

Fall Semester 2015/16

Westfälische Wilhelms-Universität Münster

Institute for Political Science

**Political parties, partisan competition and welfare  
state reform: Revisiting the partisan effect in times  
of austerity**

Master's thesis

Submitted to achieve the academic degree "Master of Arts"

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Date of submission: 30.11.15

## **Abstract**

Contemporary welfare state research continues to disagree about the relevance of political parties in times of austerity. The new-politics literature claims that in the wake of the crises of the welfare state and with the emergence of new powerful interest groups, the influence of political parties is supplanted by the politics of blame avoidance and that parties' ideologically profile ceases to matter for welfare state reform. Accordingly, this line of research is mainly concerned with explaining the conditions under which parties retrench welfare state programs. In this context the role of partisan competition for the potential of governing parties to implement retrenchment measures is discussed, however a quantitative examination is still missing. In contrast, scholars from power resource and partisan theory have argued that especially left-wing parties are still a substantial factor in explaining the variance in the generosity of social benefits for mature welfare states. Against the background of competing evidence on this debate, this study uses an alternative measurement of the left-right placement of governments which integrates the influence of coalition partners and minority cabinets. The results of the panel data analysis do not confirm power resource and partisan theory as no significant effects for the ideology of governing parties on the level of unemployment replacement rates could be found between 1987 and 2008. Additionally, the findings equally argue against an effect of partisan competition because the potential of left and right-wing parties to extent or retrench the generosity of unemployment benefits is not dependent on the strength of left or right-wing competition and the importance of the socioeconomic cleavage. In conclusion, this study maintains that to dissolve the opposing evidence, future research on other policy fields and on the measurement of partisanship is needed.

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## List of Abbreviations

ADL	Autoregressive distributed lag
CMP	Comparative Manifesto Project
CWED2	Comparative Welfare States Entitlement Dataset
CWS	Comparatives Welfare States Dataset
CPDS	Comparative Political Dataset
FE	Fixed effects
LDV	Lagged dependent variable
LSDV	Least square dummy variable
GDP	Gross domestic product
OECD	Organization for Economic Co-operation and Development
PIP	Parties, Institutions and Preferences: Left-Right Scores Dataset
PSCE	Panel corrected standard errors
RE	Random effects
TSCS	Time-series-cross-section

## 1. Introduction

Contemporary welfare state research is divided regarding the effects of political parties on social policy in a setting of welfare state restructuring. On the one hand, scholars presented convincing evidence that the strength of left-wing parties, especially of social democratic parties accounts for different levels of social policy expenditures and for variation in the generosity of social benefits throughout the golden-age of the welfare state (Castles 1982; Korpi 1989; Esping-Andersen 1990; Schmidt 1997; Iversen & Cusack 2000). On the other hand, while the period after World War II was characterized by the expansion of social policy, the applicability of these findings were challenged by the rapid stop of welfare state expansion beginning in the mid-1970s. Heralded by the oil price shock and the collapse of the Bretton-Wood regime which demarcated the transition into a new phase for the world economy, the welfare state became continuously under strain (Giger 2011). In the wake of external pressures caused by globalization and internal challenges such as an ageing society, the transition from an industrial to a post industrial economy and high unemployment rates, states gradually struggled to maintain the generosity of existing welfare state programs (Ferrera 2008). These developments have been summarized as the welfare state in the transition to a silver age of permanent austerity (Pierson 2001; see also Taylor-Gooby 2002) which is characterized by the increasing introduction of social policy reforms. However, despite attempts to retrench the welfare state the main components remained untouched and the welfare state as an institution has proven to be remarkably stable (Pierson 1994).

This observation marks the starting point for the new-politics argument presented by Pierson (1996). He argues that — as the underlying political processes differ qualitatively from the old-politics of welfare state expansion — retrenchment cannot be implemented in the same way as an enlargement of social programs for which reason a new theoretical underpinning is needed. Two assumptions built the foundation for his argument: first of all, the development of the welfare state itself created new dynamics in the political landscape. Deeply rooted in Western societies, the welfare state led to policy-feedbacks within society as new interest groups of benefit recipients emerged whose interests are closely intertwined with the status quo of existing structures and the generosity of social programs. These groups, such as retired, disabled people or health-care consumers, have a significant advantage in maintaining current levels of benefits and constrict political alternatives by their general opposition to retrenchment. Thus, due to the increasing commitments of the welfare state and grow-

ing expectations and interests of beneficiaries towards the existing welfare institutions, sweeping reforms are not very likely to happen. Rather, to attenuate political resistance, reforms are expected to be implemented only incrementally within already established social policies and to follow the logic of path-dependency (Pierson 2001; Green-Pedersen & Haverland 2002). Secondly, the welfare expansion in the golden-age of the welfare state was characterized by highly popular policies, whereas retrenchment is highly disliked among citizens. As reforms impose concrete costs with only uncertain future benefits, retrenchment has to be implemented against the resistance of voters and different interest groups. This bears the risk of provoking collective action against the responsible government (Busemeyer et al. 2013). Driven by the interest to be reelected, the aims of policy-makers started to shift from credit-claiming towards the avoidance of blame (Pierson 1996). In this way, office-holders can use three different blame-avoidance strategies: obfuscation, division and compensation to mitigate electoral costs of reforms.<sup>1</sup> In combination with the programmatic structures of social programs these politics of blame avoidance became the central variable in explaining the variation in the extent of retrenchment for the new-politics literature (Pierson 1996; Green-Pedersen & Haverland 2002). The bottom-line of Pierson's new-politics argument is that existing theories of welfare state expansion are unsuited to explain the distinctive process of retrenchment, because retrenchment cannot be simply perceived as the "mirror image of welfare state expansion" (Pierson 1996, p. 151). This has especially challenged power resources and partisan theory, as according to the new-politics literature the influence of political parties is supplanted by the emergence of powerful interests groups and the shift towards the politics of blame avoidance.

The aim of this thesis is to relate the ongoing dispute between defenders of the old-politics approach and the proponents of the new-politics literature by introducing new evidence from an alternative measurement of government ideology and taking into account the role of partisan competition. In that way, this thesis connects to the state of the art on welfare state retrenchment in the following way.

### **1.1 State of the Art and Related Literature**

To start with, this study is embedded within the debate about the evidence of the claim that traditional explanatory approaches have essentially become superfluous under the restrictions of austerity. The dispute between researchers who argue that established theories still have significant explanatory power and proponents of the new-politics literature is unresolved. Indeed, scholars have presented conflicting evidence regarding the effects of parties on welfare state restructuring. One group of scholars

demonstrates that the strength of partisan effects diminished significantly across a wide array of indicators during the 1980s (Huber & Stevens 2001; Castles 2001), while other studies suggest that the impact of partisanship on the degree of social expenditure disappeared entirely in the 1990s (Kittel & Obinger 2003; Hicks & Zorn 2005). Conversely, scholars from the power resources school have argued that, although welfare states have changed in a considerable way, the old-politics approach remains highly relevant. Using unemployment replacement rates instead of aggregated social expenditure data, Korpi and Palme (2003) have claimed prominently that welfare state retrenchment can still be understood as a result of class-based conflicts and also works in reverse: right-wing governments are mainly responsible for cuts in replacement rates, whereas the risk for serious reductions is significantly lower with a left-wing party represented in office (Korpi & Palme 2003; see also Allan & Scruggs 2004). Another approach tries to reconcile the effects of political parties with the new-politics literature (Van Kersbergen 2002) and argues that the position of left-wing parties to cut back the welfare state might be even favorable (Levy 1999; Ross 2000; Kitschelt 2001), because they own a positive image as a defender of the welfare state among the electorate. If faced with economic crises and misery, this will lead voters to credit them with more trust that retrenchment measures are in fact inevitable (Green-Pedersen 2002).

Secondly, this thesis relates to recent advances in the literature on partisanship and partisan competition. The impulse of the new-politics literature and conflicting evidence have provoked scholars to rethink theoretical elements of partisan and power resource theory. This loosely connected line of research scrutinizes the presumption that parties solely act as the agents of social class and are associated with distinctive ideological positions. Of particular importance for this thesis is the changing perspective towards the conditions under which parties still matter, or to be more precise, the context in which parties operate (Häusermann, Picot & Geering 2012). In this way the role of electoral institutions, the importance of different configurations of partisan competition and the party system have been highlighted as influencing the agenda of social policies pursued by parties. One of the most promising approaches, how different forms of political competition can moderate partisan effects on welfare state retrenchment, was developed by Kitschelt (2001). He reasons that policy-makers on the Left are more reluctant to retrench the welfare state when faced by left-wing alternatives, whereas strong right-wing parties within a party system make it more likely that incumbent parties retrench the welfare state. Furthermore, the dominance of the socio-economic cleavage and a party organization that circumvents political inertia by relying on programmatic competition rather than clientelist exchanges



increase the likelihood of welfare state retrenchment. A related approach has been proposed by Green-Pedersen (2001) who demonstrated in a qualitative study of Denmark and the Netherlands that party competition matters especially for the establishment of consensus on retrenchment. Relating to the politics of blame avoidance, he shows that parties only cut social expenditures if they can achieve a party consensus that allows them to convey the necessity of reforms towards the electorate. He demonstrates this argument by highlighting the pivotal power of the Christian democratic center in the Netherlands which led the Social Democrats to form a coalition in order to obtain power. In turn, this led the Social Democrats to accept retrenchment measures at an early stage and paved the way for the implemented reforms (Green-Pedersen 2001). This changing perspective deviates manifestly from traditional party politics as parties are perceived as autonomous organizations that are able to adjust their social agenda towards a potential coalition partner and the electorate in order to obtain power, rather than simply representing and advocating the policy positions of their assumed social classes (Häusermann, Picot & Geering 2012). Support for this view is presented by Häusermann (2010) who demonstrates that advocated social policy positions have changed profoundly in times of austerity. Indeed, the scope of social policy positions within the party spectrum has become increasingly sophisticated due to the adjustment of social democratic parties to austerity measures and the rise of reform-critical new left-wing parties (Häusermann 2010; Busemeyer et al. 2013).

This leads to the third strand of research that this thesis addresses, namely the problem of measurement. So far this implies mostly the so-called “dependent variable problem” (Green-Pedersen 2004) within contemporary welfare state research that can be seen as a major obstacle in resolving the question whether political parties still account for variance in social policy. By regarding different indicators used for interpreting welfare state generosity and retrenchment this problem becomes evident. On the one hand, many studies have commonly measured welfare state generosity by using social expenditure in proportion to the GDP. However, scholars have frequently criticized this indicator as producing misleading effects due to complex interactions caused by intervening variables such as rising unemployment or changing demands for benefits (Starke 2006). On the other hand, the evidence that parties still matter brought forward by power resource theory is based on replacement rates which measure a different aspect of the multilayered concept welfare state. In this way, the diverging results point to a lack of theoretical conceptualization about what can be defined as retrenchment and how to measure it. This decreases the reliability and com-

parability of the results significantly. Therefore, the dependent variable is mostly defined in questions of conceptualization and empirical indicators, as most of the competing evidence on the “party politics still matter” debate can be attributed to the different or missing operationalization of the dependent variable (Green-Pedersen 2007, p. 14).

Although research on welfare state retrenchment has mainly focused on how to deal with problems of measuring welfare state change, the indicators used to capture the political power of the left have also been scrutinized and should not be considered trivial (Schmidt 2010). Most recently, Döring and Schwander (2015) argued that the predominant usage of the cabinet seat-share of social democratic parties for identifying partisan effects suffers from several deficits: to begin with, the cabinet-seat share neglects that ideological profiles of parties are different across countries and have changed significantly over time. Additionally, cabinet-seat shares underestimate the power coalition parties can have on the preferences of governing parties and do not account for minority cabinets dependent on the parliamentary opposition in order to implement their policy preferences. The authors propose a new indicator that not only takes the strength of partisanship into account, but also their ideological profile. To test their data the authors replicated the study by Allan and Scruggs (2004) but failed to identify a significant effect of their alternative indicator on the generosity of replacement rates (Döring & Schwander 2015).

## **1.2 Structure of the Thesis**

With the guiding question *“Do parties still matter in a setting of austerity and how does the setting of partisan competition moderates partisan effects?”* this thesis relates to the presented literature on welfare state retrenchment in a twofold way. The alternative measurement as proposed by Döring and Schwander is calculated and the claim proposed by power-resource theory that party politics still matters in a setting of austerity re-examined (Korpi & Palme 2003). At the same time the seminal study by Allan and Scruggs (2004) is partially replicated, however a different sample of countries, an extended time period and different control variables have been chosen. Furthermore, the assumptions about the mediating effects of partisan competition on the ability of governing parties to retrench the welfare state as developed by Kitschelt have only been tested on several case studies so far. In this way, the aim is to fill this gap by presenting quantitative evidence from a time-series-cross-section-analysis (TSCS) which includes partisan competition as a moderating variable. In summary, no partisan effects on the level and change in the unemployment replacement rates could be identified and partisan competition seems to have no moderating effect on the ability

of parties to implement retrenchment measures. Apart from the insignificance of the results, the direction of the effects suggests ambiguous answers. Governments located on the economic left might be associated with higher levels of unemployment rates, whereas the effect of the cabinet seat shares of left-wing parties points towards the opposite. Here, a negative effect for the cabinet seat shares of left-wing parties is adumbrated which may be intensified by strong right-wing parties and competition centering on the socio-economic dimension. Based on the conflicting results, this thesis maintains that the reason for the lack of partisan effects may be located within changes in parties and party systems and is not necessarily caused by a qualitative change in the politics of welfare state restructuring, as proposed by the new-politics literature. As a consequence, this thesis concludes that to advance the debate on the relevance of party politics (1) further theoretical work on the conditions of partisan effects is needed and (2) scholars should reflect their applied measurement of left- or right-wing party strength more carefully. This is especially the case as conventional measures presume invariant policy positions and neglect changes in parties' constituents and policy positions.

The argument is developed in several parts. The first part comprises the theoretical expectations of the power resources and partisan theory about partisan effects with a major focus on the challenges presented by the new-politics literature. In this part the theoretical assumptions about the effects of partisan competition as developed by Kitschelt are further discussed in detail. Going on, the methodical approach, including the operationalization and applied indicators is highlighted with a special focus on the dependent variable. Finally, the analysis and the results of the TSCS and the interaction models are put forward in order to consider the relevance of the results for the discussion about welfare state retrenchment.

## **2. Theoretical Assumptions about Political Parties in a Context of Retrenchment**

Most studies that examine the effect of political parties on social policy base their arguments either in partisan theory or the power resource school. Both are well recognized as major theories for explaining the variance in public policy and have been introduced as competing approaches to the prevalent functionalist and structural Marxist theories during the 1970s (Häusermann, Picot & Geering 2012). Although both theories are related, they constitute separate strands of research with distinct assumptions about the underlying processes in which partisan effects on social policy emerge. However, as power resource theory argues most vehemently for a continuing

influence of party politics and the data used is similar to existing studies from this line of thought, partisan theory will be discussed only with regard to the effects of partisan competition. Therefore, this section introduces partisan theory mainly through the assumptions about contagion effects of oppositional and coalitional parties on governing parties' ability to influence social policy as developed by Hicks and Swank (1992). At the end the challenging explanations about the moderating effect of partisan competition by Kitschelt (2001), who tries to reconcile partisan politics with the new-politics literature, are presented and partially competing hypothesis are formulated. Thereby, the context of partisan competition in which parties matter is taken into account.

## **2.1. Power Resource Theory**

The power resource approach has been developed by Walter Korpi and John D. Stephens and has been a leading strand of research on welfare state development in the 1980s (Pierson 2000). Proponents of power resource theory maintain that welfare states should be perceived as "outcomes of, and arenas for, conflicts between class-related, socio-economic interest groups and that in these distributive conflicts partisan theory is likely to matter" (Korpi & Palme 2003, p. 425). Thus, in general the power resource theory assumes that welfare states are primarily shaped by the power game about the distribution of income. The difference of power resources between diverging societal groups with competing socio-economic interests plays a crucial role for the expected outcomes (Korpi 2000). In this context, the strength of left-wing parties and trade unions are seen as essential power resources, improving the bargaining position of the working-class and allowing them to reduce their economic vulnerability by introducing and expanding social programs (Pierson 1996, p. 150). These theoretical underpinnings can be further illuminated by Walter Korpi whose works have become a leading reference for power resource theory.

According to Korpi (2000, p. 78), the central element determining the outcome of the power game is the distribution power resources which can be defined as means providing different collective or individual actors with the capacity to punish or reward other actors.<sup>2</sup> In this regard, the distribution of power resources between wage-earners and business interests in Western welfare states explains the variance in the social consciousness of the citizens, the level and patterns of conflicts in the society, the shaping and functioning of social institutions and changing patterns in the distributive processes, resulting in different levels of inequality (Korpi 2000, p. 81). In general, major power resources for wage-earners are left-wing parties and labor unions which allow them to organize for collective action. In contrast, the power resources for busi-

ness interests are constituted by the degree of private ownership in the economy reflecting the degree of control over the means of production (Korpi 1983, p. 26). Concerning the distributive processes and the degree of inequality Korpi assumes and shows that under the condition that wage earners wield strong power resources, the degree of inequality within society is expected to be lower, as the power of wage-earners is translated into stronger redistribution (Korpi 1983, p. 197). Above all, this can be expected in case of a high degree of unionization characterized by a close coordination between different labor unions and a socialist party articulating the interests of wage-earners in the political arena which collaborates closely with the labor unions movement (Korpi 1983, p. 39; see also Ostheim & Schmidt 2007). Therefore, with regard to the relevance of party politics a welfare state with a strong socialist party in government is presumed to be associated with higher redistribution and less retrenchment of social programs.

A similar line of reasoning can also be found in the seminal contribution of Esping-Andersen *The Three Worlds of Welfare Capitalism* (Esping-Andersen 1990), in which he argues that power resources of diverse social and economic groups do not only explain the differences in the generosity, but also other characteristics of welfare states. Based on the degree of de-commodification<sup>3</sup> and stratification he identifies a three-fold classification of welfare states which covers international variation: the liberal, the conservative and the social democratic regime (Esping-Andersen 1990, p. 21-26). The first regime is characterized by the predomination of means-tested allowances, modest universal transfers and social benefits. In this type the state encourages its citizens to make use of the market by guaranteeing only a minimum income or by promoting private welfare schemes. In contrast, the conservative welfare state is mainly occupied with the preservation of status differentials which means that social rights are contingent on class and status. Here, the degree of de-commodification is also higher than in the liberal regime, as the state substitutes the market partially as a provider of welfare and encouragement for private welfare schemes remains limited. In addition to that, the conservative regime is also marked by the impact of the church which becomes evident in the commitment to the preservation of traditional familyhood (Esping-Andersen 1990, p. 27). As the last type, the social-democratic regime upholds the principles of universalism and also extended these principles to the developing middle classes. This meant an improvement in the generosity of social programs as services and benefits were designed to represent levels that are also adequate for the middle classes and workers were assured the same quality for the participation in social rights. Thus, the social-democratic regime manifests highly de-

commodifying and redistributive welfare schemes by guaranteeing universal benefits according to accustomed earnings (Esping-Andersen 1990, p. 28).

The effect of political parties on social policy becomes already evident in the name of the social democratic regime. As can be demonstrated by this type, the mobilization of the working class and the corresponding support for social-democratic parties in the political arena are essential for the formation of large welfare states that are committed to universalism and equality. In this way, parties on the left maintain and extend the mobilization to the lower strata in general by promoting policies that incorporate not only the working-class expectations for social security and the welfare state, but also of lower stratas (Esping-Andersen 1999).<sup>4</sup> By promoting egalitarian and universal policies social democratic parties in turn intensify the alignment between themselves and their constituents, such as the working-class, lower white collar workers or low-wage earners (Döring & Schwander 2015). This implies in reverse that for countries marked by the absence of strong left-wing parties in office — which could mobilize the working-class to achieve higher levels of redistribution and protection from market forces — a liberal welfare state regime with weak de-commodification can be expected as the outcome. Lastly, the development of the conservative welfare state regime can mainly be explained by the inheritance of absolutism and by the presence of Catholic-party strength (Esping-Andersen 1990, p. 138).

Although Esping-Andersen's regime approach is compatible with the logic of path-dependency as the developed configurations of state, market and family reliance within the three regimes already structure potential adjustments of welfare institutions (Green-Pedersen & Haverland 2002), Pierson (1996) contends that a new theoretical perspective is needed. The starting point for Pierson's critique of power resources theory is an empirical conundrum: although power resources of labor unions and left parties have declined considerably in many states, the degree of cutbacks in social programs remains limited. He finds no correlation between declines in left-power resources and the extent of retrenchment and concludes that power-resource theory in its reversed form holds only limited explanatory power in mature welfare states (Pierson 1996, p. 150). On a theoretical level, this leads to the critique of power resource theory because this line of thought fails to take into account the emerging interests groups of welfare beneficiaries that emerged with the expansion of the welfare state. These groups are linked to particular social programs, have a strong interest in sustaining the current levels of expenditures and will resist any attempts to cut back privileges given. In this regard, social programs developed alternative bases of organized support for the welfare state with a substantial amount of autonomy from the labor movement (Pierson 1996, p. 151). This developments lead office-holders to

be wary of implementing cost-saving measures in general as these are very unpopular and involve a high risk of provoking electoral drawbacks. Thus, with the transitioning of welfare state retrenchment into the politics of blame avoidance, Pierson concludes that, regardless of the strength of left-wing parties or labor unions, implementation of program cutbacks is an inherently hazardous endeavor (Pierson 1996, p. 151). Taken together, these developments prevent the weakening of organized labor to lead to the expected reduction of social expenditures and challenge the foundations of power resource theory.

In the resulting debate, scholars have provided ambiguous evidence on the question whether the explanatory power of the traditional forces and of political parties in particular was really fading away in the context of retrenchment. While some scholars presented evidence in support of the thesis that the influence of left-wing parties has at least declined (Huber & Stephens 2001; Kittel & Obinger 2003) or that old-politics do not matter anymore (Swank 2002), another group of researches contested the claims brought forward by Pierson heavily. For instance, Scarbrough (2000) argues that the major theories used to explain expansion can also account theoretically for the difficulties of social policy reforms. An empirical examination leads her to conclude that, in contrast to Pierson, the power of labor union strength has not declined considerably and in many cases labor unions often acted as the leading organizations in the resistance against programmatic cutbacks. Similarly, she disagrees with Pierson on the supposed decline in the power of left-wing parties and claims that left-wing parties are able to absorb the opposition against the curtailing of social expenditures which highlights their pivotal role in instigating alternative settlements (Scarbrough 2000, p. 251).<sup>5</sup> This view is supported by several studies which argue that power resource theory also works in reverse: left-wing parties in office are associated with a more rapid expansion in the rights to a reasonable income outside the market, whereas governments shaped by the neo-liberal right represent capitalistic interests and thus are more likely to implement stronger retrenchment measures (Korpi & Palme 2003). In line with this finding Allan and Scruggs (2004) demonstrate a significant and positive effect of left-wing governments on the level of sickness and unemployment rates until the 1980s. After that period they present evidence that right-wing governments are systematically connected to a lowering of these rates. However, here the differences in the measurement of the dependent variable become already apparent as most studies providing evidence against a retention of old-politics try to explain welfare state expenditure development and are not concerned with retrenchment which often is conceptualized in a different way. If welfare state retrenchment is

measured with regard to the level of unemployment and sickness replacement rates, most quantitative studies imply that governmental ideology still matters (Starke 2006).

As with the mean unemployment replacement rates for single workers and families this thesis uses an indicator that has been frequently applied in studies supporting power resource theory, the old-politics approach is encapsulated within the hypothesis about the impact of government ideology.

*Hypothesis 1: The ideological position of governments is associated with the level of unemployment replacement rates within and between countries: with increasing influence of parties towards the economic left the level is expected to manifest a higher value.*

## **2.2. Partisan Competition from the Perspective of Partisan Theory**

In contrast to the presented power resource approach, partisan theory focuses predominantly on the party composition of governments. This theory is based in the works of Hibbs (1977) who tried to explain variations in macro-economic outcomes with the partisan competition of governments. According to this line of thought, political parties, or to be more precise, the difference in partisan composition of governments accounts mostly for the timing, substance, expansion and the retrenchment of the welfare state (Schmidt 2010, p. 211). In this way, partisan theory similarly concludes that left-wing parties in government implement distinct economic and social policies and are associated with a higher level of redistribution (Häusermann, Picot & Geering 2012).

Several key propositions have been developed which constitute the link between social constituencies, parties and different policies (Schmidt 1996). To begin with, proponents of partisan theory agree that political parties represent different social constituencies within democracies and that these different groups within society are able to successfully introduce their economic and social preferences into the policy formation process. Additionally, political parties transform these preferences into concrete policies once in office as they are defined by their intention to attain governmental power and to pursue their advocated policies. In this regard, governments are understood as being capable to implement preferred policies by incumbent parties and are not restricted by other factors, such as economic pressure, the inheritance of predecessors (Rose 1990) or institutional constraints. To put it differently, society and economy must allow for a regulation by governments and office-holding parties must be willing and capable to achieve this task (Schmidt 2002). Taken together a change in government composition is assumed to be responsible for changes in social policy



choices, outputs and outcomes (Schmidt 2010, p. 213). This leads to the general expectation that the likelihood of interventions into the economy is higher with left-wing parties in office, whereas right-wing parties mostly abstain from interventions and try to strengthen the role of the market in order to achieve a desirable economic output (Zohlnhöfer 2003).

The link to partisan competition is made by Hicks and Swank (1992) who demonstrate the moderating effect of political competition on implemented social policies of different governments. They assume that in general left-wing parties are associated with a higher degree of welfare effort than right-wing parties which is measured by the ratio of welfare spending to gross domestic product. Based on this, they anticipate that the welfare effort of left-wing governments is weakened by political opposition of right and center parties or in case of multi-party governments by their coalition partner towards the right (contagion from the right). Having said that, they further assume that governments led by right-wing parties are pressured to adapt more welfare policies if faced by electorally consequential competitors on the left and center (contagion from the left). Concerning parties in the center, Hicks and Swank hypothesize that the welfare state effort of these parties is stronger when they are faced with a strong opposition towards the left and more moderate when confronted by a strong right-wing opposition (Hicks & Swank 1992, p. 659). Their findings confirm these theoretical assumptions: with increasing strength of center or right-wing opposition, the welfare state effort of parties on the left decreases, whereas center and right-wing governments increase their welfare effort with growing strength of left-wing opposition. Additionally, they are able to identify significant pro welfare pressures from center parties upon right-wing governments (Hicks & Swank 1992, p. 665). Although with these advancements partisan theory can explain the occurrence of partisan effects in different settings of political competition, the applicability to welfare state retrenchment was challenged by the emergence of the new-politics literature and especially by the party convergence hypothesis which assumes that the policy differences between parties become increasingly homogenous.

Intertwined with this is the fundamental question about the consequences for the validity of partisan theory as parties are expected to represent distinct positions on economic or social policies. On the one hand, parties rely on an increasingly amorphous electorate and have become electorally more catch-all by extending their appeal across traditional cleavages (Mair 2008, p. 219; see also Kircheimer 1965). On the other hand, the applicability of the argument of a declining influence of partisan politics in times of welfare state retrenchment holds a possible pitfall because the

absence of the absolute defense of traditional welfare-state institutions and the missing moves for more redistribution or expansion by left-wing parties are treated as evidence that parties do not represent their traditional constituents and do not matter anymore. However, this argument is based on the inconsiderate assumption that their constituents remain unchanged (Häusermann, Picot & Geering 2012, p. 227). Another argument in favor of the validity of partisan theory is brought forward by Finseraas and Vernby (2011) who demonstrate that, contrary to commentators' assessments, the ideological polarization between competing parties has not declined between the 1970s and 2003. In their study they could further show that higher levels of polarization lead low-income voters to increasingly vote for left-wing parties and that although partisan effects on welfare state generosity disappeared in the 1980s, a gradual re-appearance can be observed since then. Thereby, a certain level of polarization is necessary in order to allow parties to make their ideology count (Finseraas & Vernby 2011, p. 635). Finally, Schmidt (2002) has examined the programmatic positions of political parties, their electoral manifestos and the implemented policies of parties after elections and comes to the conclusion that partisan theory remains a valuable tool in studying the welfare state in economically advanced states. He argues that partisan effects can be observed in different policy fields and that cabinet seat shares of left-wing parties still allow to account for the variance of the generosity of social programs and patterns of welfare state expansion (Schmidt 2010, p. 213-223).

In conclusion, partisan theory similarly expects that the ideological position of governments is associated with the level of unemployment replacement rates, as captured by hypothesis 1. The advancements made by Hicks and Swank (1992) allow to formulate further hypotheses about the moderating effect of partisan competition. Based on the presumption that their argument is also valid in times of austerity, which implies that left-wing parties are either expected to expand social expenditures or to at least abstain from retrenchment I hypothesize as follows:

*Hypothesis 2. The cabinet seat share of left and right-wing parties is associated with the changes in the unemployment replacement rates within countries.*

*H2.1. An increase in the cabinet seat share of left-wing parties affects the changes in the unemployment rate positively, on condition of the absence of right-wing secular parties. If right-wing secular parties are present, an increase in the vote-share for these parties leads to a decrease in the effect of left-wing parties on the yearly differences.*

I further hypothesize the impact of left-wing competition on right-wing parties in government in the following way:

*H 2.2. An increase in the cabinet seat share of right-wing parties affects the changes in the unemployment replacement rates negatively, on condition of the absence of left-wing parties. If left-wing parties are present, an increase in the vote share for these parties leads to a decrease in the effect of right-wing parties on the yearly differences.*

### **2.3. Partisan Competition from the Perspective of the New-Politics Literature**

A competing approach towards political parties and partisan competition was introduced into the debate by Kitschelt (2001). He presents four different configurations of political competition that frame how political parties might still matter for welfare state retrenchment. In contrast to Pierson (1996), Kitschelt does not assume that the logic of welfare state retrenchment leads to a superseding of party politics per se, but rather that the implementation of reforms is dependent on different configurations of party systems which affect the political feasibility of welfare state reform dependent on its parameters in a positive or negative way (Kitschelt 2001, p. 273).

To begin with, the existence of parties which have a history of liberal market advocacy fosters a political debate about cost-containment and retrenchment because these are mostly responsible for introducing the issue of welfare state reform into the political discourse. In order for governments to implement the debated measures, it is further necessary that existing parties defending the welfare state lose credibility among voters, for example due to a bad record of economic performances or because their stance on welfare state issues is too radical (Kitschelt 2001, p 274). If these two conditions of a market radical-party and a loss of credibility are met, Kitschelt assumes that office-holders are able to introduce unpopular policy reforms with a reduced risk of being electorally punished, as voters have no actual choice to turn to other reasonable alternatives. Likewise this logic can be applied to social democratic parties that are faced with strong market-liberal competitors because left-wing parties are attributed competence on social policies and are perceived as defenders of the welfare state (Ross 2000). According to a “modified Nixon-goes to China logic” (Kitschelt 2001, p. 275), social democratic parties have a higher potential of introducing retrenchment measures, as their right-wing competitors do not have the credibility to criticize such reforms. To put it differently, in contrast to the advocated reforms by market-liberal parties, the electorate trusts left-wing parties to be more likely to protect

the core system of the welfare state. Although a central element of the presented argument is the credibility of parties to criticize welfare state reforms, he operationalizes the first configuration solely through the strength of a market liberal party (Kitschelt 2001; see also Zohlnhöfer 2012).

Despite this inconsistent operationalization, Kitschelt elaborates his argument further by stating that although parties may enact unpopular reforms in situations that prevent their competitors from rallying an alternative majority in government after the election, former supporters may still be disappointed by advocated retrenchment policies and refrain from voting for them in the subsequent election. Such electorally costly policies lead to a conflict between the office-seeking ambitions of parties — they may sacrifice former voters in order to have more bargaining power in government — and their vote-seeking objectives (Kitschelt 2001, p. 276). This argument implies, that retrenchment is most likely in situations which allow parties to pursue retrenchment policies in government, without the fear of suffering significant losses at the next election. For social democratic parties the existence of alternative parties within the party system which may be able to attract disappointed voters, attenuates the incentive for introducing social policy reforms. As a result, the likelihood of the adoption of retrenchment policies by social democratic parties is dependent on the strength of left-wing competition, such as post-communist and left-libertarian parties (Kitschelt 2001).<sup>6</sup>

Thirdly, Kitschelt highlights the role of intra-party decision making for the flexibility to adapt different strategies with regard to the welfare state, although this is no characteristic feature of party systems and political competition per se (Zohlnhöfer 2012). Here framework parties have a higher likelihood to adapt retrenchment measures than mass parties. The numerical reduction of membership fosters the entry of fresh ideas into the party by new entrants from the bottom and on the top leaders have more leeway to incorporate retrenchment measures as tolerable instruments into their decision making process (Kitschelt 2001, p. 277). Furthermore, the potential for the introduction of retrenchment is generally lower in party systems that are based on clientelist voter-party linkages in contrast to those that are characterized by programmatic competition (Kitschelt 2001, see also Zohlnhöfer 2012). However, due to insufficient data and as this thesis focuses on partisan competition in particular, this configuration will not be tested.

The final configuration centers on the salience of the socio-economic cleavage as a dimension parties compete on. In this regard, the three previous configurations tacitly assumed that the conflict over economic-distributive questions is prevailing within party systems. Conversely, in case the social-cultural divide is dominant within the

party systems, parties run the risk of dividing their own electorates and confounding their supporters without possible gains in electoral support from other parties. The reason for this lies in a centrist agreement of all major parties on a mixed economy and a comprehensive welfare state. If socio-cultural cleavages constitute the central dimensions parties compete on, the existing welfare state institutions are exempt from political competition. In this way, parties are confronted with a prisoner's dilemma situation: no party has an incentive to advocate retrenchment policies because all parties are credible supporters of the welfare states status quo. A defecting party could then easily be blamed for unpopular social policy measures by its competitors which would be disadvantageous in subsequent elections (Kitschelt 2001, p. 279).

The so far presented evidence for these four configurations remains ambiguous. To start with, scholars have examined whether left-wing parties may be indeed in a better position to retrench the welfare state as suggested by the Nixon-goes-to-China argument. A study conducted by Schuhmacher, Vis and van Kersbergen (2013) finds contradicting evidence: most parties that enjoy a positive image as defender of the welfare state are punished in the subsequent election after reforms, whereas parties that are attributed a negative attitude towards the welfare state do usually not lose votes. Anyway, they also demonstrate that opposition parties with a positive welfare image benefit from electoral punishments which is compatible to Kitschelt's assumption that disgruntled voters may defect towards competing left-wing or center parties. In contrast, Armingeon and Giger (2008) maintain that there is no strong and systematic punishment for parties that cut back welfare state programs. The electoral consequences are rather dependent on the time period in which these measures take place and whether the advocated cuts were debated in the electoral campaign. According to their results, governments are less punished if they can implement social policy cuts in small steps over a long period of time and can avoid discussions in the media in advance of elections.

Furthermore, concerning the effect of left-wing competition on the likelihood of social democrats to cut back social policy programs, Schuhmacher and Vis (2012) find the opposite of Kitschelt. The results of their simulation suggest that the existence of radical left-wing competition leads social democrats to adapt a more moderate stance towards welfare state reform and makes them more likely to accept retrenchment measures, despite of the involved electoral risks.

In addition, the moderating effect of the salience of socio-cultural cleavages on parties abilities for welfare state reform, has to the knowledge of the author, not been tested quantitatively yet. So far only qualitative studies exist which try to validate the

explanatory power of Kitschelt's assumptions about partisan competition. For example Zohlnhöfer (2012) conducts a case-study and compares the presented approach to the competing assumptions by Green-Pedersen (2002). He concludes that Kitschelt overestimates the influence of market-liberal parties as these likewise abstain from advocating retrenchment measures if they are electorally risky (Zohlnhöfer 2012). Moreover, Zohlnhöfer also questions the effects of left-wing competition, as to his analysis, the existence of left-libertarian parties have made no substantial difference for the adoption of social policy reforms in Denmark and the Netherlands. Nevertheless, he finds that partisan competition plays an important role in welfare state retrenchment and calls for a stronger consideration of these variables.

Therefore, this thesis aims to fill this gap and conducts a first quantitative test of the configurations as proposed by Kitschelt. The formulation of testable hypothesis is confronted by a major obstacle as Kitschelt does only provide theoretical assumptions on the effect of partisan competition and not on the motives of parties to adapt reforms. To sidestep this problem, I hypothesize a negative effect for both left and right wing parties, as Kitschelt's arguments are only valid for retrenchment. In line with this I extend Hypothesis 2 with further assumptions on the effects of partisan competition.

*Hypothesis 2. The cabinet seat share of left and right-wing parties is associated with the changes in the generosity of unemployment replacement rates within countries.*

*H 2.3. An increase in the cabinet seat share of left-wing parties affects the changes in the unemployment rate negatively, on condition of the absence of secular right-wing parties. If right-wing secular parties are present, an increase in the vote-share of these parties leads to a stronger effect of left-wing parties on the yearly differences.*

*H 2.4. An increase in the cabinet seat share of left-wing parties affects the changes in the unemployment rate negatively, on condition of the absence of left-wing competition. If left-wing competition is present, an increase in the vote-share for competing left-wing parties leads to a decrease in the effect of left-wing parties in government on the yearly differences.*

*H 2.5. An increase in the cabinet seat share of left-wing parties affects the changes in the unemployment replacement rate negatively, on condition of a value equal zero for the importance of the left-right dimension. If the importance of the left-right*

*dimension displays values above zero and increases, the negative effect of left-wing parties on the yearly differences increases.*

*H 2.6. An increase in the cabinet seat share of right-wing parties affects the changes in the unemployment replacement rate negatively, on condition of a value equal zero for the importance of the left-right dimension. If the importance of the left-right dimension displays values above zero and increases, the negative effect of right-wing parties on the yearly differences increases.*

### **3. Methodical Approach**

In this section the research design, the operationalization and measurement of the variables within the analysis will be discussed. As the adequate measurement of the dependent variable is still contested, a special focus will be on the question how to capture welfare state retrenchment with regard to conceptual problems and datasets. Moreover, an alternative approach to measure the ideology of governments is introduced. Following this, the individual variables used to estimate partisan competition and different control variables to account for the economic and societal context will be presented. However, first of all the research design including the case selection and observation period of this thesis will be outlined.

#### **3.1. Research Design and Case Selection**

In order to test the developed hypothesis about the effect of political parties and partisan competition on welfare state retrenchment, a quantitative approach or, to be more precise, a TSCS analysis has been chosen. The sample consists of twenty OECD countries and comprises 15 western European countries and five non-European countries.<sup>7</sup> The inclusion of Australia, Canada, New Zealand, Japan and the USA offer several advantages. To begin with this enables a more heterogeneous sample and allows secondly to check for settings in which market-oriented conservative parties played an important role in the shaping, timing and substance of welfare states. In this regard, the analysis allows to test for the theoretical assumptions of partisan effects in a favorable setting, because studies that include non-European countries find in general stronger effects for partisanship and extra parliamentary powers, such as trade unions (Schmidt 2010, p. 216). Furthermore, this sampling allows for a generalization of the results beyond western European welfare states.

Besides the described cross section, this study uses longitudinal data covering the period of 1987 to 2008 in the analysis. This period has been chosen for several reasons: first of all, the starting point reflects the historical developments that followed the collapse of the socialist regime in 1989 which marked the transition towards the dominance of liberalism. In this perspective, welfare state retrenchment is often associated with an increasing reliance on market forces and privatization. Secondly, the chosen time period takes into account the results of the addressed studies about the diminishing or disappearing effects of partisanship in the 1980s and 1990s (Castles 2001; Huber & Stephens 2001; Kittel & Obinger 2003; Hicks & Zorn 2005). The application of the alternative measurement of government ideology within this time period allows to embed the results within the existing literature and to test for the robustness of previous findings. Finally, the end of the observation period was chosen to prevent a bias from external shocks following the outbreak of the subprime crises in 2007 and the subsequent European debt-crises. Research on this topic indicates that especially southern European countries were forced to adapt severe austerity measures during the financial crunches. This obstructs the ability of researchers to make differences in partisanship responsible for variation in welfare states after this period (Armingeon 2013). In the face of severe budgetary problems and the reform guidelines of European backers, the room for governments was extremely limited and several governments cut back social programs randomly which is why I expect governing parties to be predisposed to welfare state restructuring after this period, regardless of their political color. Consequently, as with Portugal and Spain two affected countries are within the sample, to avoid an inclusion of these special circumstances in the dataset, the time-series ends with the year 2008. Taken together the dataset covers a sample of 20 countries over a time period of 22 years resulting in a total number of 440 observations.

### **3.2. Operationalization and Measurement**

The welfare state is a multilayered concept and scholars continue to disagree about a comprehensive definition, especially how to measure welfare state change respectively retrenchment. Accordingly, the operationalization and measurement plays a pivotal role for this study in order to allow for a comparability of the results with existing evidence. This is particularly the case because the definition of what constitutes retrenchment remains implicit in many studies (Starke 2006). Thereby, the insufficient operationalization in several studies hampers the comparability of results and the ability to evaluate the explanatory power of competing theories. In short, as highlighted by Pierson “[...] it is impossible to seriously evaluate competing explanations when



there is no agreement about the pattern of outcomes to be explained” (Pierson 2001, p. 420). In order to sidestep these complications, the definition and measurement of welfare state retrenchment is presented in the following.

### **3.2.1. Welfare State Retrenchment**

The need to focus more strongly on the theoretical definitions of welfare state retrenchment and its operationalization has been emphasized by Green-Pedersen (2004) who argues that the continuing differences on the conclusions about welfare state reform can be mainly attributed to ambiguities in the measurement of the dependent variable rather than to different sources of data. In this manner, the dependent variable problem becomes evident in a twofold way. On the one hand, it remains often indecisive what exactly constitutes welfare state retrenchment and how to provide an operational definition. This puts the reliability at risk, as scholars are unable to reproduce findings and as the criteria on which assessments were made are often unspoken and unclear. On the other hand, the content validity of the indicators becomes frequently an issue due to the absence of discussions about the usefulness and correctness of the used social expenditure data (Green-Pedersen 2007). Indeed, a majority of studies that rely on social expenditure data make the profound and unconsidered assumption that government spending is directly linked to the generosity of social benefits for individual citizens and thus transmits directly into their lives (Castles 2013; see also Esping-Andersen 1990).

Another shortcoming of previous research highlighted by Green-Pedersen (2007) is that scholars have often neglected to differentiate between the output and the outcome perspective on the welfare state. Whereas, the first focuses on the welfare state as an accumulation of government programs and social policies, the latter takes the recipients’ point of view into account with regard governments’ obligations towards the reduction of inequality or reducing unemployment (Green-Pedersen 2007, p. 16). With reference to the measurement and operationalization this leads to the problem that, although the extent of government spending as the outcome is basically associated with the governmental output, the extent of aggregated social expenditure data is often influenced by external factors, such as the labor market situation or related economic contexts. Thus, social expenditure data is susceptible to the risk of producing misleading results, as a change in the extent of spending due to cyclical developments suggests a change not caused by government activity. As a consequence, many studies often err in their conclusion, because they (continue to) infer a change in the generosity of social programs implemented by governments on the basis of aggregated data (Kühner 2007). To account for the problem of intervening variables

many authors have taken the number of eligible persons for social benefits and economic variables into their regression models, however, due to the high number of potential intervening variables on social expenditures, the likelihood of omitted variables remains acute (Knill, Schulze & Tosun 2010).

Additionally, to arrive at a sound definition of welfare state retrenchment it is inevitable to distinguish between retrenchment and institutional change. Only the former refers to cutbacks in social benefits and entitlements in the form of lower benefit levels or tightened eligible rules, whereas the latter concerns the institutional rules that social schemes are embedded in (Green-Pedersen 2007). An inconsiderate operationalization might misinterpret the resilience of the welfare state, as retrenchment can either take place in the form of reduced benefits or in institutional changes. For example a change in the calculation which determines the generosity of benefits, such as the scope-of mean testing, can constitute a form of retrenchment, although the level of generosity at the individual level remains stable and indicates no changes (Green-Pedersen 2007, p. 17). Therefore, to provide theoretical clarification and a comparability of the results it is necessary to state how retrenchment is defined and whether it is expected to be in the form of institutional changes or within the meaning of retrenchment at the individual level.

A possible way of capturing welfare state change theoretically is given by Pierson (2001) who advocates to identify policy changes along three dimensions, namely re-commodification, cost containment and recalibration. The first dimension follows Esping-Andersen's (Esping-Andersen 1990) analysis of welfare capitalism and measures change according to the increasing restriction of alternatives for the maintenance of a livelihood towards the participation in the labor market. Changes in re-commodification can be observed in tightened eligibility rules or curtailed benefit levels. Cost containment as the second dimension concerns the ability of governments to reconcile tendencies for deficit reductions accompanied by potential electoral losses with higher outlays. Recalibration as the last dimension centers on reforms which aim at making "contemporary welfare states more consistent with contemporary goals and demands for social provisions" (Pierson 2001, p. 425). At this point Pierson further distinguishes between rationalization which means the modification of programs to achieve contemporary goals more effectively and updating which concerns the efforts to include new societal demands into currently running programs, such as the changing life course or an ageing society (Pierson 2001). This thesis follows this classification insofar as welfare state retrenchment is understood as re-commodification and cost containment. Here Pierson's classification does not allow for a clean differentiation between these two dimensions as unemployment replacement rates,

which are used as the dependent variable, refer to both dimensions. As a change in the unemployment replacement rates can either serve as a measure to contain costs and a measure for re-commodification, this thesis does not differentiate and understands retrenchment simply as a change along these two dimensions. In accordance with the underlining assumption that retrenchment takes place in the form of reduced benefits at the individual level, welfare state retrenchment is measured by the unemployment replacement rates for several reasons.

In the wake of the discussion about the dependent variable problem, scholars have provided and accessed new aggregated social spending indicators in order to correct for mentioned deficits. However, Kühner (2007) argues that the dependent variable problem is also a problem of data because commonly used state of the art indicators have far-reaching limitations. By conducting a country-level comparison of different indicators he is able to show that the commonly used data provides ambiguous or even contradicting results on welfare state change for the same countries which points towards problems with validity. The limitations of macro social spending data have also been scrutinized by other scholars, who similarly caution to infer far-reaching conclusions from this data due to the problem of conceptual validity and in some cases reliability (De Beken & Kittel 2007).

Furthermore, a number of studies have tried to measure welfare state change from an output perspective by using legislative data in order to observe governmental intentions. For example Klitgaard and Elmelund-Praestekaer (2013) suggest to measure governmental intentions by content analysis of adopted laws in social policy making. While such an approach offers the advantage to sidestep the problem of time-lags in the implementation of social policy reform and can attribute policy changes directly to incumbent governments, such measures also suffer from drawbacks. A major problem is that scholars have to make assumptions about recipient numbers to be able to predict the effects of legislative changes (Green-Pedersen 2007). Connected with this problem is the limited availability of the data and information about its collection. Although several databases exist which offer data on the direction of reforms, the included countries are mostly limited to Western European countries and there is only sparse material about the assessments of experts. Therefore, as the reliability of such measurements cannot be always assessed, this thesis abstains from using output data to measure retrenchment.

Besides, in contrast to social spending data, replacement rates are insusceptible to cyclical developments, provide a close approximation of policy outcomes and allow for more robust inferences about the generosity of welfare states (Knill, Schulze & Tosun 2010). Replacement rates are calculated based on a model household of an

average production worker and measure the portion of income replaced by social programs in case of unemployment or sickness. For unemployment benefits the calculation is defined as the following (Scruggs 2007, p. 143):

$$\text{Unemployment replacement rates} = \frac{(\text{Cash benefits} - \text{income taxes}) (\text{out of work})}{(\text{Wages} - \text{income taxes}) (\text{in work})}$$

Despite the advantages of replacement rates in comparison to other sources, they also exhibit shortcomings. To start with, the calculation based on an average production worker which does not allow to infer conclusions about the generosity of the welfare state towards different income groups, especially employees in the growing service sector (Knill, Schulze & Torun 2010; see also Scruggs 2007). Replacement rates are further substantially influenced by the development of the real wage of the underlying model household and do not always mirror government legislation (Wenzelburger, Zohlnhöfer & Wolf 2013). Another limitation lies in the likelihood that the impact of social policy reforms often arrives with a time-lag. This hampers the ability to attribute responsibility for changes in the outcome to the respective initiator. Lastly, scholars have debated the validity of the two major databases on replacement rates, namely the Comparative Welfare States Entitlements Dataset (CWED2) and the Social Citizenship Indicator Program. For instance, Wenzelburger, Zohlnhöfer and Wolf (2013) cross-validated data from both sources and found substantial disagreement on the level and change of benefit generosity. In his reply Scruggs (2013) demonstrated that these differences can be attributed to operational assumptions and some measurement errors. Although the errors in the database have been corrected in the actual CWED2, Wenzelburger and Zohlnhöfer (2014) show that validity might still be a problem due to different treatment of tax callbacks, the diverging handling of means-tested programs and the inconsistent accounting for federal lower-level social benefits between these two datasets.

Thus, as the CWED2 Dataset was recently reworked, the data is taken from this source. In this dataset the unemployment replacement rate refers to national insurance provisions earned without income testing and data for two different household types, namely families and singles is provided (Scruggs, Jahn & Kuitto 2014b). To obtain a single indicator the annual mean of these two values is calculated. In the first part of the analysis the generosity of welfare states is measured through the level of the replacement rates, whereas for the measurement of partisan competition the dependent variable was transformed into annual differences. This step was made due

to the stronger theoretical focus on retrenchment which is reflected more effectively by changes instead of levels.

### **3.2.2. Ideology of Governments**

The measurement of the ideology of governments was conducted following Döring and Schwander (2015). In comparison to the conventional measurement of left-wing strength by cabinet seat shares, this measurement offers the advantage to take the limited influence of left-wing parties in case of coalition governments or minority cabinets into consideration. To estimate the impact of coalition parties in government on the left-right position, I have calculated in a first step a weighted governmental position. This was done by using the right-left position of all governing parties from the Comparative Manifesto Project (CMP) database and weighting them by their respective cabinet seat share.<sup>8</sup> The data on the cabinet seat shares was taken from the Comparative Political Dataset (CPDS) (Armingeon et al 2015a). As minority governments are dependent on votes from opposition parties in parliament to introduce changes in legislation on social policy, the weighted left-right position was further adjusted. Minority cabinets were estimated in line with the suggestion by Döring and Schwander (2015) who advocate to place minority cabinets at the middle between the cabinet and the parliamentary position. Thus, analogous to the conventional CMP placements, governments are located on the left-right dimension on scale ranging from -100 to +100, whereby negative values indicate a position to the left and positive values a position to the right (Budge & Klingenmann 2001).<sup>9</sup>

Although the validity of the right-left indicator offered by the CMP Dataset remains contested (Franzmann & Kaiser 2006; Jahn 2010; Gemenis 2013), the application can be justified on several grounds. First of all, in contrast to the competing datasets based on expert surveys, tapping on the data of the CMP allows for the inclusion of non-European countries over a longer period of time. In this regard, the CMP data offers in addition time-variant data on the location of political parties within the left-right continuum which is very much suited for panel-data analysis. Furthermore, several authors have provided improved calculations of the left-right scale based on manifesto data. Nonetheless, major alternatives often lose information by employing interval scales instead of ratio scales (Gemenis 2013) and the validity of these alternative scaling techniques has not yet been tested as extensively as the conventional left-right scale offered by the CMP. For example, McDonald and Mendes (2001) were able to alleviate questions about the validity by performing a cross-validation with data collected from expert judgements. They found that the left-right estimates based on

the CMP are close approximations of the expert judgements and thus provide a reliable and valid measure. Despite the discussed advancements, the alternative measurement of the ideological position of governments is not suited to analyze the effects of partisan competition and is replaced by the conventional cabinet seat share as independent variable.

### **3.2.3. Partisan Competition**

The reason for this change lies in the calculation of the indicator which does not allow to measure the absence of specific party families or of left and right-wing parties, because the value zero indicates a governmental position located in the middle of the right-left policy space. In addition, partisan competition as a moderating variable would be confronted with problems of endogeneity because the strength of parliamentary competition is already included in the measurement in the form of minority cabinets. Regardless of the discussed shortcomings of cabinet seat shares, the change offers the advantage to compare the outcomes for both measurements and thus to further check for the robustness of the results. To satisfy the theoretical expectations about partisanship and partisan competition, both the cabinet seat share of left-wing and right wing parties are included in the dataset. The data is taken from the Comparative Political Dataset which provides yearly data from the 1960s onwards (for an overview see table 3). Nevertheless, this change also runs the risk of blurring the line between different layers of left and right as the previously introduced measurement focuses solely on the economic left-right scale, whereas the data from the CPD has a broader understanding and for instance also classifies conservative parties as right-wing (Armingeon et al. 2015b). This adumbrates the problem that similarly classified parties do not necessarily share a common market-liberal agenda, but rather focus on topics besides the socio-economic cleavage. As a result, these measurements may involve the risk of overestimating the effect of the independent variable. Nonetheless, alternatives to the cabinet seat share of parties are limited for which reason this measurement is deployed.

The problem of available data is also a major obstacle for measuring the moderating influence of partisan competition on welfare state change. Most data is taken from the Comparative Welfare States Dataset (CWS) (Brady, Huber & Stephens 2014) because this dataset offers an extensive collection of data on the strength of different kind of parties and political competition. With regard to the formulated hypotheses about contagion effects (based on partisan theory) the strength of left-wing competition is measured by the cumulative vote-share of all parties that were coded as left-wing in the previous election. Analogous to this, the competition of right-wing parties

is measured by using the vote share of all parties that are classified as (secular) right-wing.<sup>10</sup> Relating to the measurement of the configurations of partisan competition as introduced into the literature by Kitschelt (2001), a direct measurement was not possible in all cases. For example there was insufficient data on the strength of market-liberal parties as most datasets do not offer longitude data for this party type. Therefore, as a proxy variable this configuration will be considered in the same way as the hypothesis on partisan competition through the vote-share of (secular) right-wing parties.

*Table 1. Sources and Expected Effects for Variables on Partisan Competition*

Variable	Source	Expected Effect
<b>Dependent variable</b>	CWED2 (Scruggs, Jahn & Kaitto 2014a)	
$\Delta$ in mean unemployment replacement rates for singles and families		
<b>Party politics variables</b>		
Cabinet seat share left-wing	CPDS (Armingeon et al. 2015a)	Negative
Cabinet seat share right-wing	CPDS (Armingeon et al. 2015a)	Positive
<b>Partisan competition variables</b>		
Vote share right-wing parties	CWS (Brady, Huber & Stephens. 2014)	Moderating
Vote share left-wing parties	CWS (Brady, Huber & Stephens 2014)	Moderating
Vote share of left-wing competition	Own calculations, based on CWS (Brady, Huber & Stephens 2014)	Moderating
Importance of the socio-economic cleavage	PIP (Jahn et al. 2014)	Moderating

Moreover, the strength of left-wing competition faced by left-wing governments is accounted for by cumulating the vote-share of all oppositional parties that have been classified as being left by the CWS Dataset. Lastly, the strength of the socio-economic cleavage could also be not measured directly. However, the importance of the left-

right dimension based on CMP data offers a sensible alternative and was used as a proxy variable in this case. This is done by summing up the percentage score of the left and right statements and by dividing this value by all statements that were mentioned (Jahn 2010, p. 756). The overall importance of the left-right dimension for a given party system was then derived by calculating the mean of the values for all parties. These values have been used to cover the whole period to subsequent elections. Data for this variable was taken from the Parties, Institutions & Preferences: Left-Right Party Scores Dataset (PIP) (Jahn et al. 2014).

#### **3.2.4. Control Variables**

The scientific literature has highlighted an array of circumstances that are considered to influence welfare state retrenchment within and between countries. In order to examine the explanatory power of the effect of political parties and partisan competition in comparison to competing variables, this thesis also controls for the most important alternatives. Table 2 gives an overview on the different control variables, their source and the expected effects using the example of the regression model on the mean unemployment replacement rates.

To start with, power resources theory also ascribes labor union strength as organizations for collective action of wage-earners an important effect on welfare state development. The strength of labor unions is measured through the union density as an indicator which was taken from the CPDS. Thereby, a higher union density is expected to be associated with higher levels of unemployment replacement rates and less cutbacks.

Furthermore, this thesis takes into account the effect of economic downturns which is assumed to force governments to adapt retrenchment measures by functionalist and neo-functionalist theories. This line of research understands social policy change as a direct result of socio-economic changes caused by internal and external pressures and accredits political-institutional variables, at the utmost a moderating effect (Starke 2006, p. 107). Several studies present evidence in support of this theoretical underpinnings. For instance, Hicks and Zorn (2005) find that demographic and economic pressures force governments to enact retrenchment measures in the form of stricter eligibility rules for social benefits or a reduction in the generosity of individual benefits. Therefore, as it is conceivable that governments are more likely to adapt retrenchment policies in difficult economic situations the unemployment rate, the annual deficit and the GDP growth are taken into the analysis to incorporate socio-economic change.



*Table 2. Sources and Expected Effects for Different Variables*

Variable	Source	Expected Effect
<b>Dependent variable</b>		
Mean unemployment replacement rates for singles and families	CWED2 (Scruggs, Jahn & Kaitto 2014a)	
<b>Party politics variables</b>		
Weighted CMP left-right governmental position	Own calculations, based on CMP (Volkens et al. 2015) & CPDS (Armingeon et al. 2015a)	Negative
Cabinet seat share right-wing	CPDS (Armingeon et al. 2015a)	Negative
Cabinet seat share left-wing	CPDS (Armingeon et al. 2015a)	Positive
Union density	CPDS (Armingeon et al. 2015a)	Positive
<b>Economic variables</b>		
Unemployment rate	CPDS (Armingeon et al. 2015a)	Negative
Annual deficit	CPDS (Armingeon et al. 2015a)	Negative
Openness of the economy	CPDS (Armingeon et al. 2015a)	Negative
GDP growth	CPDS (Armingeon et al. 2015a)	Positive
<b>Institutional &amp; societal variables</b>		
Institutional constraints	CPDS (Armingeon et al. 2015a)	Positive
Employees in the service sector	CPDS (Armingeon et al. (2015a)	Positive

Scholars following a functionalist approach have also been known to highlight the role of globalization for welfare state retrenchment. Most prominently the international hypothesis argues that economic globalization leads states to trim their social security

schemes as protective national boundaries are decreasing. With intensifying international competition, advanced social security schemes are anticipated as a disadvantage which forces governments to retrench social programs to safeguard their countries competitiveness (Scharpf 2000). Therefore, with rising dependence on the international economy, countries are expected to implement stronger social policy reforms. Although a recent study by Potrafke (2010) claims that economic globalization does not have an effect on labor market deregulation and unemployment replacement rates in particular, to control for the international hypothesis the openness of the economy is introduced as a variable into the analysis.

Moreover, the mitigating effect of political institutions on the ability of political actors and parties in office to influence social policy output has been emphasized by different authors (Kaiser 1996; Tsebelis 2002; Crepaz 2004). With regard to the effect of parties, for instance Schmidt (1996) maintains that partisan effects are expected to be greater when parties enjoy a higher degree of institutional freedom, as in democracies classified as majoritarian (Lijphart 1999). This assumption is introduced into the analysis by using the augmented index of constitutional structures of Huber, Ragin and Stephens (1993) which has been transformed into time-variant data by Armingeon et al. (2015a).<sup>11</sup> The expectation is in this case, that stronger institutional constraints lead to higher barriers for social policy reform and more generous unemployment benefits, as once introduced expansions in social programs cannot be taken back as easily by succeeding governments.

Lastly, Iversen and Cusack (2000) have pointed towards the role of deindustrialization as a major driving force for welfare state expansion since the 1960s. They reason that the accompanying uncertainty and dislocations of deindustrialization have led to a higher demand for compensation through social benefits and a greater degree of risk sharing. According to this argument a higher degree of deindustrialization is associated with higher levels of unemployment replacement rates and less retrenchment. With the number of civilians employed in services a proxy variable was used to measure deindustrialization which has been also employed in similar studies (Wenzelburger, Jäckle & König 2014). As with the other variables, this data was also taken from the CPDS.

#### **4. Analysis and Results**

The analytical section is divided into three parts. In the first part the data on the alternative indicator on government ideology and the dependent variable are described in

detail. In a next step, a comprehensive overview over the analytical steps and calculated models is given. Based on several interaction models, the last part discusses the results of the moderating effect of different settings of partisan competition.

#### 4.1. Ideology of Governments and Welfare State Retrenchment

A first description of the data on the alternative measurement demonstrates that the weighted governmental position offers both variance between and within the chosen sample. As figure 1 indicates three types can be observed in the ideological position of governments within the sample.

Figure 1. Changes in the Adjusted CMP Left-Right Position by Country and Years



The expected effect of right-wing dominance can be found within Australia, Canada, and the United States which matches the expectations derived from an observation of leading party families for these countries. Indeed, the data on the ideological position suggests that the respective welfare states have been equally shaped by market-conservative parties located to the economic right (Schmidt 2010, p. 216) Contrary to commentators' assessments, the data indicates a different perspective on New Zealand as the governmental position remains left-wing for the whole observation period. This is especially unexpected since the conservative National Party governed only

with a minor coalition partner from the beginning of the 1990s up to 1998. A similar situation can be highlighted for the United Kingdom: here the data indicates right-wing dominance, although the Labour Party held the office until the end of the observation period in 1997. As these changes are based in the programmatic realignment of the Labour Party towards a stronger orientation at the market, the measurement offers the advantage to capture such changes towards the economy and the welfare state. Beyond that, the influence of left-wing parties in Nordic countries is reflected within the data and can also be observed for Ireland and Spain. For instance, (partial) left-wing dominance can be recognized in the observation period for Norway and Finland. For Denmark the weighted right-left position of governments suggests in most instances a position in the center respectively the right. This can be attributed to the frequency of minority cabinets in Denmark which leads to a placement closer to the right-wing opposition in parliament. As the Social Democrats have been part of the government from 1993 to 2001 and in this period the governmental position is moving towards the center and the right, this highlights that traditional measures may overestimate left-wing power in Denmark in particular. The same effect can also be identified for Sweden for the minority cabinets of the Social Democrats from 1994 to 2002, although the parliamentary opposition was located in this case more to the center. A last group of countries comprises countries characterized by high fluctuations between left and right positions, such as Austria, France, Italy, Germany, the Netherlands and Portugal. This further indicates that the underlying assumption of stable party positions of the measurement via cabinet seat shares may lead to misleading results in some cases, as the policy positions of the same parties differ considerably overtime and have been found to be strongly influenced by changing coalition partners which concerns especially fragmented party systems such as Belgium, Italy and the Netherlands. For the selected variables the mean and standard deviation are outlined in Table 3. As illustrated for the weighted CMP left-right position the standard deviation displays similar values between and within countries.

Regarding the dependent variable most variance is expressed between countries and not within the longitudinal dimension. In general, the data on the unemployment replacement rates supports the claim that the welfare state has proved remarkably resilient (Pierson 1994). Three groups of countries can be identified that characterize different and in some cases erratic trends in the levels of unemployment replacement rates. To start with, several countries are characterized by only slight changes or constant levels, such as Germany, the Netherlands, Norway, Portugal, Switzerland and the United States. Here retrenchment has only taken place on a very moderate scale. As a second trend constantly dropping replacement rates can be identified in some

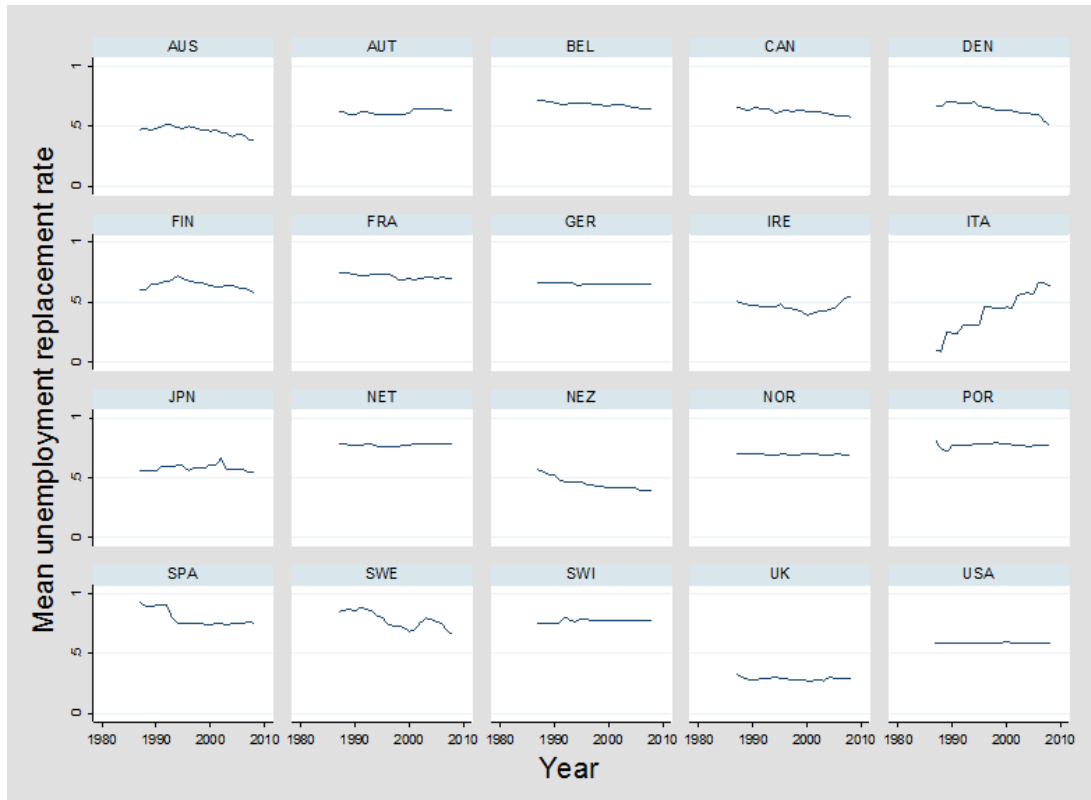
countries. This is the case for Australia, Belgium, Canada, Denmark, New Zealand, Spain and Sweden, although in Spain levels remained stable after a sharp drop around 1990.

*Table 3. Mean and Standard Deviation for Selected Variables*

Variable	Mean	Standard Deviation	
Mean unemployment repl. rate	,6221989	overall	,1472478
		between	,1420726
		within	,0496269
Weighted CMP left-right	,9357499	overall	15,07491
		between	10,35255
		within	11,18948
Cabinet seat share left-wing	35.93661	overall	38.35677
		between	21.31415
		within	32.22856
Cabinet seat share right-wing	39.23652	overall	39.6386
		between	23.84924
		within	32.08802
Union density	37.0563	overall	20,8306
		between	20,71707
		within	5,024734
Annual deficit	-1,686751	overall	4,171984
		between	2,785469
		within	3,157107
Institutional constraints	2,122727	overall	2,113722
		between	2,138785
		within	,3350202

Note: Total number of observations is N=440 for each variable, except for the annual deficit. Here the number of observations is N=437, as the data for Switzerland in the period 1987-1989 was missing in the CPDS and could not be substituted by using a different data source.

Figure 2. Changes in Mean Unemployment Replacement Rate by Country and Years



Lastly, several countries display, at least for a short period, rising unemployment replacement rates. For instance, in Ireland the level of replacement rates dropped during the 1990s moderately, but increased above the base level of the starting point towards the end of the observation period. Moreover, Italy displays a trend of constantly rising unemployment rates which increased about twenty percent from 0,099 in 1987 to 0,633 in 2008. Nonetheless, in this case the data is misleading as this positive development was accompanied by a reduction in the segmentation of different social policy schemes. Initiated by the decision of the Constitutional Court of Italy in 1987 that the benefit level of the unemployment insurance was inadequate for the needs of the insured citizens, governments expanded the benefit level in the following years for several times. These reforms were introduced at the cost of a reduction in other nonstandard social programs and do not constitute a substantial welfare state reform in terms of higher generosity for the beneficiaries (Picot 2012; see also Wenzelburger, Jäckle & König 2014). Accordingly, the data on Italy presented difficulties for the calculations of the regression models due to the invalidity of the data which will be discussed in the next section.

## 4.2. The Effect of Government Ideology

In accordance with the standard formulated for TSCS analysis by Beck and Katz (1995), several steps were taken to avoid spurious results arising from the time-series properties of the data. I have run several panel unit root tests to check both the dependent and independent variables for non-stationarity.<sup>12</sup> The tests indicate that the dependent variable is stationary in levels for which reason no corrections have been made. With regard to the independent variables only openness of the economy has been found to be non-stationary in levels which was corrected by transforming this variable into annual changes. The transformed values have been tested to be non-stationary.

Furthermore, as the first description of the data already indicated potential problems with autocorrelation, I have tested for this in several ways. To assess the magnitude, I have calculated an uncorrected pooled OLS regression and have inspected the residuals of the estimated values (see Appendix; figure A 1). The residuals for following years are estimated similarly which underlines potential contortions due to autocorrelation (Wenzelburger, Jäckle & König 2014). To ensure the correctness of this impression I have applied a Wooldridge test (Wooldridge 2002) which confirmed the need to correct the regression model. Following the proposal by Beck and Katz (1995) to include a lagged dependent variable into the model to eliminate problems with autocorrelation, I have calculated a corresponding LDV regression. Although a repetition of the tests for autocorrelation showed that autocorrelation within the data has been reduced, the Wooldridge test still indicates that the data might be problematic in this regard. Therefore, to check for the robustness of the results I have also calculated a limited autoregressive distributed lag (ADL) model as proposed by De Boef and Keele (2008).<sup>13</sup> The full ADL model indicates that the variable union density might be also biased due to autocorrelation for which reason a lagged variable for union density is taken into the regression model. A repetition of the applied tests shows that the problem of autocorrelation is best addressed through the limited ADL model.<sup>14</sup>

On this basis, I have also tested the data for unit heterogeneity by doing a Hausman test (Hausman 1978) and calculating a regression with least-square dummy variables (LSDV). Although unit heterogeneity seems to be relatively moderate, as no coefficient for the dummies in the LSDV regression reached significance, the Hausman test indicates that unit heterogeneity might be an issue and a calculation by fixed effects adequate. Nevertheless, I deviate at this point from the Beck and Katz (1995)

standard, because Table 3 demonstrates that most variance in the dependent variable is between countries and an inclusion of fixed effects would eliminate the differences in levels for the cross-sectional dimension. As I was unable to alternatively introduce other variables into the analysis to absorb country specific differences,<sup>15</sup> due to invalid data Italy was excluded from the analysis. This decision is based on the anomalous development of the unemployment replacement rates and the accompanying problems within the regression, because the residuals of the estimated values show that the estimation of Italy deviates considerably from other countries in the computed models (see Appendix; figure A 2). As the LSDV regression showed no significant coefficients for the country dummies and I am interested on the level effects, I abstain from including country dummies into the regression. In this point, I follow Plümper and Troeger (2008) who question the informative value of the Hausman test for level effects, especially for variables such as left-right placements, as the difference between random effects and fixed effects is often a result of inefficient fixed effects models which leads to spurious point estimations. Thereby, the inclusion of unit fixed effects in the model is often counterproductive if the theoretical link formulates statements about differences between countries. As I have done so in the theoretical part, the bias of omitted variables is less harmful than the inclusion of fixed effects (Plümper, Troeger & Manow 2005, p. 334; see also Wenzelburger, Jäckle & König 2014).

Besides, I have also tested for panel heteroscedasticity by doing a Breusch-Pagan respectively Cook-Weisberg test (Breusch & Pagan 1979; Cook & Weisberg 1983). The results of this test points towards the need to correct the model by using panel-corrected-standard errors. In this context I have also suspected problems associated with contemporaneous correlation, but the applied Pesaran test (Pesaran 2004) did not reject the hypothesis of cross section independence for the limited ADL regression. Therefore, the final model includes only a correction for problems attributed with panel heteroscedasticity (see also Wenzelburger, Jäckle & König 2014).

The results for the final models are displayed in Table 4 and show the expected negative effect for the weighted governmental left-right position: left-wing governments are associated with higher levels of replacement rates. However, this effect is not significant, as the p-value exceeds the necessary threshold for significance noticeably ( $p=0,482$ ). In contrast, I find conflicting evidence for the conventional measure via left-wing cabinet seat shares: although here I find also a negative influence, due to the scaling of the variable this means that the strength of left-parties is associated with lower levels of replacement which runs contrary to the formulated expectations based on power resource and partisan theory. Nevertheless, this coefficient is not



*Table 4. Regression Results for the Alternative and Conventional Measurement of the Influence of Political Parties*

Variables	(1)	(2)	(3)
Weighted Left/right position	-,0000459 (-0,70)		
Cabinet seat share left-wing parties		-,0000211 (-1,04)	
Cabinet seat share right-wing parties			-,0000116 (-0,57)
Institutional constraints	,0001754 (0,33)	,0000899 (0,18)	,0000106 (0,02)
Δ in openness of the economy	-,0002987 (-1,35)	-,0003004 (-1,37)	-,0003074 (-1,39)
Unemployment rate	-,00089*** (-2,74)	-,0008501*** (-2,69)	-,0008605*** (-2,71)
Annual deficit	-,0001374 (-0,63)	-,0000643 (-0,31)	-,0000938 (-0,46)
Union density	,002294*** (2,94)	,0024872*** (3,20)	,002328*** (2,99)
GDP growth	-,0001057 (-0,23)	-,0001292 (-0,28)	-,0001475 (-0,32)
Employees in services	-2,34e-08 (-0,63)	-3,86e-08 (-1,04)	-2,06e-08 (-0,56)
Lagged union density	-,0023391*** (-2,98)	-,0025419*** (-3,25)	-,0023767*** (-3,04)
Lagged dependent variable	,9867215*** (155,15)	,9876463*** (161,39)	,9868735*** (159,46)
_cons	,0152952*** (2,79)	,0161693*** (2,84)	,0160774*** (2,95)
Observations	428	428	428
Number of <i>n</i>	19	19	19
R <sup>2</sup>	0,9866	0,9866	0,9866

Dependent variable: level of mean unemployment replacement rates. Absolute value of t-statistics are reported in brackets below; for a two-tailed test: \*\*\* is significant at  $p < 0, 01$ ; \*\* is significant at  $p < 0, 05$  and \* is significant at  $p < 0, 10$ .

very strong and not significant. Finally, the measurement of cabinet seat shares of right-wing parties displays the assumed negative effect but also fails to become significant. With regard to the variables measuring economic downturns, the calculated models show a significant and robust negative effect for the unemployment rate. This fits into the presented expectations of functionalist theories which postulate that economic problems are transformed into a reduction of social benefits or in this case a reduction in the generosity of the unemployment replacement rates. The other economic control variables mostly present the expected effects, but without significance. Exceptions are in this regard the GDP growth and the employees in services which indicate a negative influence in the model which stands in contrast to the expectations of the underlying theories, albeit these coefficients are also insignificant.

Regarding the influence of labor unions, the models display the expected positive and relevant effect for union density on the level of unemployment rates. Despite the insignificance of the coefficients of the cabinet seat share of left-wing parties, this effect supports the central assumptions of power resource theory which highlights the role of wage-earners organizations' power for the generosity of unemployment replacement rates. However, the lagged variable for union density — with its significant negative coefficient — points to a more nuanced effect of labor unions.<sup>16</sup> Strong labor unions have a positive impact on the level of unemployment replacement rates in the same year, whereas the strength of labor unions from the preceding year has a negative impact on the dependent variable.<sup>17</sup> To put the results of the TSCS into a nutshell, the conflicting results for left-wing cabinet seat shares and the insignificant coefficient of the right-wing cabinet seat shares and the alternative measurement lend support to the thesis that partisan effects have indeed diminished.<sup>18</sup> This impression is further reinforced by the effects of partisan competition which are regressed against changes in unemployment replacement rates in order to better account for welfare state retrenchment.

### **4.3. The Effect of Partisan Competition**

Generally, the same tests for non-stationarity, autocorrelation, fixed effects, panel heteroscedasticity and contemporaneous correlation were also run for the regressions with interaction effects on partisan competition. Although most applied tests come to the same conclusion about the need for corrections in the data, the approach towards the elimination of autocorrelation deviates from the previous part. This is the case, because the inspection of the residuals and the Wooldridge test showed that autocorrelation is already eliminated by calculating the regression with changes in the dependent variable, instead of levels (see Appendix, figure A 3 & A 4). Therefore, only

the variable union density was included as a lagged variable into the model because the significant coefficient in the full ADL regression suggests potential contortions for this variable. Apart from this, in order to address this issue no further corrections in the regression were made. Similar to the previous models, the regressions on partisan competition correct problems associated with panel heteroscedasticity by using panel-corrected-standard errors and do not include country dummies to absorb unit heterogeneity. The latter is the case, as the theoretical link on partisan theory centers on changes in the unemployment replacement rates instead of levels. This is reflected by the transformation of the dependent variable which at the same time offers the advantage of reducing unit heterogeneity (Kittel & Winner 2005). The applied tests for fixed effects offer ambiguous results. On the one hand, the Hausman test remains insignificant across all calculated models, whereas the run f-test, that unit related errors equal zero, was still significant. Therefore, due to invalid data Italy was again excluded from the dataset in which case both tests became insignificant. Lastly, the interaction models have been calculated following the recommendations of Brambor, Williams and Golder (2005) who argue to include all constitutive terms of the interaction plus the interaction term into the regression, although this might lead to problems with multicollinearity.<sup>19</sup>

To test the different claims about the effects of partisan competition as formulated by partisan theory (Hicks & Swank 1992) and the competing approach based in the new-politics literature (Kitschelt 2001) a twofold approach was chosen. Initially I have computed different regression models which take into account the theoretical expectations about partisanship on the change in the unemployment replacement rates and on the moderating effects of left and right-wing competition on governmental parties. The results are displayed in table 5 in which the first two models simply check for the robustness of the effects of left and right-wing parties, as by using changes the dependent variable had to be transformed. The results indicate robust effects as the direction for coefficients and significance remains stable for the variables, albeit with minor differences. For instance, the coefficient manifests a weaker effect for the cabinet seat share of right-wing parties, whereas the coefficient for the cabinet seat share of left-wing parties becomes only marginally stronger. With regard to the significance of variables both coefficients still fail to reach the necessary levels of significance. In contrast, the control variables unemployment rate, union density and lagged union density maintain their significant effects across all models which points towards robust effects.

Table 5. Regression Results for the Moderating Effect of Left and Right Competition

Variables	(1)	(2)	(3)	(4)
Cabinet seat share left-wing parties	-,0000213 (-1,05)			-,0000256 (-0,56)
Cabinet seat share right-wing parties		-1,56e-06 (-0,08)	,0000135 (0,34)	
Institutional constraints	-2,81e-06 (-0,01)	-,0000469 (-0,09)	-,0001225 (-0,22)	,0002087 (0,41)
Δ in openness of the economy	-,0003295 (-1,49)	-,0003336 (-1,50)	-,0003453 (-1,57)	-,0003265 (-1,48)
Unemployment rate	-,000863*** (-2,70)	-,0008701*** (-2,71)	-,0008484*** (-2,61)	-,000818** (-2,51)
Annual deficit	-,0000239 (-0,12)	-,0000457 (-0,22)	-,00002 (-0,10)	,0000623 (0,30)
Union density	,0021595*** (2,90)	,002049*** (2,72)	,0019158** (2,44)	0021963*** (2,98)
Lagged union density	-,0022176*** (-2,97)	-,002103*** (-2,78)	-,0019702** (-2,51)	-,002257*** (-3,05)
GDP growth	-,0000436 (-0,09)	-,0000441 (-0,09)	-,0001196 (-0,25)	-,0001101 (-0,24)
Employees in services	-2,05e-08 (-0,57)	-7,25e-09 (0,20)	-2,87e-08 (-0,63)	-1,32e-08 (-0,35)
Vote share right				-,0001097 (-1,52)
Vote share left			-,0000366 (-0,39)	
Interaction vote left			-6,40e-07 (-0,52)	
Interaction vote right				5,38e-08 (0,04)
_cons	,0082185** (2,26)	,0072474** (2,01)	,0092901 (1,59)	,0114235*** (2,83)
Observations	428	428	428	428
Number of <i>n</i>	19	19	19	19
R <sup>2</sup>	0,0703	0,0682	0,0697	0,0777

Dependent variable: Δ in mean unemployment replacement rates. Absolute value of t-statistics are reported in brackets below; for a two-tailed test: \*\*\* is significant at  $p < 0, 01$ ; \*\* is significant at  $p < 0, 05$  and \* is significant at  $p < 0, 10$ .

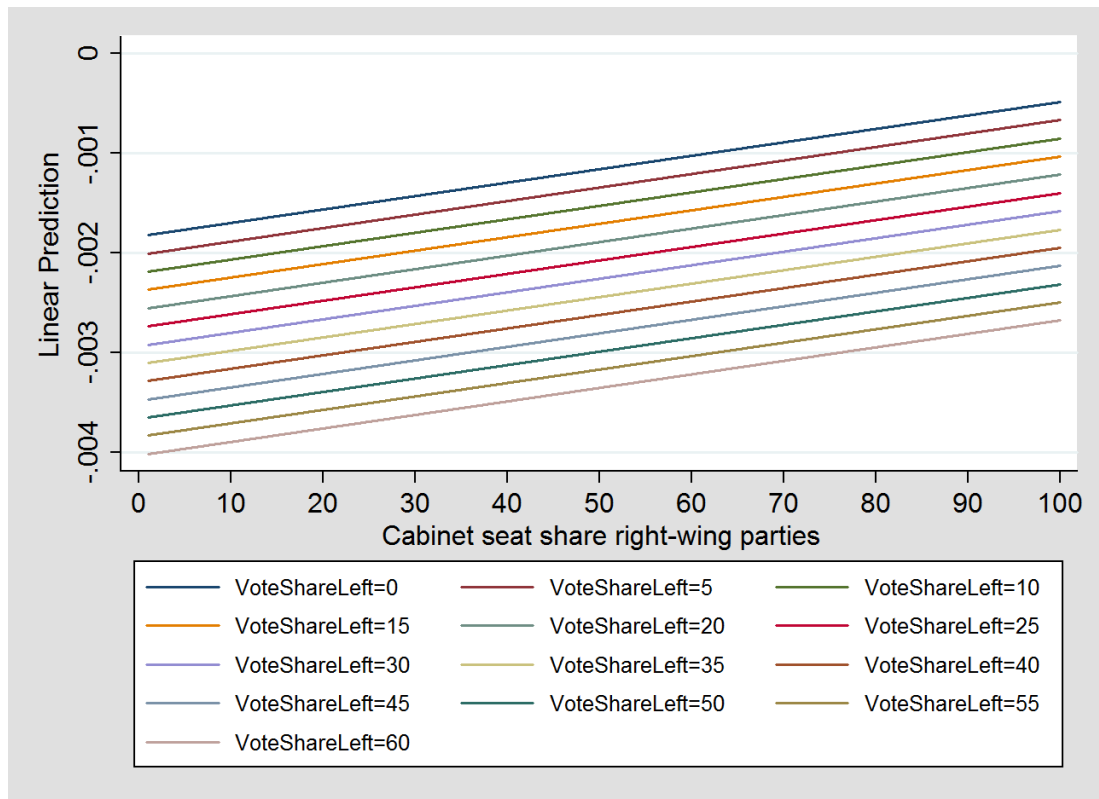
Model 3 includes the interaction term of left-wing competition on the effect of right-wing parties. In contrast to the expectations derived from partisan theory, the coefficient of right-wing parties reverses into a positive coefficient when including the vote share of left-wing parties and the interaction term into the regression. Although the effects of all variables on partisan competition remain insignificant and do not allow for accurate assessments, right-wing parties may be associated with an extension of unemployment benefits. Based on this, the regression coefficients indicate that left-wing competition might have a negative effect on the capability of right-wing parties to rise unemployment benefits. In other words, the presence of left-wing competition seems to affect the positive influence of right-wing parties in government negatively. This shows that the existence of left-wing parties could indeed stimulate the effort of right-wing parties in government, albeit in an inversed manner as the positive influence of right-wing parties is predicted to be strongest when left-wing parties are weak or absent (see also figure 3). Regardless of this findings, as already noted due to the insignificance of the effects, no reliable conclusions can be drawn.

The fourth model in table 5 tests for the moderating effect of right-wing competition on the capacity of left-wing parties in government to change unemployment replacement rates. In line with already presented results, a negative influence of left-wing parties in government and for the vote share for secular right parties can be observed. Concerning the interaction term, the positive coefficient suggests surprisingly that right-wing competition might attenuate the negative effect of left-wing parties on unemployment benefits. However, the interaction term is very weak, not significant, does not allow for a definite interpretation and is thus negligible. As the coefficients for left and right-wing parties are further dependent on the value of the moderating variables and cannot be interpreted as regular regression coefficients (Brambor, Williams & Golder 2005), several margin plots for both models have been generated which allow for a more precise analysis of the effect. This is especially the case, as the used variables are continuous and do not allow to infer the effects in case the moderating variable equals zero from the regression.

The margins plot allows to visualize the moderating effects of the discussed variables on parties' influence on unemployment benefits. As can be illustrated by figure 3 and 4, the x-axis displays the cabinet seat share of left or right-wing parties. On the y-axis the predicted marginal effect of different values for the cabinet seat shares in government on the change in unemployment replacement rates is depicted. The different lines illustrate the amount of change in the unemployment replacement rates with a one unit change in the cabinet seat share of the respective parties while holding the value of the vote share for the interacting party type constant at values from 0 to

60.<sup>20</sup> Figure 3 displays the detected positive influence for right-wing parties on unemployment benefits which is very weak for all predictions. As can be demonstrated by the graphs, with increasing vote share for left-wing parties the predicted effect of secular right parties in government becomes less positive. In combination with the weak visual effect of left-wing party strength on the slope of the different lines, the data rejects hypothesis 2.2 which assumed a negative influence of right-wing parties attenuated by the vote share for parties on the left. However, only the starting point for the changes is slightly lower and the graphical illustration confirms the results of the regression that the effect is indeed very weak and statistically not significant. For instance, a vote-share of forty or fifty percent — which would point towards a substantial influence of left-wing parties within society and parliament — has no considerable effect on the slope of the linear prediction.

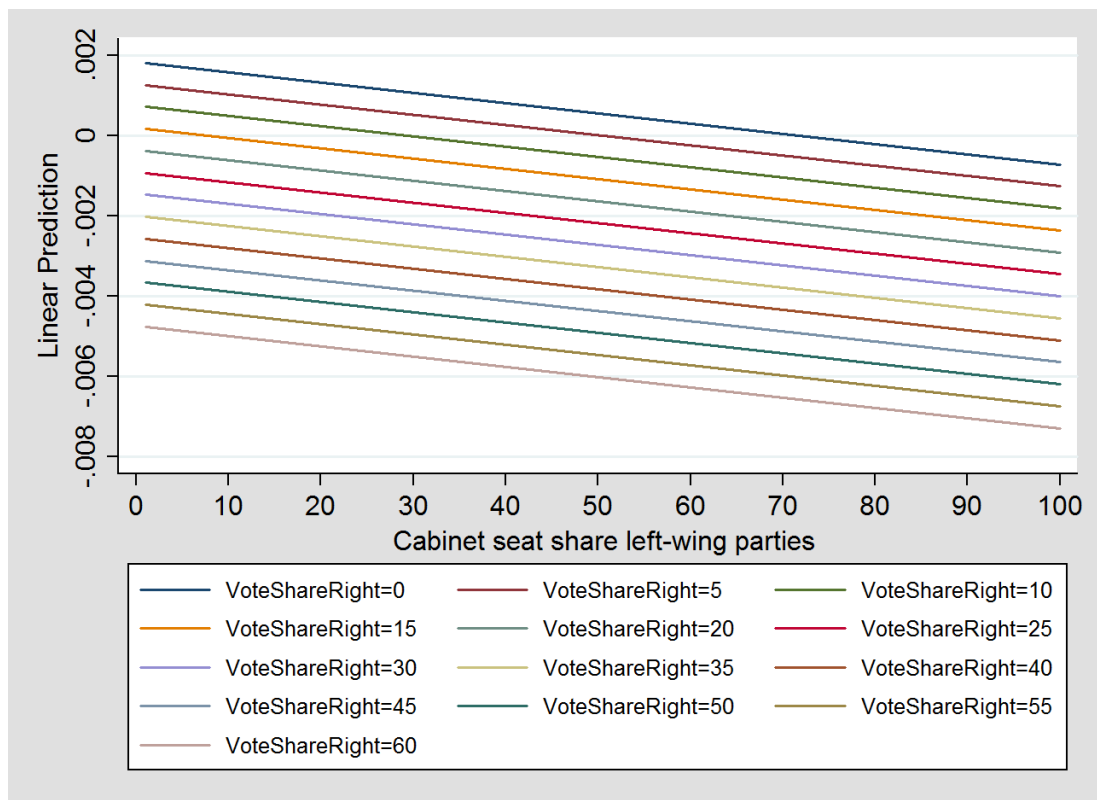
Figure 3. Marginal Effect of Right Cabinets Moderated by Left-Wing Competition



Similar results can be demonstrated for the interaction of left parties in government and the vote share for right-wing parties, as displayed by figure 4. The negative impact of left-wing parties on the change in unemployment rates seems to be only marginally related to the vote share of right wing parties across all specifications. Again high values in the moderating variable do not lead to an observable shift in the slope of linear predictions, merely the initial points of changes in unemployment benefits are recorded at lower values.

As most of the linear predictions fail to reach levels of significance for both marginal plots, the impression of irrelevant interaction effects between partisanship of governments and partisan competition is also confirmed for the strength of left-wing parties in government faced by right parties. Thereby, the empirical relevant combinations of partisan competition with the predicted negative influence of left-wing parties refute hypothesis 2.1 which assumed an inversed effect for left cabinets. Although the intensified negative influence of left-wing parties faced by secular right competition fits the theoretical expectations formulated in hypothesis 2.3 similarly indecisive and partially refuting findings can be found for the outstanding hypotheses. This impression can be further confirmed by the moderating effect of the importance of the left-right dimension.

Figure 4. Marginal Effect of Left Cabinets Moderated by Right-Wing Competition



The regression models displayed in table 6 show ambiguous results for this configurations as the effect for right and left-wing parties does not present itself uniformly. Model 1 centers on the cabinet seat share of right-wing parties and shows a positive effect for the change in unemployment replacement rates which contradicts the formulated predictions about the influence of right-wing parties in hypothesis 2.6. Considering the expectations on the moderating effect both the constitutive and the interaction term point into the predicted negative direction. To put it more simply, the model forecasts that the importance of the left-right dimensions might mitigate the positive

Table 6. Regression Results for Different Patterns of Partisan Competition

Variables	(1)	(2)	(3)
Cabinet seat share left-wing parties		-.0000626 (-0.79)	-.0000262 (-0.75)
Cabinet seat share right-wing parties	.000068 (0.92)		
Institutional constraints	.0001349 (0.27)	.000157 (0.31)	-.0000711 (-0.14)
$\Delta$ In openness of the economy	-.0003038 (-1.35)	-.0002953 (-1.33)	-.0003287 (-1.49)
Unemployment rate	-.0009349*** (-2.86)	-.000905*** (-2.80)	-.0008296** (-2.53)
Annual deficit	.0000211 (0.09)	.0000557 (0.24)	-9.04e-06 (-0.04)
Union density	.0020762*** (2.75)	.0022094*** (2.96)	.0021883*** (2.89)
Lagged union density	-.0021154*** (-2.80)	-.0022589*** (-3.01)	-.0022535*** (-2.98)
GDP growth	-.0000899 (-0.19)	-.0001136 (-0.24)	-.0001498 (-0.32)
Employees in services	-3.28e-08 (-0.87)	-4.66e-08 (-1.20)	-3.84e-08 (-0.91)
Importance left-right	-.0000292 (-0.38)	-.0001188 (-1.32)	
Left-wing competition			-.000062 (-0.70)
Interaction importance left-right	-1.54e-06 (-1.07)	8.03e-07 (0.59)	
Interaction left-wing competition			-2.63e-06 (-0.80)
_cons	.0089657 (1.55)	.014507** (2.12)	.0108956** (2.41)
Observations	428	428	428
Number of $n$	19	19	19
R <sup>2</sup>	0.0073	0.0764	0.0752

Dependent variable:  $\Delta$  in mean unemployment replacement rates. Absolute value of t-statistics are reported in brackets below; for a two-tailed test: \*\*\* is significant at  $p < 0, 01$ ; \*\* is significant at  $p < 0, 05$  and \* is significant at  $p < 0, 10$ .



influence of right-wing parties on unemployment benefits. Although no direct evidence of retrenchment can be found, the results partially support the assumptions about the effect of the importance of the left-right dimension, because an increase leads to lower extensions in unemployment benefits by right-wing parties (see also figure 5). However, these results are very insecure as the relevant coefficients are very weak and not significant.

The second model examines the interactive effect of the importance of the left-right dimension for left-wing parties in government. As predicted the coefficient for the cabinet seat share of left-wing parties shows a negative effect on the changes in the unemployment replacement rates for left-wing parties and the moderating variable also points into a negative direction. In opposition to these findings the interaction term displays a positive influence. Here it seems as if the negative effect of both variables in combination cancel each other out and attenuate the ability of left-wing parties to retrench benefits. Nonetheless, as the interpreted coefficients are again negligible, the same limitations concerning the explanatory power and reliability of the results also apply to the conclusions drawn from this model for which reason the validity of respective hypothesis is evaluated after presenting the margins-plot.

The last configuration of partisan competition is modelled by the third regression. This model presents the effect of left-wing parties in government and the moderating effect of left-wing competition. Again the coefficient displays a negative impact of left-wing governments on the change in unemployment replacement rates. The moderating effect of left-wing competition however runs contrary to the theoretical link: the coefficient for left-wing competition and the interaction term show a negative effect which implies that left-wing competition might reinforce the negative influence of left-wing parties on the change in unemployment replacement rates. The direction of this effect contradicts the expectations formulated in hypothesis 2.4 which predicted a positive stimulus of left-wing competition on left cabinets. Nevertheless, the coefficients are also very weak and statistically not reliable as the necessary p-values fall noticeably short of the necessary levels of significance. To assure the correctness of this impression and to illustrate the effect for different values of the moderating variables, I have computed marginal plots for the discussed models, as well.<sup>21</sup>

In line with the previous results, the moderating effect for all discussed variables is barely observable in all margin plots. All figures display constant slopes for different values of the moderating variable and only exiguous effects on the starting points can be observed. For instance, in figure 5 the predicted starting point for the lowest value of the moderating variable is only about 0,1 points lower than the highest value and the other figures display an even smaller range between lowest and highest starting

Figure 5. Marginal Effect of Left Cabinets Moderated by Different Values in the Importance of the Left-Right Dimension

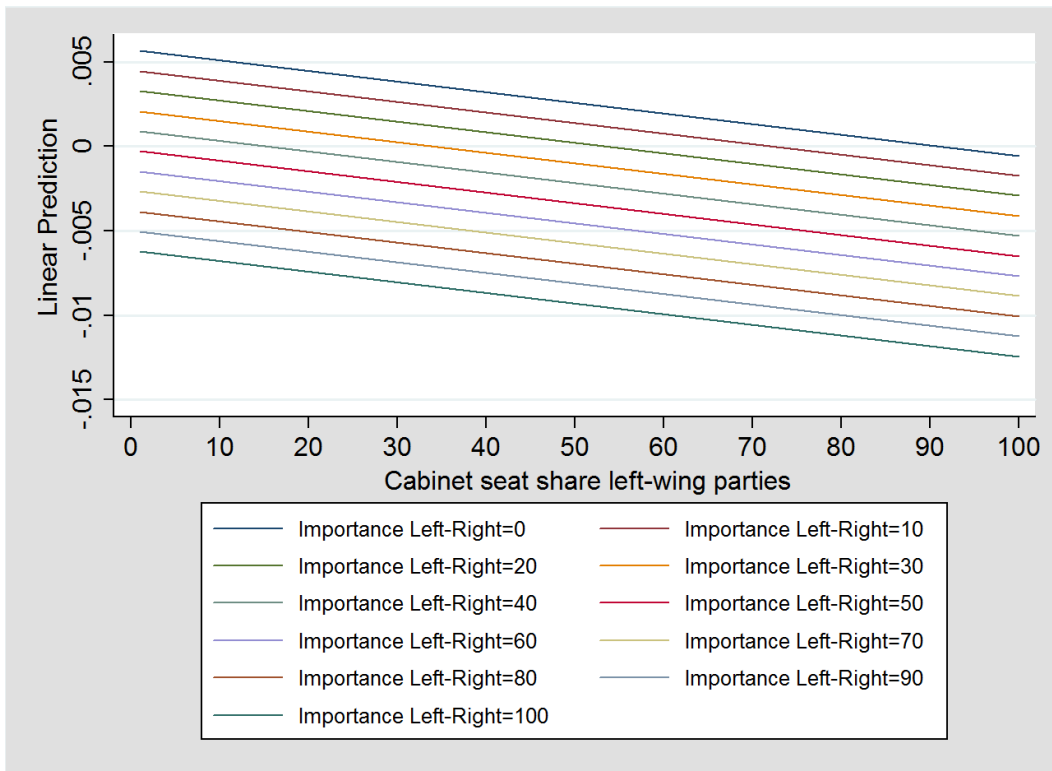
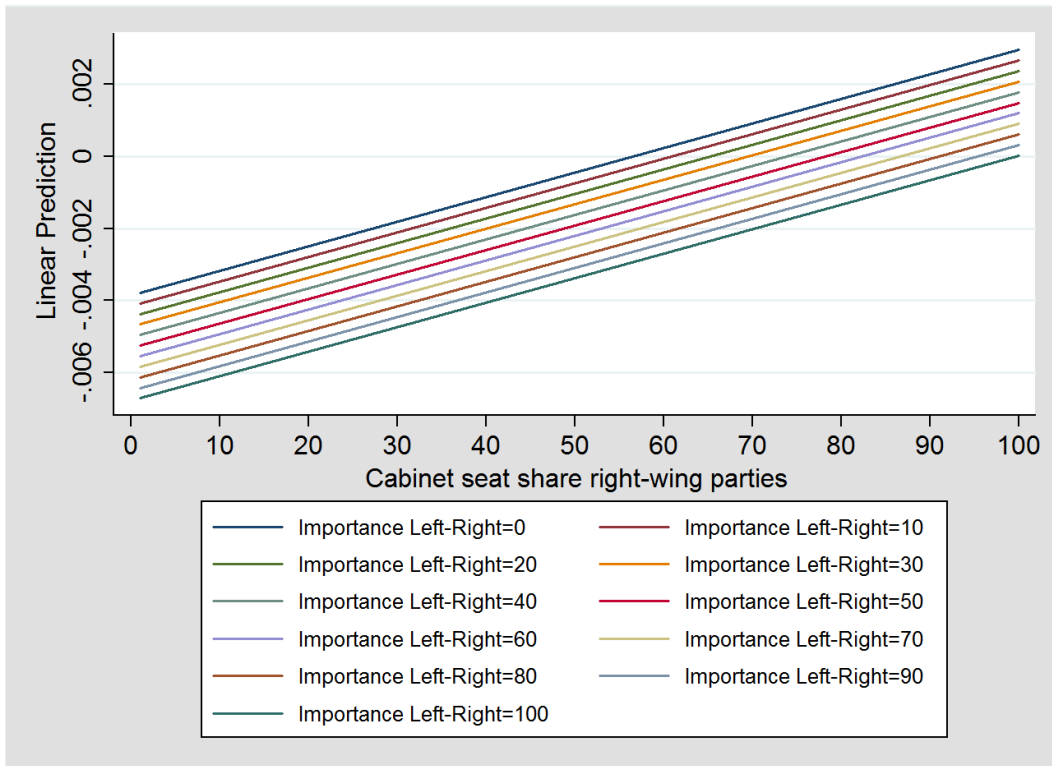
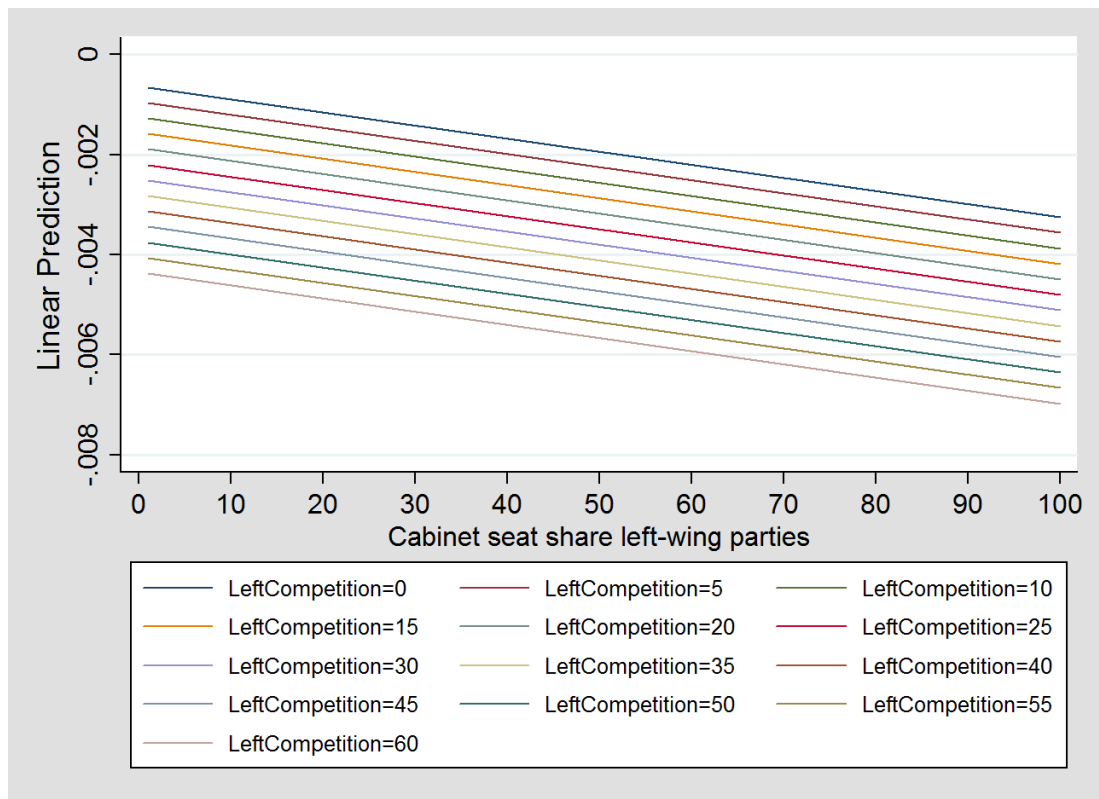


Figure 6. Marginal Effect of Right Cabinets Moderated by Different Values in the Importance of the Left-Right Dimension



values. This fits into the results from the regression, as the interaction effect of the importance of the left-right dimension presents itself as the strongest effect, although still insignificant. The finding of very weak interaction effects can similarly be detected for the remaining margin plots and is reaffirmed by the underlying data as most of the predictions fail to reach significance and do not offer reliable results. Within the framework of this limitations, the direction of the effects partially supports the outstanding hypothesis.

Figure 7. Marginal Effect of Left Cabinets Moderated by Left-Wing Competition



For once, the data suggests that left-wing cabinets might indeed retrench unemployment replacement rates more strongly when the importance of the left-right dimension displays higher values, which is in line with the predictions of hypothesis 2.5 (see also figure 5). With regard to the impact of left-wing competition on left-wing parties in government the data clearly refutes hypothesis 2.4, as left-wing competition may lead left cabinets to reduce unemployment benefits more strongly (see figure 7). As these effects could only be adumbrated, future research is needed to provide a clear answer on the effect of partisan competition.

## 5. Discussion

In general, the results of this thesis relate to the ongoing debate about the relevance of political parties for welfare states restructuring in several way. The presented findings on the ideology of governments and the conventional measurement of cabinet seat shares highlighted that no significant partisan effects could be identified. Although the ideology of governments showed that left-wing parties may be associated with higher levels of unemployment replacement rates, doubts about the central claim of power resource theory that political parties are still an important factor for explaining variation in the generosity of welfare states arise. This is especially the case as the redistribution via labor market policies is generally expected to be a heavily contested issue in the struggle between working-class and business interests for which reason differences between power resources should display themselves in this field more likely. Above that, the dependent variable in this study has been frequently used by proponents of power resource theory themselves and constitutes a favorable variable to test for effects of party politics (Korpi & Palme 2003; Allan & Scruggs 2004). In contrast to the presented findings in the scientific literature the results of this study indicate that for the period of 1987 to 2008 neither left nor right-wing parties can explain the variation in the level of unemployment replacement rates. This impression is further emphasized by the robustness of the data because the conventional measurement via cabinet seat-shares failed to reach the necessary levels of significance for both left and right-wing parties in government. Although the negative influence of the cabinet seat share of left-wing parties lends support to the argument that left-wing parties are in a better position to retrench the welfare state than right-wing parties (Ross 2000; Green-Pedersen 2001), the results of the measurement of the ideology of governments which points into the opposite direction indicates a more nuanced view. As the major competing explanatory approaches towards welfare state development, for which this thesis controlled, also showed no significant effects, the causes for the opposing effects are presumed to be located within changes in parties and party systems.

Evidence for this explanation can be found in the alternative CMP measurement. Here the data indicated that several left-wing parties have changed their location in the left-right dimension considerably to the center or even right which might explain the weak negative effect of the cabinet seat share of left-wing parties in the regression. Additionally, the data also gives a first impression on the influence of coalition partners and in case of minority cabinets the parliamentary opposition on the ideological profile of governments. In this way, it is conceivable that left parties in minority

government are restricted in their ability to extend welfare benefits by a parliamentary opposition to the right or that coalition partners also determine the feasibility of extending or maintaining the status quo of current benefits. Therefore, scholars should address how advocated policies of left and right-wing parties are affected by potential coalition partners and the type of cabinets. Although research has shown that we can expect a left-wing party to locate itself autonomously in the policy space according to potential coalition partners on the left and right (Green-Pedersen 2002), contemporary research on the welfare state has paid surprisingly little attention to the associated changes in policy positions. On the methodical level this deficit should be accompanied by a stronger focus on the refinement of existing measurements of partisanship which allow to encapsulate variance in policy positions over time. The alternative measurement by Döring and Schwander (2015) offers a fertile approach, however comes with the price of not being able to measure the absence of particular party families within different party systems and to assess their impact on social policy. Hence, this thesis argues that the measurement of partisanship needs an equal amount of consideration as the measurement of the dependent variable within welfare state research.

This implies further a stronger reflection of changing party positions in the corresponding theories of contemporary welfare state literature. In line with the presumptions of this thesis, previous research highlights parties abilities and intentions to change their social agenda and that parties do not necessarily represent the policy positions of their assumed core-voters anymore (Häusermann, Picot & Geering 2012; Häusermann & Gingrich 2015). However, power resource theory can translate adjustments in parties social policies only limitedly because the power resources of wage-earners, respectively the working class, are mainly associated with the existence of a socialist party, a high degree of unionization, a close connection between the unions and the relevant party. Thereby, in most instances invariant policy preferences for a homogenous working-class lay the foundation for conclusions about the relevance of party politics. The latter point applies also for partisan theory which was especially challenged by Rueda (2005). He questions the assumption that the working-class is characterized by homogenous policy preferences and that these are represented solely by left-wing parties. According to his findings the working-class is divided into labor insiders and outsiders which makes the general claim that wage-earners are affected by certain labor market policies in the same way deceptive. Labor market insiders enjoy a high degree of protection from unemployment and are only marginally affected by high levels of unemployment, whereas labor market outsiders are either unemployed or hold precarious jobs and are much more concerned by rising levels of

unemployment (Rueda 2005). This leads to different interests of these groups towards the generosity of unemployment replacement rates, as the latter group can be expected to have a stronger interest in an extension of unemployment benefits. In contrast, insiders are only marginally affected by changes in replacement rates and should be expected to have a higher interest in the maintenance and extension of job protection. To conclude, the results do not necessarily refute the significance of old-politics and support the new-politics literature because the missing influence of left-wing parties in case of unemployment replacement rates can be attributed to the increasingly heterogeneous preferences of wage-earner towards labor market policies. Hence, the research agenda should follow its path of identifying areas in which partisan effects can still be observed by using disaggregated data which might shed some light on the question how differentiating constituents change the occurrence of partisan effects.

Similar remarks can be made for the role of labor unions. Although commentators observed a decrease in union density across OECD states and claimed that labor unions are also affected by the divide between labor market insiders and outsiders because high-skilled labor insiders are suspected to be overrepresented by unions, the exact implications for the effect of labor unions on redistributive policies remains yet to be settled (Pontusson 2013). In this context, this thesis finds strong evidence of a continuing relevance of old-politics in the form of labor unions. Here a robust positive effect on the development of unemployment replacement rates could be identified which was confirmed across all models. Under the viewpoint of the absence of partisan effects, this leads to the question whether left-wing parties and labor unions still represent the same interests and how the power resources for collective action of wage-earners are affected by the growing distance between these pivotal organizations for collective action. As power resource theory maintains that the power resources of wage-earners are greatest when a close collaboration between the socialist party and unified unions exist (Korpi 1983), the absence of partisan effects could be caused by shifts in interests and representation between parties and labor unions. As a result, a sole focus on political parties obscures, changing power resources with regard to labor unions and future research should address how the changing dynamics between labor unions and left-wing parties affects advocated labor market policies and unemployment rates in particular to fill in this gap.

The question whether the conditions of partisan competition can offer a useful theoretical extension to explain the occurrence or absence of partisan effects for welfare state change remains unresolved in this study. In general, the results indicate that partisanship of governments explains the variance in trends in the development of

unemployment replacement rates only marginally. The analysis demonstrated that no evidence for the extensions of partisan theory as proposed by Hicks and Swank (1992) could be found as the results were insignificant and the direction of the effects were predicted inaccurately. Concerning the assumptions by the new-politics literature as proposed by Kitschelt (2001) no definite results could be found. Indeed, the indicated negative effect for left and right-wing parties in governments fits more into the assumption that especially the Left might matter for retrenchment, the results on the tested configurations of partisan competition showed that the hitherto presented qualitative findings cannot be generalized offhandedly as no configuration displayed significant effects. Regardless of this limitations the results seem to hint at the predicted mechanism for two configurations. Strong right-wing parties may intensify the negative effect of left-wing parties on changes in unemployment benefits and the more relevant the importance of the left-right dimension the greater seems to be the potential for the Left to implement retrenchment measures. On the contrary, as regards the direction of the effects for left-wing parties faced by strong competition on the Left, the results are more in line with competing evidence from studies which claim that social democratic parties adopt more radical positions towards welfare state retrenchment in such instances (Schuhmacher & Vis 2012). Despite this contradicting evidence, the results do not allow to refute the assumptions about the moderating effects of partisan competition. A major obstacle is that the four configurations create incentives for retrenchment in their combination and a single examination of each configuration may underestimate the cumulated potential for parties to implement policy reforms. Consequently, more work on the interplay of these four conditions is needed, in order to provide a clear answer on the explanatory power. Besides, the discussed problems with heterogeneous preferences between market insiders and outsiders in the field of labor market policy could also apply for the moderating effect of partisan competition and straightforward patterns of left-right competition might be diluted for the tested policy field. As a result, the call for an extension of the examination to other policy fields — for example health, education or pensions — does not only apply for research interested in partisan effects in general, but also for scholars focusing on moderating effects of partisan competition.

Lastly, additional work on the theoretical underpinnings of partisan competition is needed, especially concerning the effect of Christian democratic parties on the welfare effort of left-wing parties. Whereas, several scholars have highlighted the important role of Christian democracy for welfare state development (van Kersbergen 1995), their influence and measurement remains undetermined in Kitschelt's approach. Although, due to insufficient data on center parties, this thesis was unable to

examine the moderating effect, it should be worthwhile to collect the necessary data and include center parties into the analysis. Thereby, scholars should carry on the recent advances on party politics with regard to the changing constituents of political parties and work out ways how existing theories can be advanced in the light of recent findings.

## **6. Conclusion**

This thesis contributed to the ongoing debate about the relevance of party politics for social policy in a setting of austerity. The results on the trends in the unemployment replacement rates showed that welfare state restructuring took indeed place in most advanced welfare states along the dimensions of cost-containment and recommodification in the period between 1987 and 2008. In this context, the claim by power resource theory that the political parties still matter for the development and restructuring of welfare states could not be confirmed. Similarly, the findings on the extension of partisan theory on the moderating effect of partisan competition provided confuting evidence. Although the direction for the moderating effects of partisan competition, as developed within the new-politics literature, partially supports the argument that left-wing parties may be in a better position to retrench the welfare state if certain conditions are met, this does not lead to a higher credibility of the arguments of the new-politics literature. Rather this thesis maintains that, instead of qualitatively changes in welfare state restructuring which supplant the influence of conventional party politics, it is more plausible that the causes for diminishing partisan effects can be found in changes within parties' and party systems. This view is supported by the data at hand which shows noticeably fluctuations in the left-right position of governments for nearly all examined countries. Indeed, the results reinforce the impression that the leeway for governing parties to introduce extensions in social benefits is shaped not only by their own adjustable ideological position, but also of their coalition partners and in case of minority cabinets by the parliamentary opposition. Such changes are not captured by conventional measures, as these simply assume invariant policy positions. Thereby, the presented findings suggest that the measurement of partisanship will play a pivotal role in determining the ways in which political parties might still matter.



## Notes

<sup>1</sup> Pierson (1994, p. 19-26) defines these strategies as the following: (1) obfuscation is the most important strategy and involves the masking of negative reforms by manipulating the information concerning policy changes. This includes the postponement of negative effects by delaying reforms, using windows of opportunities to lower the visibility of reforms (decrementalism) and making the effects of reform more indirect. (2) Division implies that policy-makers cutback benefits only for particular subgroups, as this decreases the chances of potential opposition to contemplated reforms. (3) Compensation means that the government offers victims of reforms some advantages in order to reduce opposition, for example by expanding private benefits.

<sup>2</sup> Korpi (2000, p. 78) identifies several dimensions that can be used to characterize power resources. To begin with, power resources can be distinguished with regard to the number of people that are susceptible to the use of different forms of punishments or rewards. Secondly, power resources can differ in scope which refers to the likelihood that they can be used for various situations. Thirdly, centrality centers on the degree of importance for the daily life of citizens. Lastly, power resources can be distinguished with regard to their potential to be converted into other resources and the costs involved in using power resources. The last point emphasizes that it is not necessary to actively use power resources to influence actions of other people (Korpi 1983 p. 78).

<sup>3</sup> The level of de-commodification is defined by Esping-Andersen by the amount of social rights to entitlements and the accompanying degree of the maintenance of a livelihood without reliance on the market (Esping-Andersen 1990, p. 22).

<sup>4</sup> A number of scholars have reexamined whether social-democratic parties represent the interests of a distinct working-class in times of welfare state restructuring as the traditional working-class has changed considerably and class voting has declined significantly. For instance, Gingrich and Häuserman (2015) show that, although left-wing parties with a pro-welfare stance lost support among the traditional working class, they could substitute this loss by attracting voters from the expanding middle class. Furthermore, they demonstrate that this shift in voting can also be explained by a pro-welfare stance of right-wing parties which changes the traditional welfare state support coalition in social democratic countries noticeably. In this regard, the dealignment of the working class from left-wing parties allows for less generous unemployment policies, but does not affect the social investment policies (Häusermann & Gingrich 2015, p. 63-65).

<sup>5</sup> The question how political divides about retrenchment policies between labor unions and left-wing parties' affects the power resources of the working-class remains indecisive in her analysis. For example the well-known "Agenda 2010" in Germany was introduced by left-wing parties against heavy opposition from the labor unions umbrella organization *Deutscher Gewerkschaftsbund (DGB)*. This led not only to continuing frictions in the party-union relationship (the DGB abstained from advocating his members to vote for social-democracy on the election in 2005), but also to the rise of the Linkspartei as a new party on the left that is also closely tied to labor unions.

<sup>6</sup> Kitschelt also takes the possibility of centrist competition into account. However, as Kitschelt himself does not measure centrist parties consistently (Zohlnhöfer 2012, p. 345) and there is insufficient data to capture this interaction, the role of centrist parties is neglected.

<sup>7</sup> These are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and the United States of America.

<sup>8</sup> The CMP makes use of parties' only authoritative statements, namely party manifestos. In this regard, the proposed right-left indicator (RILE) evolves around 57 categories, from which 13 have been classified as references for leftist ideology and 13 as capturing the contents of right-wing ideology. The scale is then "made up by adding percentage references to the categories grouped as Left and Right [...] and subtracting the sum of the Left percentages from the sum of the Right percentages" (Budge & Klingemann 2001, p. 21).

<sup>9</sup> For the cabinet Shipley I in New Zealand, information on the cabinet share was not available. Alternatively the percentage towards of the parliamentary majority was used to adjust the governmental position which is found to come to the similar results as the cabinet seat share (Petring 2010). Moreover, for the technocratic cabinet Dini I & II in Italy the parliamentary median was used to estimate the right-left position of the government.

<sup>10</sup> I am aware that the CPDS and the CWS Dataset conduct different classifications whether a party is left or right-wing. Regardless of this conceptual deficits, major problems are not expected, as a review of the appendices revealed similar classifications with only negligible differences.

<sup>11</sup> This index is composed of five indicators: (1) the degree of federalism, (2) the form of government (parliamentary government vs. presidentialism), (3) the kind of representation (proportional vs. majoritarian), (4) bicameralism and (5) frequent referenda (Armingeon et al. 2015b).

<sup>12</sup> To do this I used the Levin-Lin-Chu test (Levin et al. 2002) and the Hadri test (Hadri 2000). In case the tests showed conflicting results I have additionally run an Im-Pesaran-Shin test (So Im, Pesaran & Shin 2003). This was necessary for the variables' openness of the economy and employees in services. However, only openness of the economy was tested to be stationary in 2 out of 3 tests.

<sup>13</sup> In a first step De Boef and Keele (2008) propose to calculate a full ADL model including all variables in a lagged form. Then all lagged variables that do not display a significant coefficient are removed from the regression (see also Wenzelburger, Jäckle & König 2014).

<sup>14</sup> By comparing the first results of these models, the coefficient already hint at the expected negative effect of the weighted CMP governmental position which is significant in the pooled regression. This can similarly be observed for the conventional measures: the cabinet seat share of left-wing parties displays the expected positive effect (although insignificant) and the cabinet seat share of right-wing parties a negative coefficient. Nonetheless, these results are not robust across the different models and apply in most instances only for the uncorrected pooled regression (see Appendix).

<sup>15</sup> I have suspected the percentage of elderly people (age over 65) to put pressures on social security schemes and as a result to be responsible for some country specific differences. Nonetheless, an inclusion still showed the need for fixed effects (t-value of the applied F-test that unit related errors are = 0 dropped only marginally from 3.10 to 2.92 and remains highly significant). Although the variable showed the expected negative effect, it was not included within the calculated regressions as it was highly insignificant and the theoretical link very weak.

<sup>16</sup> I am concerned that this effect might be the result of endogeneity, as the development of wages is introduced into the calculation of the unemployment replacement rates. Here a problem might arise due to the core function of unions to fight for higher wages. This is especially the case in industrial sectors, where unions are expected to be represented the strongest which lay the foundation for the calculated model household. Thus, a positive development of unemployment replacement rates might not be related to legislative changes but rather to strong increases in wages.

<sup>17</sup> A potential explanation for this conundrum is offered by Wenzelburger, Jäckle and König (2014) who muse that strong labor unions can achieve short-term improvements in the level of unemployment replacement rates, whereas established increases are revoked by political backlashes in the following year. Nevertheless, these explanations are not theoretically tested and remain indecisive.

<sup>18</sup> I have checked for the robustness of the results by excluding different countries from the sample and comparing the results. The negative and insignificant effect for the alternative measurement of governmental positions, right and left-wing cabinet seat shares was robust across all calculations. Only the variables capturing economic attributes showed variation in their levels of significance, but not in the direction of effects. For instance, the exclusion of Australia led the variable employees in the service sector to become significant and the annual deficit became significant in case Japan, Germany or Norway were excluded from the analysis.

<sup>19</sup> I have checked for multicollinearity by calculating the variance inflation factor (vif) for the variables in every regression model. As expected, the tests show problems with multicollinearity for several interaction models. This affects mostly the regressions modelling the configurations of partisan competition by Kitschelt (2001), especially the models on the importance of the left-right dimension. As a rule of thumb, values above 10 point to problems with near multicollinearity which I find for both interaction terms of right and left-wing parties (value of the vif around 16-18). Moreover, multicollinearity might also be a problem with the lagged union density variable which was introduced to eliminate problems with autocorrelation. Here the values point to massive problems with near multicollinearity (the vif oscillates around values of 400 for every model, including the models without interaction effects). In spite of the risk for potential contortions, I have kept this variable within the models, as the standard errors are inconspicuous for both variables and the full ADL model pointed towards the need to include this variable.

<sup>20</sup> Under ordinary circumstances all possible values of the moderating variable should be depicted in the margins-plot. However, the values of competing parties are intertwined with the cabinet seat shares of the governing parties for which reason the maximal value was set to be a vote share of 60 percent.

<sup>21</sup> Again I have checked for the robustness of the results by jackknifing single countries from the analysis. The effects of the independent and moderating variables maintained their direction, only the levels of significance changed. This concerns in particular the variable openness of the economy which reached the threshold for significance for most cases.

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## Appendix

*Table A 1. Regression Results for the Ideology of Governments before and after Correcting for Autocorrelation*

Variables	Model 1 (no correction)	Model 2 (ADL)	Model 3 (LDV)
Weighted CMP left-right governmental position	-,0029658*** (-5,77)	-,0000455 (-0,56)	-,0000878 (-1,09)
Institutional constraints	,0179584*** (3,92)	,0000182 (0,03)	,0000773 (0,11)
Δ in openness of the economy	,0023783** (1,25)	-,000358 (1,24)	-,0004122 (-1,43)
Unemployment rate	-,0021304 (-0,93)	- 0007517** (-2,18)	-,0007262** (-2,09)
Annual deficit	-,0026312 (-1,13)	-,000497 (-1,64)	-,000597* (-1,96)
Union density	,0005606 (1,39)	,0026172*** (2,71)	-,0000284 (-0,46)
GDP growth	-,0086411** (-2,41)	-,0003555 (-0,64)	-,0006381 (-1,17)
Employees in services	-1,15e-06*** (-2,88)	-4,75e-08 (-0,78)	-2,94e-08 (-0,48)
Lagged union density		-,0026567*** (-2,83)	
Lagged dependent variable		,9661472*** (130,98)	,9682614*** (130,96)
_cons	,6110925*** (22,09)	,0291902*** (4,71)	,0256455*** (4,20)
Observations	440	440	440
Number of <i>n</i>	20	20	20
R <sup>2</sup>	0,1269	0,9804	0,9800

Dependent variable: level in mean unemployment replacement rates. Absolute value of t-statistics are reported in brackets below; for a two-tailed test: \*\*\* is significant at  $p < 0, 01$ ; \*\* is significant at  $p < 0, 05$  and \* is significant at  $p < 0,10$ .

*Table A 2. Regression Results for the Cabinet Seat Share of Left-Wing Parties before and after Correcting for Autocorrelation*

Variables	Model 1 (no correction)	Model 2 (ADL)	Model 3 (LDV)
Cabinet seat share left-wing parties	.0001267 (0,66)	-.000022 (-0.79)	0000101 (-0.36)
Institutional constraints	.0105122** (2.29)	-.0000663 (-0.10)	-.0001452 (-0.22)
Δ in openness of the economy	.0021611 (1.09)	-.0003581 (-1.25)	-.0004234 (-1.46)
Unemployment rate	-.0000123 (-0.01)	-.0007154** (-2.11)	-.0006599* (-1.93)
Annual deficit	.000418 (0.21)	-.0004261 (-1.46)	-.0004968* (-1.69)
Union density	.0002585 (0.62)	.0028165*** (2.94)	-.0000403 (-0.66)
GDP growth	-.0109923*** (-2.97)	-.0003677 (-0.67)	-.000692 (-1.27)
Employees in services	-1.34e-06*** (-3.16)	-6.32e-08 (-1.01)	-3.97e-08 (-0.63)
Lagged union density		-.0028656*** (-2.99)	
Lagged dependent variable		.9671332*** (134.8)	.9715062*** (137.6)
_cons	.6294991 (21.15)	.0300548*** (4.75)	.0254198*** (4.11)
Observations	440	440	440
Number of <i>n</i>	20	20	20
R <sup>2</sup>	0.0568	0.9804	0.9799

Dependent variable: level in mean unemployment replacement rates. Absolute value of t-statistics are reported in brackets below; for a two-tailed test: \*\*\* is significant at  $p < 0, 01$ ; \*\* is significant at  $p < 0, 05$  and \* is significant at  $p < 0,10$ .

*Table A 3. Regression Results for the Cabinet Seat Share of Right-Wing Parties before and after Correcting for Autocorrelation*

Variables	Model 1 (no correction)	Model 2 (ADL)	Model 3 (LDV)
Cabinet seat share right-wing parties	-.0006626*** (-3.67)	-.0000418 (-1.54)	-.000054** (-2.00)
Institutional constraints	.00823* (1.81)	-.0002452 (-0.37)	-.0003376 (-0.50)
Δ in openness of the economy	.0019692 (1.01)	-.0003754 (-1.31)	-.0004342 (-1.51)
Unemployment rate	-.0004233 (-0.18)	-.0007437** (2.19)	-.0006993** (-2.05)
Annual deficit	.0005044 (0.26)	-.0004527 (-1.56)	-.0005052* (-1.73)
Union density	.0003269 (0.80)	.0024659** (2.57)	-.0000306 (-0.51)
GDP growth	-.0113301*** (-3.11)	-.0004346 (-0.79)	-.0007338 (-1.35)
Employees in services	-1.03e-06** (-2.48)	-2.78e-08 (-0.45)	-6.79e-09 (-0.11)
Lagged union density		-.0025042** (-2.60)	
Lagged dependent variable		.9656577*** (133.79)	.9690364*** (135.53)
_cons	.6624006*** (22.90)	.0315061*** (4.94)	.028711 (4.53)
Observations	440	440	440
Number of <i>n</i>	20	20	20
R <sup>2</sup>	0.0859	0,9805	0,9801

Dependent variable: level in mean unemployment replacement rates. Absolute value of t-statistics are reported in brackets below; for a two-tailed test: \*\*\* is significant at  $p < 0, 01$ ; \*\* is significant at  $p < 0, 05$  and \* is significant at  $p < 0,10$ .

Figure A 1. Residual Plot without Correction for Autocorrelation (Ideology of Governments)

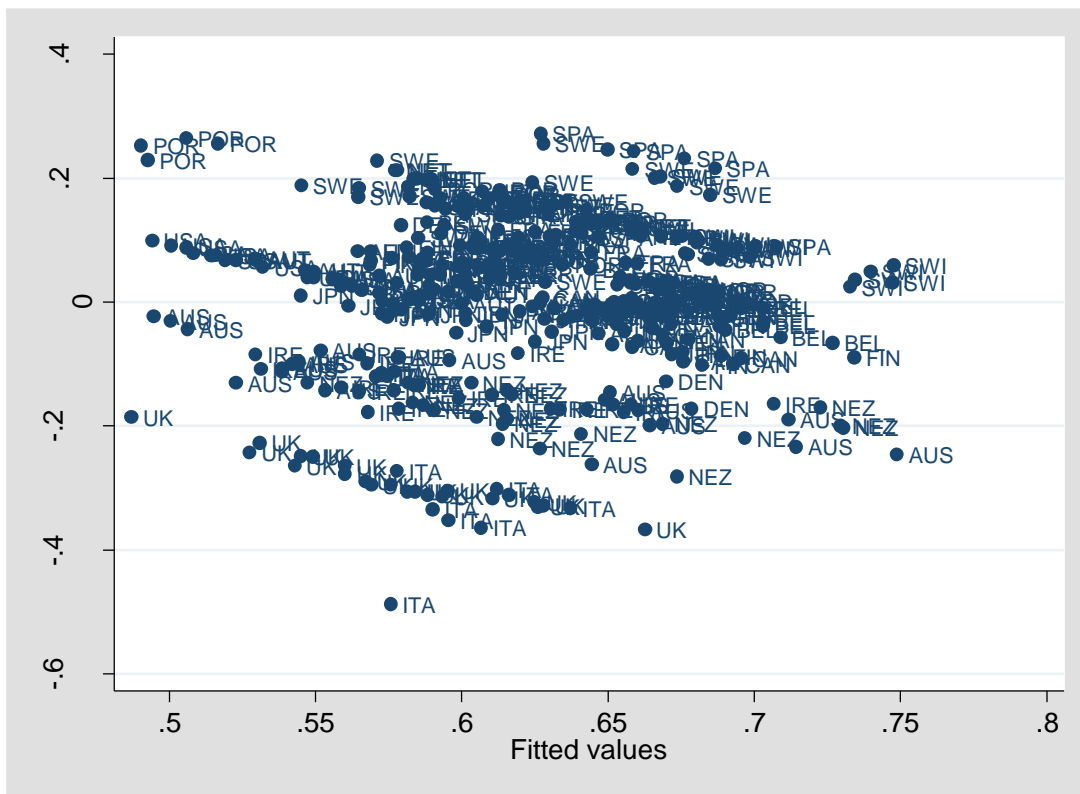


Figure A 2. Residual Plot after Correcting for Autocorrelation (Limited ADL Model)

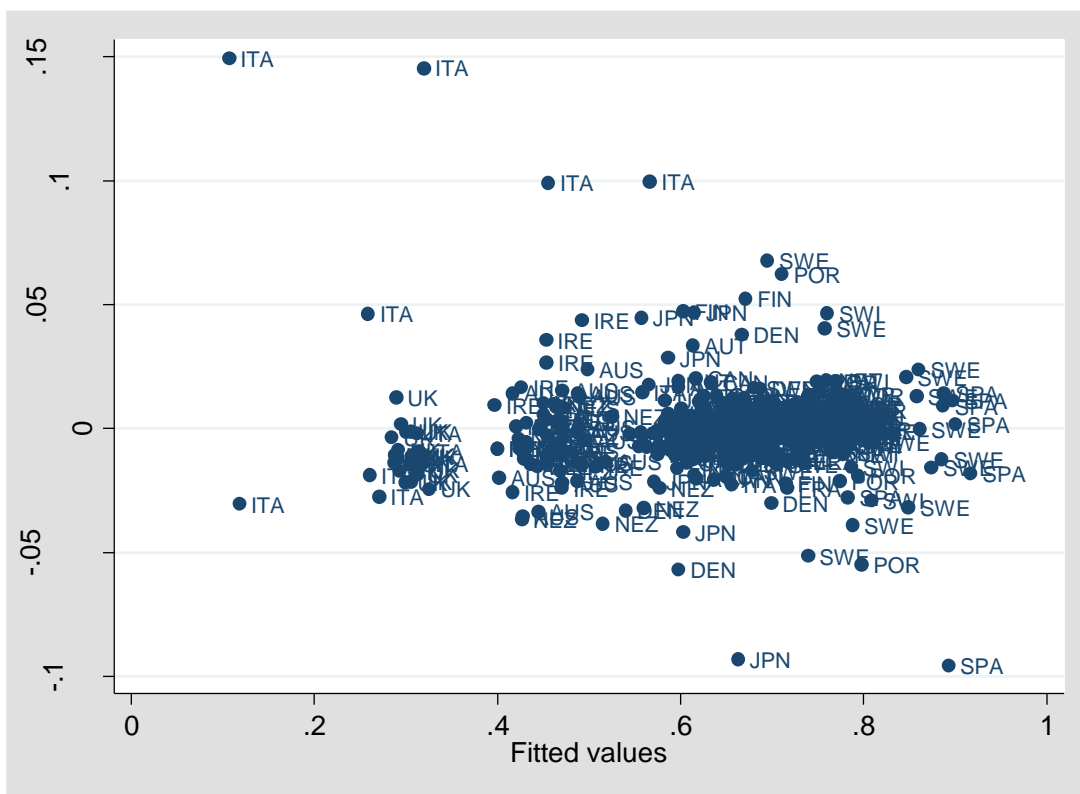


Figure A 3. Residual Plot after Transforming the Dependent Variables into Changes (Seat Share Right)

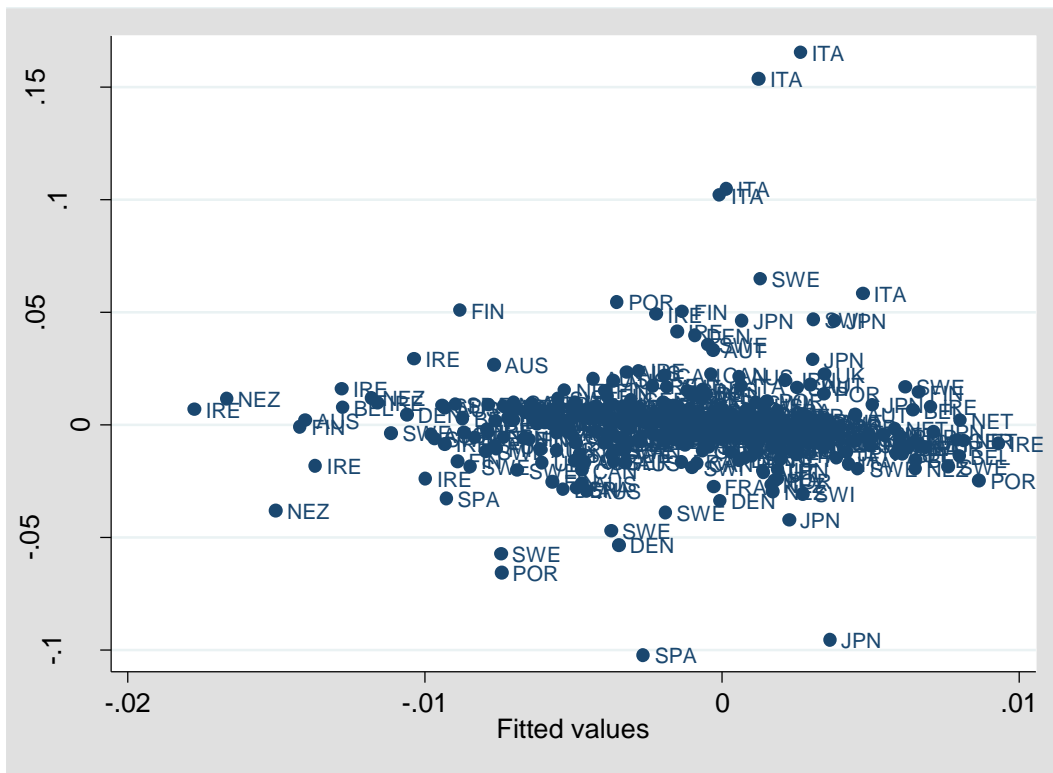
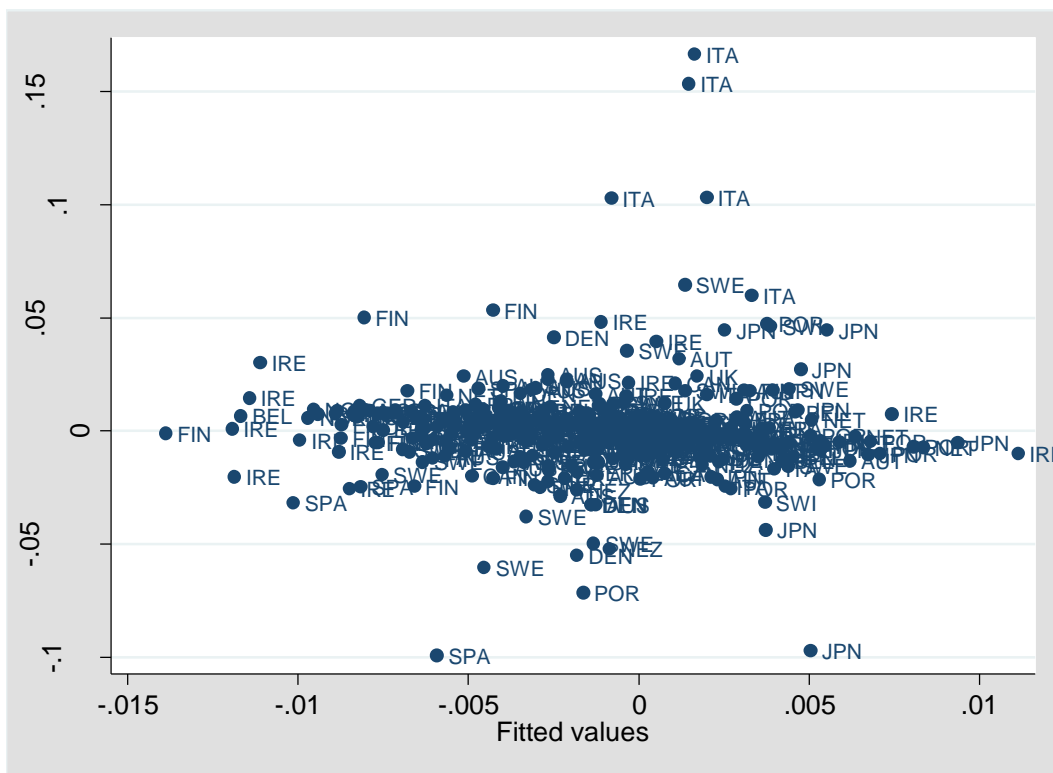


Figure A 4. Residual Plot after Transforming the Dependent Variable into Changes (Seat Share Left)



## **Plagiatserklärung der / des Studierenden**

Hiermit versichere ich, dass die vorliegende Arbeit über „*Political parties, partisan competition and welfare state reform: Revisiting the partisan effect in times of austerity*“ selbstständig verfasst worden ist, dass keine anderen Quellen und Hilfsmittel als die angegebenen benutzt worden sind und dass die Stellen der Arbeit, die anderen Werken – auch elektronischen Medien – dem Wortlaut oder Sinn nach entnommen wurden, auf jeden Fall unter Angabe der Quelle als Entlehnung kenntlich gemacht worden sind.

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(Münster, den 30.11.15, Maximilian Wieczoreck)