Implications

In this final chapter, I summarize the main points of the book and reflect on their implications. More specifically, I start with a summary of the theoretical and empirical arguments and results. I then point to the implications of the findings for the “new politics” versus “old politics” debate that is at the heart of this book. I also resume the book’s contribution and indicate remaining limitations (at least the ones that I am aware of) and avenues for future research. Finally, I discuss the implications of the findings for representative democracy and current welfare state debate(s).

7.1 Summary and Findings

This book is devoted to the fiercely contested question if, and in what way, the ideological complexion of government is (still) consequential regarding social policy decisions. I have argued that how this question – if “politics matter(s)” – is commonly approached is fraught with problems, both with regard to the refutation and confirmation of partisan influence. Based on a systematic engagement with this Independent Variable Problem, I have developed and examined a (cognitive) framing perspective to complement the dominant materialist explanations.

The cumulated changes that have been documented regarding the generosity and conditionality of unemployment insurance schemes justify speaking of significant programmatic retrenchment in the OECD, especially against the background of their momentous implications and consequences. This confirms a range of decisive pro-retrenchment conclusions in the case-oriented welfare literature (e.g., Clasen 2005; Green-Pedersen and Haverland 2002; Hübscher 2010; Starke 2008; Stiller 2010). This does not mean that retrenchment is a universal trend, observable always and everywhere. One of the critical results that emerged from chapter 2, which is the point of departure and explanandum of the analysis, is the strong variation in policies between governments “within-country.” From a “politics matters” perspective, this within-country variation – and less the net decline over the last decades – is the interesting finding of chapter 2.

Subsequently, I contrasted the three dominant theoretical perspectives and deducted three hypotheses. The discussion of the existing research

showed that the jury is still out on the question as to whether the politics of retrenchment is better characterized as “old politics” (the Left is pro-welfare and the Right skeptical), “new politics” (marginalization of politics by economic and electoral pressure), or whether parties have even moved “beyond left and right” (left retrenchment). I have argued that the most prevalent of the remaining lacunas is how cabinet ideology is conceived. I criticized the practice of accounting for government ideology via party “labels” based on expert judgments. Obviously, party labels do not capture changes in party ideology over time. Furthermore, they are multidimensional and can therefore lead to wrong inferences regarding positions on economic and social policy. Moreover, they do not allow us to distinguish empirically between a lack of ideological commitment and a lack of political assertiveness if no partisan effect is found. My most important criticism, however, is not empirical but conceptual. As I have shown, the deeper conceptual constriction in the *modus operandi* of current welfare research is that government ideology is understood as a derivative of assumed material interests of groups in the theoretical arguments.

To complement this constricted perspective, I consulted the qualitative social and public policy research on idea-based explanations and the literature on political ideology. Both streams suggest that government ideology matters not because of agency for interests but as a belief system. To do justice to this abstract argument and substantiate it in a large-n context, I proposed, discussed, and implemented two related strategies: Time-variant left-right scales and indices that are specific to the welfare state. I demonstrated that the time-variant RILE does not entirely solve the problem of wrongly imputed preferences regarding the welfare state as the problem of multidimensionality persists. In order to overcome this “conceptual confusion,” I constructed indices for welfare and market ideology as approximations of interpretative frameworks that capture the normative divide between the competing core values of equality and freedom and the ontological divide between a preference for either market allocation or state intervention and redistribution. This distinction may also be regarded as a causal and, ultimately, institutional manifestation of the different norms underlying the opposing poles in the left-right dichotomy.

To ensure that there is meaningful variation of cabinet ideology – a prerequisite for meaningful partisan effects – I analyzed the developments in the ideological climate since the 1970s in chapter 5. While a concentration process in the spread of market and welfare ideology has been documented, the visual analysis suggested that the convergence is only modest and partial. The decreasing coefficients of variation can be attributed to the

dwindling number of extreme ideological positions rather than any general funnel-like compression of the programmatic profiles of cabinets over time.

The causal analysis began with a test of explanations based on group interests (measured via labels) versus framing arguments (via welfare and market ideology) using country fixed-effects regressions. The results, which hold for alternative specifications⁸⁵ and dependent variables and do not depend on single countries, support the framing explanation and contradict agency-based arguments. The consideration of a range of alternative explanatory factors, such as the oft-theorized and seldom-tested role of opposition ideology, does not substantially alter the results. However, a welfare regime-specific perspective revealed that in the continental European conservative welfare states, even the consideration of cognitive frames like welfare and market ideology does not indicate strong social policy effects from the ideological complexion of cabinets.

The expectation that cognitive frames serve as an ideational prism through which actors perceive the economic situation has therefore been confirmed based on interaction analyses. Without the pronounced market ideology of the government, economic pressure is nullified and does not translate into retrenchment. Conversely, welfare ideology serves as a buffer against economic pressure, weakening the impact of the economic parameters. By contrast, left and right partisanship are irrelevant. The ideological complexion of governments therefore matters in terms of social policy retrenchment; not *despite* but precisely *because* of the omnipresent rhetoric of objective problem-solving, as it is the ideological frame that leads actors to believe that “there is no alternative” to their behavior. This interpretation also received support in the illustrative case studies on Germany (under Kohl), the United Kingdom (Thatcher) and Sweden (Carlsson). The policy choices were not primarily motivated by group representation, but rather the specific economic problem analysis and the conviction that the cutbacks were necessary. Admittedly, it has proven difficult to always clearly differentiate the norms from the causal beliefs. For the conservative revolutionaries of Thatcher and Kohl, norms and beliefs went hand in hand. The stronger ideological commitment to these pro-market and welfare-skeptical views and the lower fractionalization of the cabinets and the cabinet parties seem to explain why benefits have been retrenched more drastically and why the insurance character of the unemployment scheme

85 See effectplots in annex 8 to compare fixed-effects vector decomposition (FEVD), fixed effects (FE) with and without robust standard errors, and Models which pool within and between country variation (POLS).

was eroded so much more in the United Kingdom than in Germany. The case of SAP and its transformation under Carlsson is more nuanced and ambivalent. It demonstrates that some parties only reluctantly adjust their causal beliefs to a “new reality,” precisely in order to defend and “uphold the fundamental, classic values” (Carlsson and Lindgren 2007: 19). In fact, SAP still had an average welfare score on the normative dimension and a 0 score on the normative dimension of market ideology, but its ontology changed strongly during the early 1990s. But while case evidence helps us make more informed claims about the relative importance of the perceptions, beliefs, and convictions of the parties, the quantitative results are the core findings. The point of departure of this book was that ideologemes and cognitive frames have received strong support in case- and context-sensitive investigations of social and public policy. The problem was that the external validity of these studies was unclear, as no large-*n* tests existed. I hope that by building the framing argument on ideational foundations and by demonstrating that its empirical implications are even observable in a large-*n* analysis, I have made some inroads into further interlocking the quantitative and qualitative research on the link between social policy and government ideology.

7.2 Implications for the “Old” versus “New” Politics Debate

If left, center, and right parties, when in government, indeed still attempt to act as agents of socio-economic interests, groups, and classes, they have not been greatly successful in this regard. At the very least, their efforts are not reflected in measurable social policy differences. It has been argued that the familiar heuristics of the “old politics” – where left parties strive for the protection or even expansion of social rights, whereas the political right exhibits less welfare-state affinity, and centrist/Christian democratic parties take the middle ground – no longer hold in the era of retrenchment and permanent austerity. In this sense, parties have moved “beyond left and right.”

But there is no robust evidence of a predominantly “left retrenchment” either: The investigation of the generosity dimension as the main battleground for the debate over partisan effects provided no evidence of the empirical validity of this interesting perspective. If one were to take the less robust results for conditionality at face value, however, one *could* interpret the negative effect of left partisanship as a confirmation of the “left retrenchment” claim. The substantive negative effect of welfare norms

suggests that a reinterpretation of these norms along the lines of a neoliberal *quid pro quo* logic has taken place, meaning that social rights are now more conditioned and that cabinets – particularly left ones – trade off generosity against the conditionality of insurance benefits.⁸⁶

It is also not justified to subscribe to the skepticism of the proponents of the *New Politics Approach* and the *Globalization Hypothesis* regarding the role of party politics: They claim that the social policy implications of competing ideological blueprints, and even the differences between those blueprints themselves, are marginalized by the countervailing effects from mounting internal and external socio-economic pressures and high electoral pressure to maintain the policy status quo.

Most of the factors associated with these inherently functionalist approaches have exerted neither significant nor substantial effects. This applies to unemployment, the fiscal situation, and also globalization. The latter is even associated with positive changes in benefit generosity and conditionality; confirming social demand and compensation arguments. The economic context alone proves to be a significant and substantial determinant of generosity changes. But the strong influence exerted by the economic climate, more specifically the negative impact of low economic growth, is conditional on (high) market and (low) welfare ideology. Overall, the metatheoretical conclusion is that neither conflict nor functional approaches provide satisfactory explanations, as long as they are not complemented with ideational considerations; or more specifically, the norms and causal beliefs cabinets hold concerning the appropriateness and necessity of retrenchment.

7.3 The Contribution(s) of the Study

Based on partially new data on generosity and conditionality of unemployment insurance, I demonstrated that there are clear indications of a retreat of the state in the OECD from risk provision that justifies to speak of retrenchment – retrenchment that can be qualified as “significant.” The study

86 If that were true, they would have economic expertise, transient as it may be, on their side. Studies indicate that activation and workfare have positive effects on labor market performance, whereas such effects are more controversial regarding cuts in the generosity of benefits. Andersen and Svarer (2014: 86) conclude that “the incentive structure in the labor market can be improved by workfare policies rather than benefit reductions.” The counterarguments against incentives arguments have been discussed in section 2.4.1 (see Heckman 2007; Howell et al. 2007; Howell and Azizoglu 2011; Howell and Rehm 2009; Korpi 2002).

provides a comprehensive assessment of the operational, conceptual, and theoretical problems associated with the examination of the policy impact of the ideological complexion of governments, problems that characterize the confutations and confirmations of partisan effects.

Against the background of this criticism, the examination advances and tests an argument that has received too little attention in the quantitative literature on the political determinants of retrenchment policies. Ideological (world) views are *per se* consequential. As cognitive frames they serve as filters of perception and thus moderate or even nullify the impact of economic pressures, which have regained popularity as an explanandum during the debate about the “new politics of the welfare state” (Pierson 1996). The book thereby bridges the gap between the qualitative public and social policy research, where arguments that center on ideas and ideology are prominent, and quantitative retrenchment research, where such arguments are absent thus far. In doing so, it helps overcome the narrow theoretical focus on agency for group interests as the dominant answer to the pivotal “why question” regarding the motivations for unpopular retrenchment decisions. This complementation, which undeniably also constitutes a complication of the common research practice, proved to be a worthwhile endeavor. This is documented by the stark contrast between the defeatist conclusions regarding the impact of cabinet ideology based on the common expert judgment approach, on the one hand, and the clear partisan effects on retrenchment documented based on the cognitive framing approach on the other. Substantially, the results attest to the persistent social policy relevance of government ideology and cast doubt on overly pessimistic perspectives that prioritize the impact of structural pressures over political choices.

7.4 Limitations of the Study and Avenues for Future Research

I have tried to discuss as explicitly as possible the data validity problems regarding the independent and dependent variable(s). Yet some notes of caution remain necessary. First, the quantitative indicators used to account for retrenchment most certainly capture only the tip of the retrenchment iceberg. Although program data is becoming increasingly nuanced, some important developments still cannot be captured and examined in large-n tests. This study has made the first steps toward a database on workfare and activation policies, which would benefit from the further refinement of the categorization scheme. Further development is also needed regarding the operationalization of opposition ideology, although the utilized measure

– the ideology of the biggest opposition party – seems to be a reasonable proxy to examine its relevance as a strategic constraint. But there is a variable underlying competition arguments for which the discrepancy between theoretical omnipresence and absence of tangibility is bigger – electoral pressure: understood in terms of the public (un)willingness to accept the retreat of the state from risk coverage. Since Pierson popularized the variable and claimed that blame avoidance is the imperative of the New Politics Approach, electoral pressure remains the operational holy grail of comparative welfare research. It is notoriously difficult to measure in country comparisons, particularly over time. It would be interesting to test whether institutionally induced vulnerability for demoscopic reprobation,⁸⁷ ideally in combination with public attitudes on the popularity of programs, still affects the privatization of risks when the cognitive frames of cabinets are also part of the model.

Another potential omission of the book concerns a more explicit discussion of the danger of endogeneity. The characteristics, the effects of which are investigated in macrosociological studies, are not randomly assigned to units. This becomes most obvious regarding the analysis of political institutions. Rather, the variables of interest can simultaneously cause each other over time (i.e., are endogenous). For the study at hand, one related danger is that the postulated autonomy of democratic elites is an artifact if economic pressures systematically affect programmatic agendas. However, concerns about preemptive adjustments to pressure contradict the considerable ideological variation between countries, between parties, and finally also within parties over time.

A final remark concerns the decision to conceive of welfare and market ideology not simply as different ends of the same continuum, which would imply the use of an index combining both, for instance via the subtraction of market ideology. The case illustrations showed why this is important. If a government is ideologically “indifferent,” with low market and welfare ideology (as the last Kohl cabinet), or whether it is eclectic or “torn” between market and welfare ideology (as the last Carlsson government) matters, as the parties have very different interpretative frameworks. Sure, both the “indifferent” and “torn” governments make up only a small share of all governments. Still, the case of the praised reform performance of SAP suggests that it could be interesting to also consider government ideology as a constellation or configuration (market \times welfare ideology).

87 For example, based on a new indicator for “electoral vulnerability” by Immergut and Abu-Chadi (2014).

7.5 Implications for Representative Democracy and the Welfare State Debate

Despite these desiderata, the conclusion of this book remains rather optimistic from the point of view of representative democracy. Misgivings regarding the depoliticization of party politics due to economic and electoral pressures have not proven true. To the extent that governments exhibit distinguishable ideological preferences that are relevant to social policy – and this is usually the case – the complexion of government remains decisive in terms of social policy choices.

This is a particularly important message in the aftermath of the Financial Crisis of 2007–2008 that has confronted governments throughout the OECD with hard choices in very different policy fields. One of the remarkable trends since then has been the renaissance of a rhetoric that rules out political alternatives vis-à-vis economic and social problems. Angela Merkel, the German chancellor since 2005 and the most powerful politician in Europe throughout the crisis, has repeatedly stressed that her mix of harsh austerity, conditional solidarity with debtors, and bank bailouts would be without alternative. Besides a number of unflattering nicknames (such as Iron Lady and Madame Non), this has earned her and her governing Christian Democratic Union the rise of a new populist anti-Euro, antibailout (and increasingly antimigration) party with the telling name “Alternative for Germany.”

As pointed out in the introduction, the economic crisis fostered debate between those who think that austerity, understood as economic and fiscal policies that focus strongly on budget consolidation, is the only viable policy option, the necessary pain after the party, and those who deem austerity a “dangerous idea” and think that the austerity hangover is going to be felt mostly by the low-income groups (Blyth 2010, 2013). However, such ideologically polarized debates about the proper crisis reaction and the perception that there is a crisis, or at least a crisis looming, are not the exception but the rule, historically (e.g., Föllmer and Graf 2000). One example of the relevance of TINA comes from a time when neither austerity nor Keynesianism were popular words, even in academic circles. In 1930, the last democratically minded Reichskanzler of the Weimar Republic, Heinrich Brüning, who became infamous as the “hunger chancellor,” embraced draconic austerity over economic stimuli as the only policy option available in the aftermath of the financial and economic crisis that, again, originated in the United States. From the winter of 1929 on, the economic output declined and unemployment increased. As part of a procyclical adjustment strategy,

various taxes and social security contribution fees were raised, whereas program benefits received from the already patchy unemployment insurance and sickness insurance were reduced. Further rounds of cuts followed in 1931. Brüning's primary aims to restore the functioning of unemployment insurance and the trust of the Republic's main creditors as well as the end of reparation payments were achieved (at the Lausanne Conference, June-July 1932) but came at a high price. The municipalities crumbled under the skyrocketing costs of charity as fewer and fewer people were eligible for insurance benefits, the economic crisis deepened rapidly, and the social unrest exacerbated by the deflationary approach – particularly in the ranks of the unsettled middle class – was fertile ground for the agitation of the antirepublican forces on the radical Left and particularly the radical Right. Tellingly, even today, the discussion about the political and economic pros and cons of Brüning's crisis reaction, the discussion about anticyclical alternatives to cutbacks, is not settled among (economic) historians (Kolb 2002: 130-153, 233-236; Von Krüdeuner 1990). In short, Brüning's critics claim that his deflationary ideas and priorities (mainly to end war reparations) – not a genuine lack of alternatives – were crucial for abandoning a more active approach.

In principle, these disputes illustrate, though drastically, a feature of the TINA argument that we have encountered in the case studies. Somewhat paradoxically, the TINA rhetoric is a reflection of the high salience of certain ideologemes rather than a testament to the lack of policy options and the impossibility to allow for different interpretations of economic and social challenges. In other words, it is the perceived rather than the objective necessity that drives those who believe in TINA.⁸⁸ Actors, such as cabinets, parties, or relatively “autonomous policy leaders” (APLs, Ross 2000) may often consider themselves in a TINA situation. However, what the allegedly only viable alternative is depends on more than objective pressures exerted by (economic) problems and the material interests of groups, namely, the interpretative frameworks of the decision-makers.

I see no a priori reason why this argument should not be applied in political economy at large. In their update to their seminal book *The Politics of Advanced Capitalism*, Beramendi, Häusermann, Kitschelt, and Kriesi conclude that their results “challenged the claim that there is increasing uniformity and convergence in the processes, outputs, and outcomes in

88 This does not mean that “anything goes.” Some problem interpretations and coping strategies may prove more viable than others in the mid- and long term (Horn and Kevins 2015; Vis and Van Kersbergen 2013).

postindustrial capitalist democracies" (2015: 381). They emphasize the role of political economic institutions and (shifting) partisan alignments to explain that "the continuous stream of challenges" (*ibid.*) does not lead to convergence. The results of this book suggest that different problem perceptions should also be considered when explaining variations in policy outputs and outcomes.

(Re)turning to the more specific subject of this book, namely, the room for maneuver of parties to shape the future of the welfare state, the findings in support of the cognitive framing argument have important implications beyond crisis reactions in the field of unemployment insurance. To the contrary, the significance of interpretative frameworks for policy choice should be considered more carefully for a range of other topics at the heart of current and future welfare state debates.

One such debate concerns the shift in the priorities of welfare policies from insuring old risks, such as joblessness, to new and postindustrial risks, such as precarious employment, long-term unemployment, being working poor, single parenthood, or the inability to reconcile work and family life (Bonoli 2007). Coping with – and assessing – the complex tradeoffs that this shift in policy priorities brings with it constitutes a highly uncertain situation. And high uncertainty, as we have learned from the review of the literature on (political) ideology and (economic) ideas, renders the ideational determinants of policies, be they both ontological and normative, particularly significant. This also means that our standard explanations for actor behavior become less instructive in such situations: "Reflexive actors in vexing problem situations, associated with high levels of uncertainty, are unlikely to continue to abide by standard conceptions of utilitarian rationality based on fixed preferences and stable material interests" (Hemerijck 2011: 21). The emergence of new types of social risks and the new tradeoffs and political cleavages associated with these new risks represent such a "vexing" problem situation from the perspective of cross-pressured parties. Cognitive framing should therefore be essential in understanding why some parties and governments embrace the recalibration toward new risks while others remain more unassertive.

The same can be said with regard to the debate on activation and "workfare" policies. The latter has a more punitive and coercive dimension, whereas activation often prioritizes the enabling dimension via training and subsidies. The expected economic and political costs and benefits associated with active labor market policies (ALMPs) and workfare measures and the consequences of different emphases on either the enabling or the punitive dimension for different groups are not self-evident; even when we

leave aside the performance of the economy (even labor market insiders fear the threat of increasing downward mobility resulting from labor market reforms such as the Hartz legislation, which was introduced under Gerhard Schröder in Germany (2002-2005) and which renders it possible to go from a middle-class job to means-tested “Hartz 4”/social assistance in one year). The classic state intervention versus market dichotomy underlying the economic left-right dimension does not provide much orientation for parties either (activation and workfare strongly interfere with the market yet they are means of recommodification rather than decommodification in the Esping-Andersen sense). The assessment of activation and workfare policies should thus – even more than for classic risk privatization with its clear(er) implications for the material situations of different groups – depend on the ideas of key decision-makers on normative and causal implications and appropriateness rather than agency for specific groups.

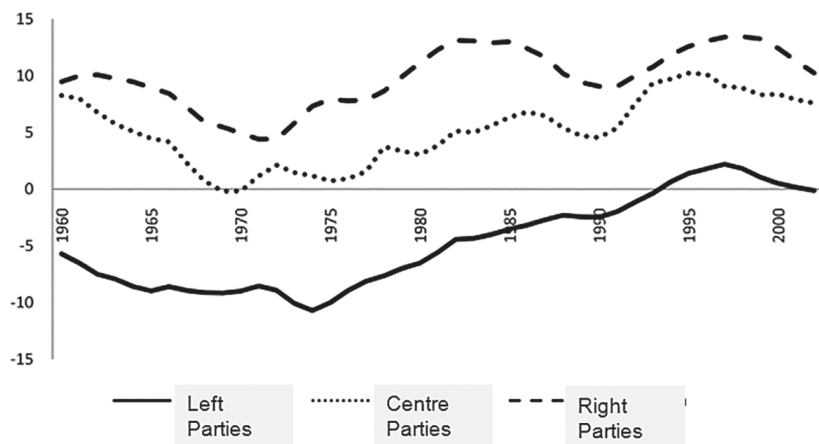
Regarding both of the discussions above, future welfare state research should complement the focus on partisanship and overcome the imputation of preferences based on party labels, delving deeper into the role of actors’ problem perceptions. In so doing, researchers might benefit from a more nuanced analysis of party outputs. The release of the Manifesto Project’s corpus data (as the body of coded statements underlying the quantitative scores used in this book is called) makes such a strategy realistic and interesting, even for those for whom the original categories were too broad (Horn et al. 2017). For instance, subcategories of the items related to “welfare” and “equality” may help us to capture the *quid pro quo* logic that social democrats throughout Europe – but particularly in the United Kingdom and Germany – embraced in the 1990s. Thus, we could assess whether group representation or a genuinely ideational concern with the efficiency and legitimacy of the welfare state are behind this transformation. Conversely, a more nuanced take on the motives behind policy changes in welfare state research would also enable us to better understand the changing relationship between the political Center-Right and the welfare state. A more fine-grained assessment might help us determine what is behind the turn of many major center-right parties, for instance in Sweden (Moderates) and Denmark (Venstre), to a more pro-welfare rhetoric. And why do other center-right parties, such as the Conservatives in the United Kingdom, move in the opposite direction or remain agnostic, as do the German Christian Democrats? Does this (mostly) reflect variations in risk profiles and preferences among voters, program specific or not, or (also) different worldviews? An abundance of case evidence indicates that ideas and cognitive frames are not epiphenomenal to interests (Béland 2005, 2009; Béland and Cox

2010; Campbell 2002; Hay 2010; Olive et al. 2012; Steinmo 2003). This book shows that ideational arguments also exert explanatory power in large-n contexts and points to problems with group representation arguments that neglect ideology. Thus, we should not disregard untested the possibility that ideology is important per se; and more than the superstructure (Marx's *Überbau*) for rival interests.

In more general terms, applying the cognitive framing argument developed and applied in this book to other complex problems and vexing questions that democratic elites face now and in the future – ideally together with ever more fine-grained data to account for the causal and normative beliefs underlying their problem perception – promises to yield new and refined answers to the timeless “why question” about the motives of politicians to engage in (welfare) reform or to refrain from it.

Annex

Annex 1 Right-Left (RILE) Position of Parties over Time



Notes: Figure adopted from Düpont (2009, 55). Party labels from Swank 2006. Positive y-values indicate right positions in Manifestos according to the Manifesto Project (Budge et al. 2001; Klingemann et al. 2006). A detailed discussion can be found in chapter 4.2.2.

		anti-imperialism +	military -	peace +	internationalization +	democracy +	market regulation +	economic planning +	protectionism +	controlled econ +	nationalization +	welfare +	education +	labor +
econom planning +	Pearson	-.033	-.039*	.006	-.022	-.011	.039*	1.000	.015	.091**	.113**	.020	-.020	.093**
	Significance	.071	.036	.756	.242	.547	.034		.409	.000	.000	.276	.275	.000
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
protectionism +	Pearson	.014	.021	-.009	.040*	-.085**	.038*	.015	1.000	.078**	.062**	-.020	-.057**	.033
	Significance	.461	.258	.623	.029	.000	.040	.409		.000	.001	.283	.002	.070
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
controlled econ +	Pearson	.037*	.119**	.022	.007	-.033	.085**	.091**	.078**	1.000	.214**	.041*	-.035	.048**
	Significance	.045	.000	.239	.691	.070	.000	.000	.000		.000	.025	.060	.010
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
nationalization +	Pearson	.079**	.104**	.026	-.041*	.037*	.135**	.113**	.062**	.214**	1.000	.051**	-.028	.187**
	Significance	.000	.000	.158	.025	.048	.000	.000	.001	.000		.006	.124	.000
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
welfare +	Pearson	-.090**	-.025	-.093**	-.004	-.123**	.052**	.020	-.020	.041*	.051**	1.000	.213**	.000
	Significance	.000	.179	.000	.824	.000	.005	.276	.283	.025	.006	.000	.000	.988
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
education +	Pearson	-.080**	-.060**	-.048**	.006	-.112**	-.009	-.020	-.057**	-.035	-.028	.213**	1.000	-.023
	Significance	.000	.001	.010	.731	.000	.621	.275	.002	.060	.124	.000		.222
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
labour +	Pearson	.054**	.168**	.029	-.013	.037*	.138**	.093**	.033	.048**	.187**	.000	-.023	1.000
	Significance	.003	.000	.115	.483	.047	.000	.000	.070	.010	.000	.988	.222	.000
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937

**Correlation significant at the 0.01 level (2-tailed).

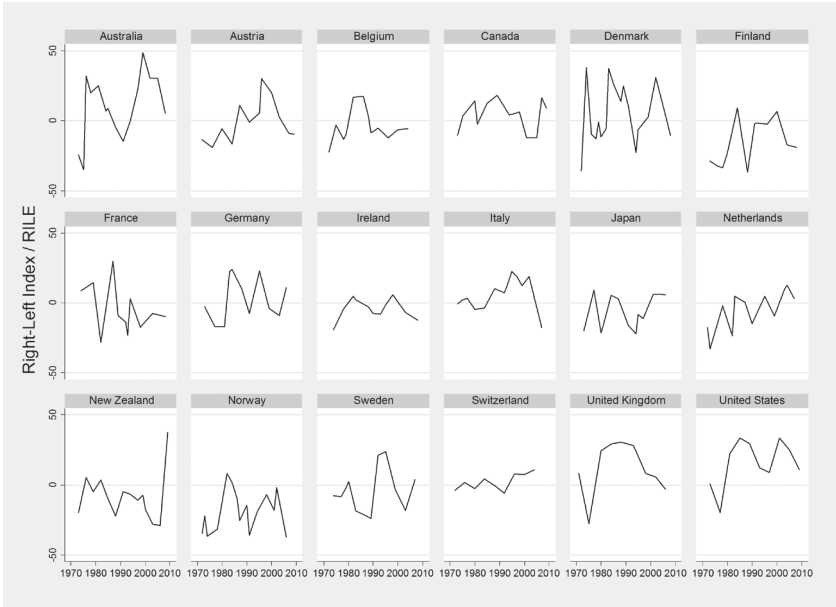
*Correlation significant at the 0.05 level (2-tailed).

Annex 3 Correlation Matrix Right Items of the RILE

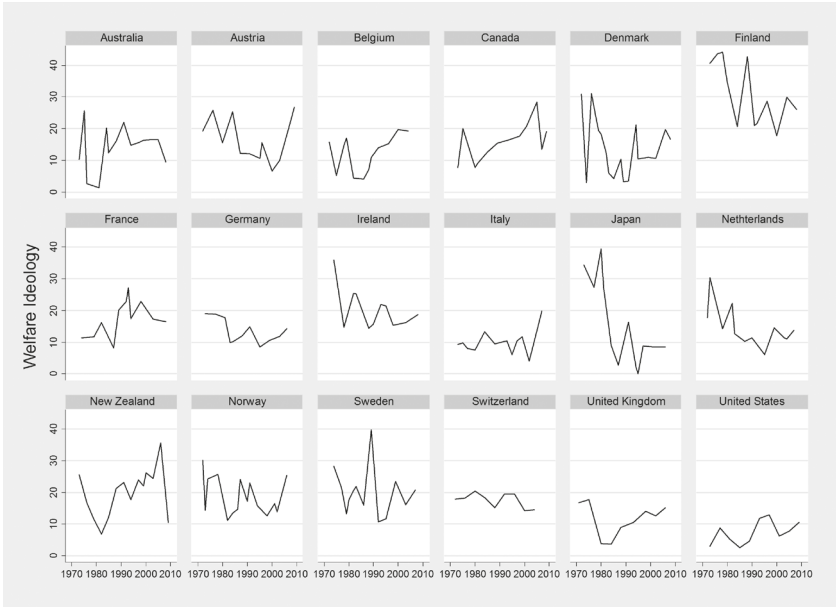
		** Correlation significant at the 0.01 level (2-tailed).												* Correlation significant at the 0.05 level (2-tailed).											
		econ orthodoxy +	free enterprise +	military +	Freedom human rights +	constitut +	pol authority +	incentives +	protectionism -	welfare -	nat way of life +	trad moral +	law and order +	social harmony +											
econ orthodoxy +	Pearson	1.000	.239**	.036	-.038*	-.049**	-.014	.104**	.055**	.184**	-.038*	-.053**	-.010	.024											
	Significance		.000	.051	.040	.009	.449	.000	.003	.000	.038	.004	.588	.188											
free enterprise +	Pearson	.2937	1.000	.044*	.150**	.000	-.069**	.121**	.174**	.193**	.006	-.012	.018	-.015											
	Significance	.000	.018	.000	.000	.998	.000	.000	.000	.000	.728	.511	.342	.420											
military +	Pearson	.2937	.2937	1.000	-.068**	.020	-.053**	.029	.002	.023	.200**	.043*	.022	.000											
	Significance	.051	.018	.000	.000	.284	.004	.113	.908	.222	.000	.020	.240	.980											
freedom- human rights +	Pearson	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937											
	Significance	.040	.000	.000	.000	.000	.048	.000	.291	.552	.002	.069	.000	.235											
constitut +	Pearson	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937											
	Significance	.009	.998	.284	.000	.000	.872	.003	.691	.199	.754	.026	.066	.384											
pol authority +	Pearson	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937											
	Significance	.014	.069**	.053**	-.036*	-.003	1.000	-.084**	-.039*	-.025	.027	-.046*	-.018	.038*											
		.449	.000	.004	.048	.872	.000	.000	.033	.183	.146	.012	.324	.042											
		.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937	.2937											

** Correlation significant at the 0.01 level (2-tailed).		econ orthodoxy +	free enterprise +	military +	Freedom human rights +	constitut +	pol authority +	incentives +	protectionism -	welfare -	nat way of life +	trad moral +	law and order +	social harmony +
incentives +	Pearson	.104**	.121**	.029	-.119**	-.054**	-.084**	1.000	.039*	.082**	-.051**	-.004	.134**	-.073**
	Significance	.000	.000	.113	.000	.003	.000	.000	.034	.000	.006	.821	.000	.000
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
protectionism -	Pearson	.055**	.174**	.002	-.019	.007	-.039*	.039*	1.000	.064**	-.036*	-.050**	.006	-.034
	Significance	.003	.000	.908	.291	.691	.033	.034	.000	.000	.049	.007	.732	.068
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
welfare -	Pearson	.184**	.193**	.023	.011	-.024	-.025	.082**	.064**	1.000	-.039*	.004	.118**	-.014
	Significance	.000	.000	.222	.552	.199	.183	.000	.000	.000	.033	.822	.000	.433
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
nat way of life +	Pearson	-.038*	.006	.200**	.056**	-.006	.027	-.051**	-.036*	-.039*	1.000	.139**	.030	.047*
	Significance	.038	.728	.000	.002	.754	.146	.006	.049	.033	.000	.000	.103	.011
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
trad moral +	Pearson	-.053**	-.012	.043*	-.034	-.041*	-.046*	-.004	-.050**	.004	.139**	1.000	.018	-.007
	Significance	.004	.511	.020	.069	.026	.012	.821	.007	.822	.000	.000	.323	.693
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
law and order +	Pearson	-.010	.018	.022	-.070**	-.034	-.018	.134**	.006	.118**	.030	.018	1.000	-.022
	Significance	.588	.342	.240	.000	.066	.324	.000	.732	.000	.103	.323	.000	.238
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937
social harmony +	Pearson	.024	-.015	.000	.022	.016	.038*	-.073**	-.034	-.014	.047*	-.007	-.022	1.000
	Significance	.188	.420	.980	.235	.384	.042	.000	.068	.433	.011	.693	.238	.000
	N	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937	2937

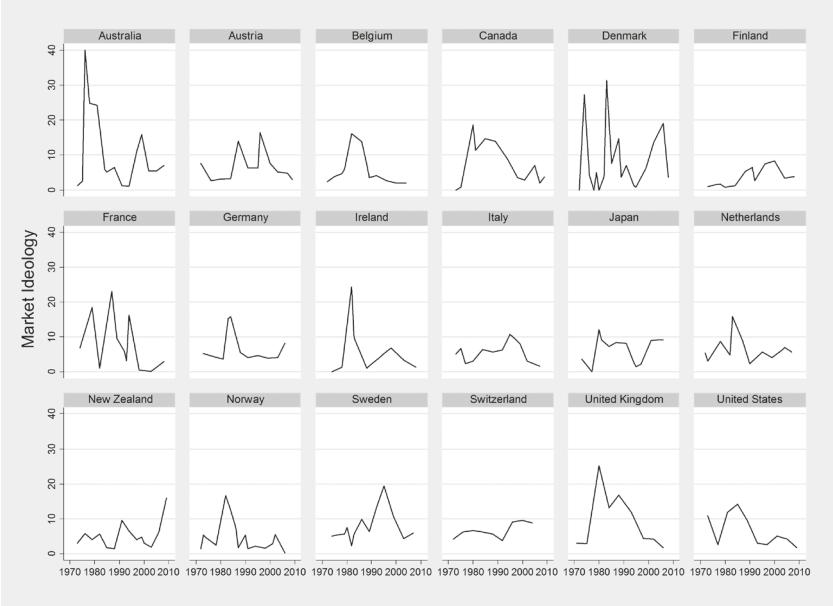
Annex 4 Right-Left over Time in Eighteen OECD Countries



Annex 5 Welfare Ideology over Time in Eighteen OECD Countries



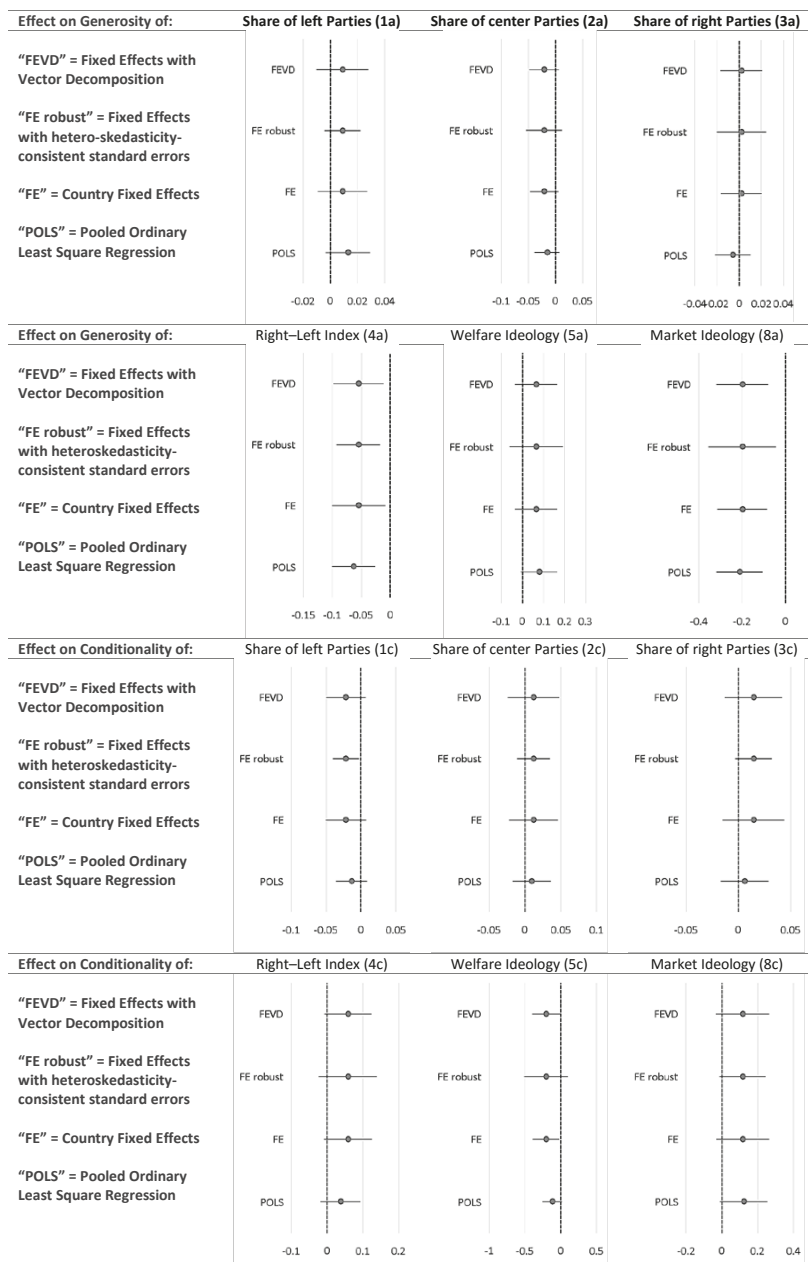
Annex 6 Market Ideology over Time in Eighteen OECD Countries



Annex 7 Item Description Welfare and Market Ideology

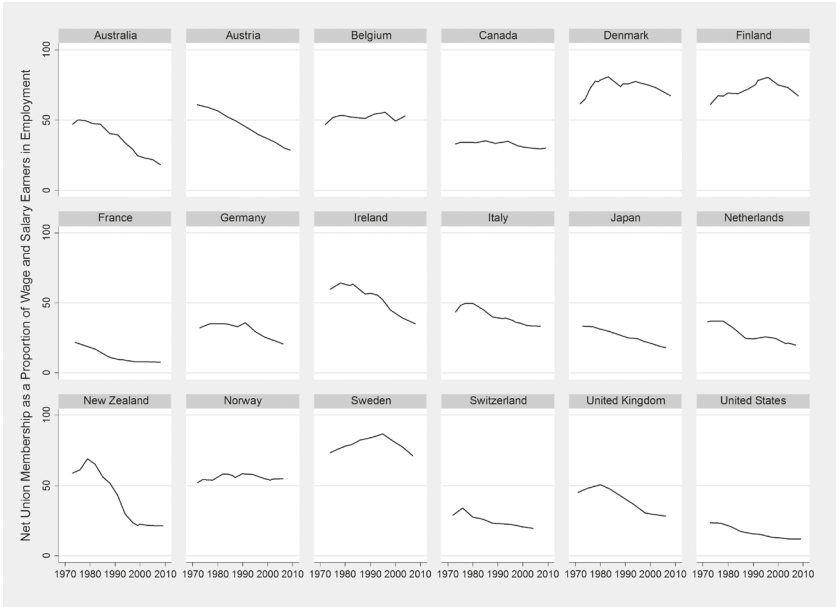
<p>Social Justice (503): Positive: Concept of equality; need for fair treatment of all people; special protection for underprivileged; need for fair distribution of resources; removal of class barriers; end to discrimination on the grounds of race, sex, gender, disability, age, sexual orientation, etc.</p>
<p>Welfare State Expansion (504): Positive Favorable mention of need to introduce, maintain or expand any social service or social security scheme; support for social services such as health service or social housing. This category excludes education.</p>
<p>Market Regulation (403): Positive Need for regulations designed to make private enterprises work better; actions against monopolies and trusts, and in defence of consumer and small business; encouraging economic competition; social market economy.</p>
<p>Economic Planning (404): Positive Favorable mention of long-standing economic planning of a consultative or indicative nature, need for government to create such a plan.</p>
<p>Controlled Economy (412): Positive General need for direct government control of economy; control over prices, wages, rents, etc; state intervention into the economic system.</p>
<p>Keynesian Demand Management (409): Positive Demand-oriented economic policy; economic policy devoted to avoiding depression, mitigating effects of depression and/or to increasing private demand through boosting public demand and/or through increasing social expenditures.</p>
<p>Welfare State Limitation (505): Positive Limiting expenditure on social services or social security; otherwise as 504, but negative.</p>
<p>Labor Groups (702): Negative Abuse of power by trade unions; otherwise as 701 (Favourable reference to labour groups, working class, unemployed; support for trade unions; good treatment of employees), but negative.</p>
<p>Middle-Class and Professional Groups (704): Positive Favorable reference to middle-class, professional groups, such as physicians or lawyers; old and new middle class.</p>
<p>Free Enterprise (401): Positive Favorable mention of free enterprise capitalism; superiority of individual enterprise over state and control systems; favourable mention of private property rights, personal enterprise and initiative; need for unhampered individual enterprises.</p>
<p>Economic Orthodoxy (414): Positive Need for traditional economic orthodoxy, e.g., reduction of budget deficits, retrenchment in crisis, thrift and savings; support for traditional economic institutions such as stock market and banking system; support for strong currency.</p>

Annex 8 Effects of Ideology on Generosity and Conditionality in POLS, FE, FE Robust, FEVD



Notes: Controls as in Table 5.3 (models 1-10a, generosity change) and 5.5 (models 1-10c, conditionality change). CI = 90%.

Annex 9 Union Density over Time in Eighteen OECD Countries



Note: Based on union density variable from Visser in Armingeon (2011).

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