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The Politics of Welfare State Recalibration in Continental and Southern Europe

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in Continental and Southern Europe

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Abstract

This thesis argues that the politics of welfare state change do not follow the same dynamics as during the Golden Age. Post-industrialization, occupational change and the emergence of new social risks have considerably complicated partisan politics of the welfare state. Social democratic parties do not anymore pursue a clear strategy of welfare state expansion. Instead, they have changed their reform strategies over time depending on the relative electoral weight of different constituencies within their party. I argue that two crucial divides run right through the heart of the social democratic coalition: an occupational divide between the working class and the middle class and a social risk divide between labor market insiders and outsiders. In times of austerity, these divides become an issue of conflict pitting different constituencies within the social democratic coalition against each other. Relying on survey experiments, the thesis establishes in a first step the micro-level foundations of the argument and demonstrates that occupational classes and insider/outsiders have distinct social policy preferences and priorities. Drawing on a self-collected database on all enacted labor market reforms in Continental and Southern Europe from 1990 until 2016, the thesis proceeds with an assessment of the multidimensional nature of labor market reforms and shows that economic, institutional, and simple partisanship explanations are insufficient to account for the variation in labor market reforms. The final part leverages the profound transformation of party electorates over time with a new measure on the electoral relevance of different constituencies within the social democratic party and combines it with the labor market reform data. Contrary to much of the literature, the results show that social democratic parties do neither uniformly follow a strategy of social investment nor do they always implement pro-insider policies. Instead, the electoral relevance of different constituencies is consistently related to labor market reforms under social democratic governments. A higher electoral relevance of the working class is related to more protection-oriented labor market reforms, whereas a higher electoral relevance of labor market outsiders leads to more pro-outsider labor market reforms. Overall, the thesis shows a remarkable responsiveness of social democratic parties to their voters' demands and has important implications for the electoral fate of social democracy and our understanding of policy-making in post-industrial societies.

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Chapter 1

Introduction

1.1 The Puzzling Role of Social Democracy in Welfare State Reforms

Representation is a core element of democracy. Political parties as the main agents between citizens and the state occupy a pivotal role through which this can be achieved (Schattschneider, 1942). Parties are channels of expression: they articulate, bundle, communicate and implement the preferences and demands of citizens and thereby represent their voters by expressing their demands (Sartori, 2005, p. 24). Once in government, parties are expected to deliver policies that correspond to their voter's preferences. This "policy linkage" (Dalton et al., 2011) refers to the fundamental question whether "politics matters", thus whether parties in office have a significant and distinct effect on the policy output. In an ideal world of party politics, political parties aggregate and represent individual preferences in parliament and, once they enter government, they implement distinct policies.

Recent claims in the literature, however, stress a loosening link between parties and their voters and a deteriorating policy performance of parties in office. The literature on party cartelization, winner-takes-all politics and producer group politics have all argued that electoral politics has become less relevant and that government composition does not affect policy output (Katz and Mair, 1995; Hacker and Pierson, 2010; Mair, 2013; Baccaro and Pontusson, 2016). According to this literature, we see a policy convergence of mainstream parties over time. Especially on macro-economic issues, parties are said to take broadly similar policy positions either due to strong external constraints stemming from globalization, Europeanization and post-industrialization, or because they have outsourced policy making to

non-majoritarian institutions altogether. In his seminal book on the transformation of social democracy, Kitschelt (1994) concluded that social democratic parties have largely lost their capacity to propose and deliver economic policies that are different from mainstream center right parties. He even when as far as to argue that "economic policy turns from being a 'positional' issue, controversial between parties, to a 'valence' issue on which the technocratic capacity of parties is all that divides them in the eyes of the voter" (p. 297). By saying this, Kitschelt (1994) was, of course, primarily referring to macro-economic policies.

One would assume that the convergence of macro-economic policies on a neoliberal consensus would lead to the rising importance of other economic issues such as labor market regulation and the welfare state more generally. Unlike most macro-economic policies, issues regarding social policy still firmly rest in the hands of national governments. Surely, the process of European integration has increased the relevance of European institutions, which increasingly intrude into domestic policy-making. This took place in a first step with the European Employment Strategy (EES) in 1997, emphasizing the need for a more coordinated European strategy for employment (De la Porte and Pochet, 2004). The ESS has always been seen as the flagship of the Open Method of Coordination (OMC) where through inter-governmental cooperation member states agree on soft law mechanisms (guidelines, indicators, benchmarking) and the communication of best practices (Heidenreich and Zeitlin, 2009). These developments notwithstanding, cooperation is still based on a voluntary nature and policy recommendations do not come with a strict enforcement mechanism.[1]

As parties still have more room to maneuver in labor market and social policies, we would therefore assume that parties matter and still do make a difference. Such an assumption, however, is heavily contested in the field of welfare state research. One of the first attempts to demonstrate that parties matter to explain divergent welfare state trajectories has been the influential power resources approach (Korpi, 1980), where welfare state development is seen as a reflection of class-related distributive conflicts and partisan politics. Welfare state expansion is the result of strong social democratic control over government in conjunction with highly organized working class unions. These assumptions have been extremely useful in explaining welfare state expansion during the "Golden Age" of the post-war years and they have been

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[1]Tighter fiscal rules and stricter governance of labor market and social policies since the Great Recession, however, might have lead to a "new era of European integration" (De la Porte and Heins, 2016) where European institutions play a stronger role in national policy-making, can steer policy put more directly, and punish governments if they do not comply with such recommendations.

the starting point for some of the most influential works on the welfare state (Korpi, 1980; Esping-Andersen, 1990; Huber and Stephens, 2001).

The literature emphasizes that since the economic boom of the post-war years ended in the 1970s, however, social programs face mounting challenges and a further expansion is almost impossible. In times of limited resources, the focus therefore shifted from explaining welfare state expansion to retrenchment, recalibration, resilience or dualization. In line with the shift in focus towards the multidimensional transformations of the welfare state, studies have started to paint an ambiguous picture about the role of parties in welfare state reforms. It has been argued that the influence of parties, most notably of social democratic parties, on social policy, has become weaker since the 1970s, has vanished completely, has reversed since the 1980s, or has two-tier effects (Huber and Stephens, 2001; Kitschelt, 2001; Pierson, 2001; Rueda, 2007, among others). Evidently, there is a growing disagreement in the field of comparative political economy to what extent political parties, most notably social democratic parties, matter for welfare state reforms. In other words, it remains an open question if the variation in welfare state change can be explained by electoral politics and partisanship differences. Most specifically, it remains unclear to what extent social democratic parties tailor welfare state reforms in line with the preferences of their core constituencies.

This thesis therefore aims to contribute to the ongoing discussion regarding the role of social democratic parties in the contemporary politics of welfare state recalibration. The thesis ask three main research questions that will be investigated in the chapters to come. The first question relates to the dependent variable of this study and ask to what extent welfare state recalibration has taken place over the last three decades in Continental and Southern Europe. The second question asks more broadly if political parties do matter in welfare state reforms and whether we still witness partisanship differences in the politics of welfare state recalibration. The third question focuses more specifically on the role of social democratic governments and asks if social democratic governments have enacted welfare state reforms broadly in line with the preferences of their core constituencies.

1.2   Case Selection and Methodological Approach

In order to study these research questions, the thesis focuses on labor market reforms in Continental and Southern Europe from 1990 until 2016. The field of labor market policy has been selected because it is one of the most dynamic fields of welfare state reform since the 1990s, undergoing complex and multidimensional changes. Whereas

other policy fields such as old-age pension or health care are mainly concerned with cost containment under the weight of economic and demographic pressures, labor market policy – together with family policy – is where most innovation in social policy-making took place since the 1990s. The shift towards active labor market policies, the redesigning of passive labor market policies, and the increasing link between the two create a fertile ground to study the multidimensional nature of welfare state change. Moreover, the focus on labor market policy also allows to study welfare state change in light of the two most discussed trends in welfare state research. On the one hand, it allows to assess the broader shift in welfare state orientation from a traditional, consumption-oriented towards a more modern, investment-oriented welfare state. On the other hand, it allows to integrate a distributive component into the research, namely the extent of labor market dualization between labor market insiders and labor market outsiders.

The sample to study my research questions consists of Austria, Belgium, France, Germany and the Netherlands as representatives of Continental European welfare states, and Greece, Italy, Portugal and Spain as representatives of Southern European welfare states. Switzerland has been excluded to keep the effect of Europeanization more constant (Obinger et al., 2013) and because Switzerland has traditionally been described as a hybrid regime that combines a social insurance regime with a very liberal labor market (Esping-Andersen, 1990; Bonoli, 1997; Arts and Gelissen, 2002). Luxembourg and other small Continental and Southern European countries have been excluded due to their small size.[2] Occasionally, the sample is widened. Chapter 3 includes as well data from the United Kingdom and Chapter 8 aims to broaden the argument and includes additional tests for most European countries.

The focus is placed on these two welfare regime types because they share many similarities and are considered to be in dire need of welfare state reforms in order to cope with the challenges of a postindustrial society (Bonoli and Natali, 2012b; Emmenegger et al., 2012; Thelen, 2012). Based on their economic and welfare state institutions, these countries are much more similar to each other than compared to Anglo-Saxon or Scandinavian countries which belong to the liberal or social democratic welfare regime. Actually, both Esping-Andersen (1990) and Hall and Soskice (2001) have classified the two countries into the group of coordinated market economies and Bismarckian welfare states. Due to their similar institutional set-up, they share many problems arising from demographic change, low female employment rates, low fertility rate, and unemployment traps. Moreover, they have the

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[2]The main objective criteria for selection has been whether a country has a per capita GDP higher than 25'000 international dollars and more than 3 million inhabitants (for a similar case selection see Beramendi et al. 2015, p. 4).

most pronounced divide between highly protected old social risk groups and only marginally protected new social risk groups.

More specifically for the field of labor market policy, it is well established that the process of labor market dualization is one of the most obvious trends during the last decades. Even though the segmentation of labor markets into insiders and outsiders is a structural trend that affects all post-industrial economies, most of the literature on dualization describes the divide between insiders and outsiders as particularly pronounced in Southern and Continental Europe (Häusermann and Schwander, 2012). This is mainly due to two reasons. First, the strong connection between the individual's position in the labor market and his/her rights to social protection in social insurance welfare regimes leads to a situation where atypical workers or unemployed people only have insufficient social rights to access these schemes (Bonoli and Natali, 2012b; Häusermann and Schwander, 2012). Second, drawing from the varieties of capitalism literature (Hall and Soskice, 2001; Estevez-Abe et al., 2001), Southern and Continental European countries are *coordinated market economies* where firms need workers with specific skills. To have an incentive to invest in specific skills, workers need some guarantees that vocational training pays-off. This guarantee usually comes in the form of good unemployment benefits and often rigid employment protection legislation.

Even though Continental and Southern European countries share many institutional similarities and problem pressures, Chapter 5 will show that they also differ in important ways with each other: the timing of industrialization, democratization and institutionalization of party systems, the role of the state in the economy, the economic strategy of industrialization (export-oriented versus import substitution model), and the specific welfare state institutions. It would therefore be an oversimplification to classify a comparison of Continental and Southern European countries as a *most similar systems design*. This may hold if we compare countries only *within* each region but it becomes more difficult to justify once we compare countries across the two regions. In terms of their institutional legacies, especially the strongly pronounced labor market dualization and consumption-oriented heritage of their welfare states, these two regions are nevertheless more similar to each other than to liberal and Nordic countries. On the one hand, liberal countries solve most coordination problems arising from structural change through the market, which results in a strong private care and a growing low-wage sector. Nordic countries with universal passive systems of protection and high levels of active labor market policies, on the other hand, are already quite well-equipped to cope with structural change.

In stark contrast, Continental and Southern European are also said to have largely failed to account for the changing nature of social risks and update their welfare state institutions towards social investment and the needs of new social risk groups in order to cope with these new challenges. Thus, institutional "drift" (Hacker, 2004) has been strongest in these two regimes. Studying labor market reforms over almost three decades allow me to assess in depth the extent to which welfare state institutions have been updated. In fact, the existing literature shows that labor market reforms have not been implemented in a uniform way over time and across country. There is a striking variation of labor market reforms being enacted, which calls for a detailed analysis and explanation.

The thesis follows in the footsteps of the "electoral turn" in comparative political economy (Beramendi et al., 2015) and emphasizes the role of political parties to explain labor market reforms. As Chapter 2 will discuss in more detail, the literature on the politics of welfare state change has emphasized the role of both political parties and producer groups (labor unions and employers). Even though the thesis will occasionally also discuss the role of trade unions, the main focus lies on political parties due to three reasons. First, I look at labor market reforms in the fields of passive and active labor market policy, employment protection legislation, short-time work and early retirement schemes where policy changes are enacted and implemented by governments. If I would look at other areas such as public and private wage setting, however, I would need to focus more strongly also on the role of trade unions and employers as such issues belong to the industrial arena of wage bargaining coordination. Second, even if the power of policy-making rest in the hands of governments it does not preclude trade unions from taking (outside) influence on governments. Trade unions surely still remain vocal in their opinion about labor market reforms, but the current research on the role of unions points to their almost universal decline (Baccaro and Howell, 2011; Culpepper and Regan, 2014; Hassel, 2015; Baccaro and Howell, 2017). Apart from a few instances when governments are weak (Rathgeb, 2018), trade unions influence on labor market policies has declined drastically over the last decades. Even in their core spheres of influences, trade unions have lost significant influence due to a general trend towards decentralization of wage bargaining institutions. Finally, it is impossible to explain the full variation of labor market reforms enacted over the last 26 years with a parameter of trade union strength that is in constant decline in Continental and Southern Europe. As a matter of fact, the most path-shifting labor market reforms discussed in this thesis were implemented almost always in stark opposition to trade unions. For example, the Hartz reforms in Germany under Schröder or the Jobs Act in Italy under Renzi were pushed through parliament despite strong protest from trade unions.

The central concern of this dissertation is the changing role of social democratic parties. Historically, the most relevant electoral actor in welfare state research has been undergoing a sweeping transformation of its electoral constituencies. Once a traditional working class party, now increasingly attracts the votes of a growing middle class and new social risk groups. Such a profound change in their electorate is the ideal setting to test how changing electoral constituencies *within* one party affects their policy-making. Moreover, social democratic parties are also strongly affected by party competition. Nowadays, they are forced to compete for votes against both competitors from the far right and the far left (see Figure A.1 in the Appendix A.1 for a detailed overview of the party system in each of the nine countries).

Methodologically, this thesis aims to combine multiple approaches and data sources to assess the politics of welfare state recalibration in Continental and Southern Europe. The thesis consists of three different empirical parts. In the first part, I establish the micro-level foundations of the argument and study policy preferences of voters in four countries relying on a series of survey experiments. The second part proposes a new measure of welfare state change based on coding the actual policy output. This time consuming exercise aims to quantify policy content in order to assess multidimensional changes in labor market policy. Building on these measures, I assess descriptively labor market reforms over the last 26 years and to what extent institutional legacies, economic circumstances and government partisanship can explain the variation of reforms enacted. The last part of the thesis advances a new measure of electoral relevance to assess the relative electoral weight of different social groups *within* the social democratic coalition based on survey data over the last three decades. Using time-series cross-section regression analyses, the measure of electoral relevance is then combined with the original, hand-coded data on labor market reforms in order to assess how different voter segments decisively affect different labor market reforms under social democratic governments.

This thesis builds on the fundamental premise that political parties compete along programmatic lines. This is a strong assumption and needs some further clarification. An important literature has emphasized the relevance of clientelistic competition especially in coordinated market economies in Continental Europe (Kitschelt, 2007) and in Southern European welfare states (Ferrera, 1996; Lynch, 2006). Research by Kitschelt (2007), for example, has shown that clientelistic political penetration has been particularly strong in Austria, Belgium and Italy. However, he also contends that clientelism has reached its climax in the 1970s and has continuously declined since then due to erosion of single or two-party hegemony/duopoly and the difficulty to sustain direct clientelistic exchanges in the face of spiralling public

debt. At the latest since the 1980s, citizens in advanced capitalist countries increasingly defect from parties with clientelistc ties, most prominently demonstrated with the demise of the Italian Christian democratic party *Democrazia Cristiana*. Unlike in the older democracies of Continental Europe and Italy, clientelism developed differently in the younger Southern European democracies. There is strong evidence that clientelistic party competition still plays an important role in Greece (Matsaganis, 2005; Pappas, 2013; Afonso et al., 2015), exemplified by the highly fragmented pension and unemployment systems which were used as tool of clientelistic mobilization. In stark contrast to Greece, there is little evidence that would point to strong clientelistic competition in Spain and Portugal (Hopkin, 2001; Kitschelt and Wilkinson, 2007; Watson, 2015; Afonso et al., 2015). With the exception of Greece (and partially Italy), we can assume that political parties compete *mainly* along programmatic lines in Continental and Southern Europe.

1.3   Outline of the Argument

It is a well known fact that the economic crises of the 1970s heralded the end of the Golden Age of welfare capitalism and initiated the advent of a new series of large-scale structural changes. While the Golden Age has been characterized by relatively clear positions of political parties with stable core constituencies in an overall favorable context of industrialization and economic growth, structural processes ever after have profoundly altered the economic, social, and political structure within which welfare state politics occurs.

This thesis argues that there are at least three reasons why the structural change from an industrial to a service economy is of exceptional importance for research on the politics of welfare state reforms. First, the transition to the service economy alters the *economic context* within which welfare state reforms occur. Declining economic growth since the 1970s and increasing fiscal constraints have severely reduced government's room to maneuver. Second, the rise of the service economy has changed needs and demands for social policy, thereby revealing *institutional frictions and new social risks* in a welfare state built on the assumption of a predominantly industrial society. Third, structural change has also profoundly reshaped *voter-party alignments* originally developed in an industrial society by transforming the occupational structure, economic and social risk groups, and the political preferences of different constituencies and their voting behavior.

The coincidence of the emergences of new social risks and the austere economic context of most countries puts distributive conflict center stage. The main conflict

lines in welfare politics do not revolve anymore around more or less spending *per se*, but rather around more fine-grained issues. One the one hand, there is a growing conflict about the general *orientation* of the welfare state between traditional instruments of social protection and new social risk policies. This can be conceptualized as a conflict between a consumption- and an investment-oriented welfare state (Morel et al., 2012b; Hemerijck, 2013; Beramendi et al., 2015; Hemerijck, 2017, among others). On the other hand, there is a conflict about the *distributive effects* of labor market policies on labor market insiders and labor market outsiders (Rueda, 2005, 2006, 2007; Emmenegger et al., 2012, among others). In times of austerity, governments face a dilemma: there are constituencies that want to maintain or even expand traditional social protection systems and others who would like to recalibrate welfare state institutions to the needs of new social risk groups. This puts especially social democratic parties in a difficult position where they are forced to choose between different constituencies.

The main argument the thesis advances is that the politics of welfare state change does not follow the same dynamics as it did during the Golden Age. Social democratic parties do not follow anymore a single and clear strategy of welfare state expansion. They do neither uniformly follow a strategy of social investment nor do they only implement pro-insider policies. Instead, social democratic parties have changed their reform strategies over time depending on the relative electoral weight of different constituencies within their party. I argue that two crucial divides run right through the heart of the social democratic coalition. First, social democratic parties are profoundly affected by a changing class structure and by changing voting behavior. Once dominated by the working class, social democratic parties increasingly attract the votes of a growing middle class. Second, insufficient updating of welfare state institutions and partial deregulation of employment protection has created a new social divide within the social democratic electorate between highly protected labor market insiders and precarious labor market outsiders. As a result of these trends, the two most important divides for social democratic parties are those between the working class and the middle class on the one hand, and between labor market insiders and labor market outsiders on the other hand. As the thesis will show, these two divides are not congruent but cross-cut each other to a certain extent.

Such divides *within* the social democratic coalition are not problematic per se as long as there are enough financial resources to satisfy the demands of all the groups within their coalition. In times of limited resources, however, these divides become an issue of conflict if the economic context does not allow to expand the welfare state

according to the *needs* of all of these groups and if these groups do differ in their policy *preferences*. Relying on a series of survey experiments, I therefore first show that social policy preferences are rooted in these social divides. With regards to the class divide, the working class has a preferences for a consumption-oriented welfare state, whereas the middle class prefers rather a shift towards an investment-oriented welfare state. With regards to the insider-outsider divide, labor market outsiders do put a higher premium on passive and active labor market policy compared to labor market insiders.

I then assess the relative electoral weight of these different constituencies with a new concept and measure of *electoral relevance* which consists of three parameters: group size, turnout and vote choice. I show that labor market reforms under social democratic governments are consistently related to the relative electoral relevance of their constituencies. A higher electoral relevance of the working class leads social democratic parties to implement more consumption- and protection-oriented labor market reforms. Once the electoral relevance of the working class declines, the effect reverses and social democratic parties are even less likely to implement such reforms. On the other hand, as long as middle class has been electorally irrelevant, social democratic government are negatively related to investment-oriented labor market reforms.

Furthermore, I also demonstrate the electoral relevance of labor market outsiders is politically consequential. Even though previous accounts have neglected the political importance of labor market outsiders for social democratic parties, I show that labor market outsiders are increasingly important for social democrats and that, in fact, social democrats adjusted their reform strategies in line with the preferences of this growing constituency. A higher electoral relevance of labor market outsiders is consistently related to labor market reforms that improve the situation of this group.

Overall, the thesis shows that to make sense of the politics of welfare state recalibration in the age of austerity, we need to shift the focus towards the multidimensional transformation of the welfare state. This, in turn, can only be explained if we also study in detail new social divides, changing political preferences and the sweeping transformation of party electorates.

1.4   Overview of the Thesis

In order to make this argument on the politics of welfare state recalibration, the thesis is structured as follows. Chapter 2 develops the theoretical foundation of the

thesis. It starts with a brief review of the existing literature and points out their shortcomings. The second part then discusses how the transition from the industrial to the service economy affects the welfare state and how we can conceptually analyze welfare state reforms. The third section discusses how structural changes has also altered political preferences and transformed the constituencies of social democratic parties and how this affects the politics of welfare state reforms.

Chapter 3 tests the individual-level assumptions of the argument. As most reforms nowadays increase spending in one policy field at the cost of decreases in another one, most unidimensional survey questions are not helpful to tease out citizens' *priority ordering*. Using split-sample and conjoint survey experiments, I demonstrate that citizen strongly change their preferences towards social policies if they are confronted with policy trade-offs and that they have a clear priority ordering. More importantly for the argument of this thesis, the analyses show that preferences vary across subgroups. First, the middle class have a higher priority for social investment compared to social consumption, whereas the opposite is the case for the working class. Second, left- and right-wing respondents do have different priorities and differences are more pronounced on the consumption side. Finally, policy constituencies such as pensioners or labor market outsiders react very strongly to trade-offs that affect them directly.

Chapter 4 discusses the "dependent variable problem" in the study of welfare state change and argues that both aggregate spending data and welfare state entitlement data are of limited help to assess the politics of welfare state recalibration. I propose a new measure of welfare state change based on coding the actual policy output. First, the measure distinguishes changes in welfare state orientations along three broad dimensions: social consumption, social investment, regulation. Second, the measure also has a special focus on social investment and assesses the type of activation being implemented. Third, each policy change is further analyzed regarding its effect on labor market insiders and outsiders. After the theoretical conceptualizations, the data collection, process of operationalization and the coding of the polic output is being discussed. Finally, the last part of the chapter establishes the validity of the proposed measure in light of already established indicators.

Chapter 5 builds on the measure developed in the previous chapter and gives a descriptive assessment of the development of labor market reforms over the last 26 years across the nine countries under investigation. In order to better understand the trajectories of Continental and Southern European welfare states, the chapter first starts with a discussion of institutional legacies and how they affect current reforms. Afterwards, the chapter shows that welfare state transformation has occurred in

a multidimensional way, each broader dimension of consumption, investment and regulation having developed very differently over time and across countries. In addition, the chapter also shows a striking variation in the type of activation being pursued across countries. Moreover, the chapter emphasizes that changing economic circumstances over the last 26 years can only partially explain the variation in labor market reforms.

Whereas the previous chapter has shown that institutional legacies and the economic context can only partially explain labor market reforms, Chapter 6 shifts the focus away from *structure* towards *agency*. More specifically, the chapter explores possible effects of partisanship differences in the cabinet composition on labor market reforms. In order to assess the impact of cabinet composition on the reform outcome, all the policy changes are aggregated on the cabinet-level. By mapping cabinets in a two-dimensional policy-space, partisanship differences can be identified. A detailed country-by-country discussion reveals that social democratic government composition does not lead everywhere to similar outcomes. Thus, to what extent social democratic cabinets have implemented more investment-oriented labor market reforms varies greatly over time and across country.

The finding of the previous chapter leads to the question why certain social democratic parties have embraced the activation paradigm, while others have been more hesitant or even fully reluctant to do so. The last two empirical chapters therefore aim to explain the puzzling variation of social democratic labor market strategies. Building on a new measure of electoral relevance, the two chapters will focus on the role of two important divisions within the social democratic electorate. I show that the relative strength of different constituencies within the social democratic electorate does affect social democratic policy-making. Chapter 7 looks at how the divide between the middle and the working class shapes the way center-left governments enact labor market reform. It demonstrates that a higher electoral relevance of the working class leads social democratic parties to implement more protection-oriented labor market reforms. Finally, Chapter 8 focuses on the distributive design of labor market reforms and studies how the increasing electoral relevance of labor market outsiders affects social democratic labor market policy-making. I show that the often-made assumption of widespread political apathy among the more vulnerable part of labor does not hold under empirical scrutiny. A higher relative electoral weight of labor market outsiders is consistently related to more frequent pro-outisder labor market reforms whenever social democratic parties have a substantial share in government.

Finally, Chapter 9 concludes with a discussion of the main findings of the thesis. Moreover, the conclusion emphasizes the main contribution and caveats of the thesis. In addition, it points out avenues for future research.

Chapter 2

Social Democracy and Welfare State Change

2.1 Review: Explaining Welfare State Development

2.1.1 Early Approaches

The tremendous expansion of the welfare state after the Second World War has been one of the most remarkable developments in West European capitalist democracies. The first scholarly attempts to explain the introductions of statutory social polices and the concomitant extraordinary rise in welfare state expenditures were of a rather functionalist nature. In his pioneering book *The Welfare State and Inequality*, Harold L. Wilensky (1975) contends that the root cause of welfare state expansion was the interaction between economic growth and demographic change. Fully captured within the "logic of industrialism" tradition, he saw industrialization as the main driver behind new demands for social spending. With the transition from an agrarian to an industrial society, traditional social support systems based on kinship and patrimonial traditions eroded and had to be substituted with something else. With the growing dependence on wage labor in an industrial economy, new vulnerabilities emerged among those who could not sell their labor force anymore or not to the full extent, such as the old, the young, the sick and the disabled. As a result, the state had to step in and create welfare institutions in order to protect and maintain the labor force essential to economic growth.

Unlike Wilensky (1975), neo-Marxist theorist like Claus Offe (1972) and James O'Connor (1973) saw the driving force of welfare state development in the contradictory logic of capitalism. In a constant distributive struggle with the proletariat, the capitalist bourgeoisie was torn in between two contradictory imperatives. On the one side, the capitalist elite rallied to maximize capital accumulation as their main goal, but, on the other side, they knew that their main goal of capital accumulation had to be substantially grounded in social legitimation. Latter can be achieved through social policies in order protect the proletariat from the vagaries of pure market forces and to legitimize the goal of capital accumulation. Although accounting for different drivers, both neo-Marxist and industrialism theories shared a functionalist view on welfare state development. Social policies were seen as a reflection of largely impersonal and apolitical economic forces where the role of politics was largely neglected. Nevertheless, both approaches were important as they shed light on the fundamental preconditions of welfare state's origins and rise. Both theories could partially explain the origin of welfare states, but were less persuasive in explaining the huge variation across Western European countries in social policy designs and spending levels.

There are also two early approaches that deserve to be mentioned here briefly, although their explanatory power soon lost credibility. One approach focused on the role of state bureaucracies and presumed that bureaucracies are at least partially autonomous units insulated from voters, parties and producer group pressure (Heclo, 1974; Weir and Skocpol, 1985). Social policy is therefore more an outcome of the structure of state and its ability to perceive and solve problems independently of the political process. The strong version of the independent bureaucracies argument was not considered as very plausible, but the focus on how state institutions affect welfare state outcomes certainly was taken up by the institutionalist literature later on. The other approach emphasized the role of elites in welfare state development (Mommsen and Mock, 1981). They argued that social policy can be used as a mean by which elites conserve the status quo by giving in to minor welfare state improvements in order to avoid major structural changes (like a revolution or mass suffrage). Often the example of Bismarckian Germany is evoked, where the first social insurance welfare state originated under authoritarian conditions. Elite approaches, however, soon lost credibility as they were unable to explain most of the important welfare state reforms and could only be applied to a very limited set of countries in specific time periods. Nevertheless, it certainly holds true that that welfare state reforms are to a certain extent influenced and guided by elites and public bureaucracies.

2.1.2   Power Resources Approach and Its Critics

In the 1980s, Walter Korpi (1980) and John D. Stephens (1979) moved beyond purely functionalist accounts and forcefully advanced the argument that politics matter in explaining divergent welfare state trajectories. In what has become known as the *power resources approach*, he argued that the more unionized the working class and the greater the social democratic control over the government, the more generous the welfare state. The increasing organization of the working class in unions and social democratic parties enabled them to use public policy to intervene in the distributional process of labor markets. Whereas the neo-Marxist and elite theories saw social policy as a manipulation of the working class, Korpi (1980), later also other scholars (Esping-Andersen, 1990; Huber and Stephens, 2001), interpreted welfare state expansion as a significant triumph of working class interests. After the initial argument by Korpi (1980) was made, a variety of quantitative and historical-comparative research gave further evidence to the power resources approach and quickly established a dominant position in comparative welfare state research.

A series of publications in the early 1990s by Gøsta Esping-Andersen (1990), Peter Baldwin (1990) and Kees van Kersbergen (1995) started to depart from the assumptions of the power resources approach and criticized, although to a very different extent, the too simplistic and narrow focus on the working class in order to explain divergent welfare state outcomes. In his masterpiece *The Three Worlds of Welfare Capitalism*, Esping-Andersen (1990) looks at the degree of de-commodification[1] and stratification[2] of welfare states and identifies three different welfare state regimes: liberal, conservative and social democratic welfare states. In liberal regimes, the state encourages the market and only provides for a very basic, minimal safety net. De-commodification is therefore minimal and the state has no reason to significantly alter the stratification outcomes produced in the market because they are considered to be just as they reflect effort and motivation. A generous welfare state, however, would be considered as punishing the diligent and rewarding the idle. Conservative regimes are characterized by idea of the preservation of status differentials and the traditional male-breadwinner model. In accordance with the principle of subsidiarity, the state only interferes if the family's ability to cope with strain is exhausted. Social democratic regimes uphold the idea of universalism and promote an equality of highest standards that essentially crowds out the market.

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[1]De-commodification is defined as the extent to which people can live an acceptable standard of living independent of earning a market income.

[2]Stratification refers to how welfare states not only intervene in the structure of inequality in a society but also correct and re-stratify class and the social order.

High decommodification combined with universalistic programs results in the lowest stratification across all three regime types.[3]

In order to explain the emergence of these three different regimes types, Esping-Andersen (1990) moves beyond the narrow focus on working class strength and additionally emphasizes the importance of class coalitions and the historical legacy of regime institutionalization. Especially the focus on class coalition-building, instead of only the working class, proved to be very fruitful. In the Scandinavian countries, the working class was only able to achieve a generous and universalistic welfare state because they coalesced with the farmers (for a similar argument see also Gourevitch, 1986). In Continental Europe, where the working class was confronted with strong Christian democratic parties, the outcome were conservative welfare states with a strong focus on status preservation. In the liberal countries with a minimalist welfare state, the middle class was not accessible for a coalition with the working class that would pursue expansive welfare state reforms.

But it was not only Esping-Andersen (1990) that stressed the importance of cross-class coalitions to explain divergent welfare state outcomes. In a sometimes neglected historical study, Peter Baldwin's (1990) *The Politics of Social Solidarity* examines the social bases of social policy and introduces the crucial difference between risk and fortune (income and wealth).He argues that the welfare state is more about risk reallocation than about wealth and income redistribution. He asks the provocative historical question if there ever was "a sufficiently consistent coincidence between risk category and social group to claim that solidaristic welfare policy had a societal foundation, a home of interests and aspirations of one particular class" (Baldwin, 1990, p. 20). In his historical analysis on the origins of welfare states in Denmark, Sweden, Great Britain, France, and Germany, he argues that risk categories and classes are often disjoint in the sense that some social risk (illness, old age, unemployment) are not only clustered in the working class but also affect parts of the middle class. The negotiated reforms that reapportioned the social burdens are therefore far more complex than usually portrayed in the binary approaches that simply juxtapose the proletariat against the bourgeoisie or the poor against the rich. Especially the common assumption that middle class is a unitary actor against state intervention into the market has to be revised. Contrary to the power resources approach, he claims that parts of the middle class in coalition with the working class were the decisive actors in welfare state development, which is nicely summarized in this eloquent passage:

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[3]There is an ongoing discussion to what extent Southern European countries form a distinct, fourth welfare regime. See Chapter 5 for a more extensive discussion.

> "The success of the welfare state and the interest developed by the bour-
> geoisie in its ability to redistribute risk have gone hand in hand. The
> much-vaunted consensus that evolved around statutory welfare policy
> during the immediate postwar years was the outcome of a sense of social
> solidarity heightened by an awareness that risk and class are only par-
> tially correlated, that all potentially stand to benefit from redistribution,
> that even the bourgeoisie has had much to win from a correctly crafted
> welfare state." (Baldwin, 1990, p. 27-28)

The most important point in Baldwin's (1990) study is that the pressure from the
working class was by itself not sufficient to achieve expansive welfare state reforms.
Only if otherwise privileged groups within the middle class realized that they shared
a common interest in risk allocation with the working class, welfare state expansion
was possible.

An even stronger departure from the social democratic bias in explaining wel-
fare state development has been the book *Social Capitalism: A Study of Christian
Democracy and the Welfare State* by Kees van Kersbergen (1995). Even though
Esping-Andersen (1990) already alluded to the crucial role of Christian democratic
parties in Continental Europe, van Kersbergen (1995) now fully focuses on these
parties and argues that there is a core of social policies that is uniquely Christian
democratic that is defined as *social capitalism*. Even though social democratic and
conservative welfare states have comparable levels of social spending, the regimes
are significantly different from each other. The model of social capitalism is based
on different arrangement between market, state and family. The family is the cor-
nerstone of the society and there is a clear gender division of labor. The man is
the center of public life through labor, whereas the woman stays at home and is
responsible for child-bearing and child-rearing. In accordance with the principle of
subsidiarity, the European tradition of social Catholicism views state intervention
only as justified if the resources of the family are exhausted. But even when the
state finally interferes with the distributive process, the intervention is very different
from other welfare regimes. Unlike social democratic regimes, the ideology of social
capitalism in conservative welfare states is not about redistributing inequalities. In-
equality is seen as a natural phenomena of a society and should be reproduced. This
notion of status preservation is based on the view that members of a class should
be treated in harmony with their social status. The goal of conservative welfare
state is therefore not to alter the status but to reproduce it. In this regard, "social
capitalism is the perfect middle way between socialist collectivism and liberal indi-
vidualism" (van Kersbergen, 1995, p. 190). The strength of Christian democratic

parties in Continental Europe led to this religiously inspired model of social policy reform. Social capitalism was the ideology by which Christian democracy could establish a cross-class accommodation.

2.1.3 Employer-Centered Approaches

To make things even more complex, Peter Swenson (1991) was among the first who challenged the common wisdom that Scandinavian welfare states were simply the result of a strong working class in conjunction with the agrarian class and directs the attention to the role of employers and business power more generally. In the article, he advances the argument that capital was not excluded but, in fact, employers were essential participants in the cross-class coalitions of the 1930s in Scandinavia. For example, not only the social democratic parties but also parts of the employers were in favor of centralized bargaining institutions in Sweden and Denmark. In line with the "small state argument" by Katzenstein (1985), employers in small economies are dependent on and vulnerable to international trade and had an interest in regulating the intersectoral pay structure, so that wage differentials between domestic-oriented and international-oriented sectors could be kept at a minimum. Based on his findings, Swenson (1991) urges the reader to abandon the common assumption that capital was weak or passive in relation to labor. The vulnerability of the Scandinavian economies to international trade therefore fostered the formation of a cross-class alliance among parts of labor and parts of capital. Even though his account on the introduction of centralized wage bargaining institutions is very compelling, the study mainly focus on the realm of industrial relations where common interests of capital and labor and a certain degree of coordination between the two are more obvious. But to what extent employers would also have an interest in supporting a generous welfare state, that most likely means high costs for capital to finance it, seems unclear.[4] To put it briefly, while capital-labor coalitions in industrial relations might be likely under certain circumstances (e.g. common vulnerabilities to international trade), the same coalition to occur in social policy reforms more generally seems rather unlikely.

One answer to the question why employers in some countries are also interested in a more generous welfare state provides the highly influential book volume *Varieties of Capitalism* by Peter Hall and David Soskice (2001). In their firm-centered approach they analyze how employers solve coordination problems in five different spheres

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[4]Later on, Peter Swenson (2002), and to a certain extent also Isabela Mares (2003), extended the argument on the crucial role of employers and business in welfare state development more generally. This has, however, come under heavy criticism most famously advanced by Jacob S. Hacker and Paul Pierson (2002; 2004) and Walter Korpi (2006).

(industrial relations, vocational training and education, corporate governance, inter-firm relations, and employees). Based on the idea of institutional complementarities in these five spheres, they find two ideal types of political economies: liberal market economies and coordinated market economies. In liberal market economies, firms solve their coordination problems primarily through competitive market institutions and, therefore, generous social policy is not on the agenda of employers. In coordinated market economies, however, firms have to rely more on non-market institutions to solve their coordination problems. Here, firms need workers with industry-specific skills for their production process. In order to have an incentive to invest in specific skills, workers needs some guarantees that a long vocational training pays-off in the end. Such a guarantee usually comes in the form of good unemployment protection and (oftentimes) rigid employment protection legislation (Estevez-Abe et al., 2001). In this context, the varieties of capitalism literature highlights the convergence of interests of capital and labor over certain issues and the institutional complementar-ities between the welfare regime and the economic production regime of a country, which tend to reinforce each other. Since firms in coordinated market economies heavily invest in specific capital, they have an interest in keeping some jobs – those that require specific skills – well protected. Thus, it is conceivable that under specific circumstances even employers have an interest in the expansion of certain welfare state institutions.

However, the varieties of capitalism approach has not only been criticized by its negligence of the state and electoral politics (Schmidt, 2009), but also by its static account of two institutional equilibria where it is unclear how these came about in the first place and how institutional change could potentially evolve over time. There have been some attempts to explain institutional change through institutionalist lenses as a process of incremental change, defection and reinterpretation (Hall and Thelen, 2009), the origins of different welfare states as result of electoral institutions and political coalitions (Iversen and Soskice, 2006) or, finally, differences in welfare states are explained by the organization of capitalism in the tradition of the varieties of capitalism approach, electoral institutions and partisan politics in the tradition of the power resources approach (Iversen and Stephens, 2008).

2.1.4   A Synthesis of Traditional Explanations

What all of the above discussed approaches have in common is their goal to explain, though from very different angles and theoretical assumptions, the extraordinary expansion of the welfare state in the Golden Age of the postwar years. Whereas the very first explanations focused on more structural features, such as the industrial-

ization of the economy and the contradictions emerging out of capital accumulation, approaches afterwards put the attention on the working class (unions and social democratic parties), Christian democracy, cross-class coalition-building and the role of institutions, employers, and firms. The possibly two most recurrent topics in all those earlier studies of the welfare state has been the importance of class coalitions and institutions. Former has already been extensively discussed and the literature clearly revealed that is very unlikely that one single class was strong enough to push through reforms, but rather always was in need of a coalition partner.

The role of institutions has been sidelined so far for the sake of simplicity. It is important, however, to stress that both the power resources and varieties of capitalism approach assign institutions a crucial role. In the varieties of capitalism approach this might be more obvious. But also most of the power resources theorists (Korpi, 1980; Esping-Andersen, 1990; Huber and Stephens, 2001) not only focused on the role of politics but also emphasized the role of institutions. Welfare states are not only seen as the result of class forces but also contingent on the institutional arrangements. Institutions are said to influence social policy outcomes. The two most striking findings are that federalism is correlated with smaller welfare states (Huber and Stephens, 2001) and that countries with proportional representation tend to have larger welfare states than countries with majoritarian representation (Iversen and Soskice, 2006). The former relationship is strongly related to the fact that federalism increases the number of veto players in the policy process that can block the expansion of the welfare state (Immergut, 1992; Tsebelis, 1995). The latter relationship is mainly indirect in the sense that proportional representation has an effect on government composition, which then, in turn, affects social policy (Iversen and Soskice, 2006). Most importantly, the welfare state as an institution itself also shapes preferences regarding the welfare state and therefore future social policy outcomes (Korpi and Palme, 1998). In the tradition of historical institutionalism, welfare state institutions create path dependence through policy-feedbacks and increasing returns (see also Chapter 3).[5]

At the end of this brief review of literature on the Golden Age of welfare state development, it is crucial to emphasize that, first, the focus here was on explaining welfare state *expansion* and, second, that welfare state expansion took place in an environment of industrialization and relatively clear cleavage structures in national politics that became crystallized in party alignments. Especially three of the four

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[5]The role of institutions is not the main focus of this brief literature review. For an extensive discussion on how institutions can create increasing returns and path dependence see Pierson (2000; 2004). For a more specific focus on the role of institutions in social policy see Weir, Orloff, and Skocpol (1988) and Immergut (1992).

cleavages identified in Lipset and Rokkan's (1967) groundbreaking study are of particular importance in explaining welfare state support. The strong cleavage between capital and labor as a result of industrialization caused the formation of social democratic, working class parties and middle class, right-wing parties. The cleavage between the state and the church, that to a certain extent cut across the working class, was of immense relevance for the emergence of strong Christian democratic parties in most Continental European countries. In a more recent account, Manow (2015) emphasizes also the importance of this cleavage for the development of the party system and the welfare state in Southern Europe. Owing to the absence of a real religious cleavage in Scandinavian countries, but the presence of a relatively sharp urban-rural cleavage, agrarian instead of Christian democratic parties emerged. Thus, based on the presence or absence of certain cleavages, different political parties surfaced and institutionalized over time. Overall, there were relatively homogeneous core constituencies of each party with clear positions on socio-economic, distributive issues: social democratic parties and unions, to a certain extent also agrarian parties in Scandinavia, as the strongest advocates of welfare state expansion, Christian democratic parties as agents of a very peculiar welfare state version and, finally, secular, right-wing parties as opponents of expansive welfare state reforms.

2.1.5 Old Politics, New Politics or New Welfare States?

Whereas the Golden Age of welfare state expansion has been characterized by industrialization and strong economic growth, the period since the 1970s is marked by the severe structural changes that led to new questions regarding the future of the welfare state. The discussion has shifted away from explaining welfare state expansion to an increased focused on retrenchment, recalibration, resilience or dualization. At least three different strands of literature can be identified that each try to cope with changing circumstances brought about by structural changes.

First, one strand of literature has claimed that there are still basically the same mechanisms at work that caused welfare state expansion in the Golden Age. In the tradition of the power resources approach, Walter Korpi and Joakim Palme (2003) have contended that power resources and class-related distributive struggles remain as relevant in the context of welfare state retrenchment as in the Golden Age. Other studies have continuously found a strong and significant impact of working class strength (either unions or social democratic parties) on welfare state spending or the degree of redistribution (Bradley et al., 2003; Pontusson and Rueda, 2010; Kenworthy and Pontusson, 2005). Finally, Evelyne Huber and John D. Stephens (2001) have claimed that the working class is still relevant in shaping welfare state

outcomes, but it does it so to a lesser extent. For the most part, all these studies have still considered traditional, *old politics* at work in explaining welfare state development.

Second, the influential thesis of a *New Politics of the Welfare State* by Paul Pierson (1996; 2001) has shifted the focus from welfare state expansion to welfare state retrenchment. Since the 1970s, governments in advanced capitalist democracies have tried to cope with sluggish economic growth, higher unemployment, rising deficits, population aging. In this "era of permanent austerity", cost containment of welfare states has become the primary goal of most countries. He has argued that the politics of welfare state retrenchment is quite different, and therefore *new*, than the *old* politics of welfare state expansion. Whereas old politics was about the introduction of *popular* social policies, new politics, on the contrary, is about pursuing *unpopular* policies of retrenchment. In order to explain unpopular retrenchment, traditional theories focusing on economic factors or working class power are not very useful. Building on the institutionalist argument that welfare states in the Golden Age have created their own support constituencies and that institutional change is highly path dependent and difficult to achieve due to policy feedbacks, he has argued that the new politics is mainly about blame avoidance for unpopular policies. Since cutbacks in social policies tend to be highly unpopular, governments only engage in retrenchment under certain circumstances. First, if they can minimize the costs of electoral punishment. Second, if they are able to frame reforms as necessary to save the welfare state in a context of budgetary crises. Third, if they are able to lower the visibility of unpopular reforms by hiding their responsibility in the policy process. Finally, if they can blame other institutions, such as the European Union, for forcing them to implement reforms. In summary, the core claim of the new politics literature is that "frontal assaults on the welfare state carry tremendous electoral risks" (Pierson, 1996, p. 178) and therefore "contemporary politics of the welfare state is the politics of blame avoidance" (Pierson, 1996, p. 179). Since blame avoidance is only possible under certain circumstances, institutional stickiness tends to prevail over retrenchment, welfare states are expected to remain fairly resilient to changes.

Third, while acknowledging the new socio-economic context, another strand of literature has focused less on welfare state retrenchment but rather on the multidimensionality of welfare state reforms. Instead of "new politics", they have emphasized the "new welfare state". In their book volume *The Politics of the New Welfare State*, Giuliano Bonoli and David Natali (2012b) have argued that we should move beyond a narrow focus on expansion versus retrenchment, but rather look at multiple dimension the welfare state can be reformed, most importantly with regards to ris-

ing new social risks groups. Over the last decades, welfare states have incorporated new set of functions and policy tools that aim to alleviate new social problems that have occurred due to structural change. This reorientation in social policy-making has been captured by terms such as social investment (Hemerijck, 2013; Morel et al., 2012a), new social risk policies (Taylor-Gooby, 2004; Bonoli, 2005; Armingeon and Bonoli, 2007; Häusermann, 2012), or flexicurity (Wilthagen and Tros, 2004; Viebrock and Clasen, 2009). The "new welfare state" approach discusses how the welfare state is severely constrained by limited financial resources and increasing social demands. That is why some have even argued that the politics of welfare state reforms have transformed from a positive- to a zero-sum game (Levy, 1999; Häusermann, 2010). This means that governments increasingly enact reforms that improve only the situation of certain social groups while worsening that of others. Instead of focusing on an unlikely rollback of the welfare state, this strand argues that multidimensional reform packages might overcome previously existing equilibrium states of reform deadlock as distinct social groups are unequally affected by the reforms. This opens up new possibilities for the reconfiguration of progressive political majorities that turn "vice into virtue" (Levy, 1999). The multidimensionality of reforms therefore creates the contingencies where political exchanges and modernizing compromises (Häusermann, 2010) are possible which result in welfare state recalibration and not pure retrenchment. Contrary to the "new politics" literature, the "new welfare state" literature claims that retrenchment is not the only game in town.

2.1.6   Shortcomings of the Existing Literature

In the current literature, there are essentially four major shortcomings that so far have been only insufficiently addressed and should be integrated into a coherent theoretical framework. The first one concerns the multidimensional nature of most welfare state reforms (the dependent variable so to speak), the second one relates to the transformation of political parties (the explanatory variable), the third one is about social policy preferences and priorities, and the fourth one is a methodological critique.

First, most studies still focus theoretically on a crude distinction between expansion and retrenchment and empirically mainly work with aggregate spending data. If we look at the development of aggregate social spending over time, we clearly see a strong rise during the Golden Age and then spending starts to level off over time. This has important implications regarding the question how we analyze welfare state development. Welfare state reforms are increasingly zero-sum games where some social groups can only improve their situations at the cost of others. I

will argue that the multidimensional nature of reforms in the age of austerity puts distributive conflict center stage. Governments face a dilemma: On the one hand, there is a strong constituency who wants to maintain or even expand traditional social protection systems. On the other hand, there are demands to recalibrate welfare state institutions to meet the demand of new social risks. Consequently, welfare state reforms should no longer be analyzed merely in terms of a crude distinction between expansion and retrenchment, but rather in terms of the *distributional design* of welfare states. The crucial question we have to ask is who gets what in times of austerity?

The second shortcoming in the literature concerns the conceptualization of the role of political parties. Most studies still simply equate the left with welfare state expansion and the right with retrenchment. The basic assumption behind this simplification is that the working class is said to favor redistribution and a strong welfare state and therefore votes for social democratic parties. This simplistic assumption on the working class as the core constituency of social democratic parties, however, hardly corresponds to contemporary voter-party linkages. Structural change has profoundly altered the occupational structure, the political preferences of social groups and their voting behavior. As a result, neither the middle class nor the working class should be conceptualized as a homogeneous, unitary actor with a common set of political preferences for redistribution and a generous welfare state anymore. This has major implications for the understanding of how parties reform the welfare state. In order to explain reform strategies of political parties it is crucial to also look more throughly at transformation on the demand-side of politics.

The third shortcoming relates to the literature studying policy preference. Most existing research on public opinion towards welfare state recalibration is limited by its empirical foundation. More specifically, most research asks about attitudes towards individual social policies, but these unidimensional questions fail to capture the importance of trade-offs and priorities inherent in the multidimensional recalibration of the welfare state. In order to fully appreciate the underlying preference structure of the public and possible subgroup differences, we need to improve the study of preferences towards welfare state recalibration in a way that it allows us to tease out citizen's preferences towards multidimensional policy trade-offs.

Finally, the fourth shortcoming is methodological and relates to the common "dependent variable problem in welfare state research". Most studies on partisanship differences in welfare state research rely on simple aggregate spending data or welfare state entitlement data. Whereas the latter is a very specialized measure for only two small (and over time shrinking) groups, the former is confounded by a variety

of other factors. In both instances it is difficult to get a complete picture on social policy development or not misleading partisanship effects. In addition, it is difficult to assess welfare state recalibration with such general measures. Therefore, we need a new measure that is more closely related to the theoretical conceptualization of welfare state recalibration.

The remainder of this chapter will combine these different strands of literature into one theoretical framework from which can be derived empirically testable hypotheses. The next section will discuss the relevance of the new socio-economic context caused by the transition from the industrial to the service economy, how this affects the welfare state, and how we can conceptually analyze welfare state reforms. Subsequently, it will be discussed how structural changes has also affected political preferences and the transformation of party electorates and how this affects the politics of welfare state reforms. Finally, the last section will conclude.

2.2 The Politics of Welfare State Recalibration

The two consecutive oil crises and the period of stagflation in the 1970s (1973 and 1979) are commonly seen as exogenous economic shocks that heralded the end of the Golden Age of welfare capitalism and the advent of a new series of large-scale structural changes that profoundly altered the economic and societal structure. While the Golden Age of welfare state development has been characterized by relatively clear positions of political parties with stable core constituencies in an overall favorable context of industrialization and economic growth, long-term structural processes, such as deindustrialization, educational expansion and female employment growth, caused profound transformations in all of these areas.

There are at least three reasons why the structural change from an industrial to a service economy is of exceptional importance for the research on the politics of welfare state reforms. First, the transition to the service economy alters the *economic context* within which welfare state reforms occur. Second, the rise of the service economy changes needs and demands for social protection, reveals *institutional frictions and new social risks* in a welfare state built on the premise of an industrial society. Third, structural change also reshapes *voter-party alignments* originally developed in an industrial society by transforming the occupational structure, the political preferences of social groups and their voting behavior. The next section is on the new economic context. Institutional frictions and new social risk as well as the transformation of voter-party alignments will be discussed in the subsequent sections.

2.2.1   Structural Change and the Rise of New Social Risks

The new economic context is first and foremost characterized by the structural change from a predominantly industrial to an increasingly post-industrial economy. Figure 2.1 shows the evolution of employment shares in industry and services from the 1960 to 2010 for 16 Western European countries. In the 1960s, employment in industry was as common as in services, each employing roughly 40 percent of total civilian employment while the remaining 20 percent were employed in agriculture.[6] 50 years later, employment in industry went down to 20 percent, while employment in services surpassed 70 percent. By end of the century, employment in service sector was more than three times higher than in industrial sector.

Moreover, Figure 2.1 also reveals interesting variations across countries. Although the general trend towards a service economy is visible in all countries, there are differences with regards to how fast and to what extent deindustrialization and the transition to the service economy took place. Once highly industrialized countries in the 1960s, such as Germany, Great Britain and Belgium, deindustrialized at a very different pace. For example, Germany's high share of industrial employment outnumbered service employment until the late 1970s, whereas in Great Britain employment in the industrial sector declined much faster and service employment earlier overtook industrial employment. Then there are also three countries, Greece, Ireland and Italy, where the process of industrialization was still ongoing in the 1960s and 1970s and subsequently deindustrialized later than the other Western European countries.[7] But the most striking finding in Figure 2.1 is the cross-country pattern in deindustrialization. In the 1960s, all countries were extremely close to the diagonal indicating similar employment shares in industry and services. Then there is a period of divergence, where countries deindustrialize at a different pace. Finally, from the 2000s onwards, countries have all a very similar employment share in industry and only differ with regards to their employment share in services. These findings are of course at a very aggregate level of only three sectors and fail to further distinguish between different subsectors. Especially regarding the heterogeneous nature of the service sector (e.g. high-skilled versus low-skilled service jobs), it is crucial to understand not just the quantity but also the *quality* of service sector expansion. However, this is beyond the scope of this theoretical chapter.

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[6]Figure A.2 in the appendix shows the development for all three economic sectors (including agriculture) for each country separately.

[7]Greece overall remains somewhat an outlier, where the employment share of the industrial sector has changed only marginally over time and the agricultural sector played an important role until the late 1970s (see Figure A.2 in the appendix).
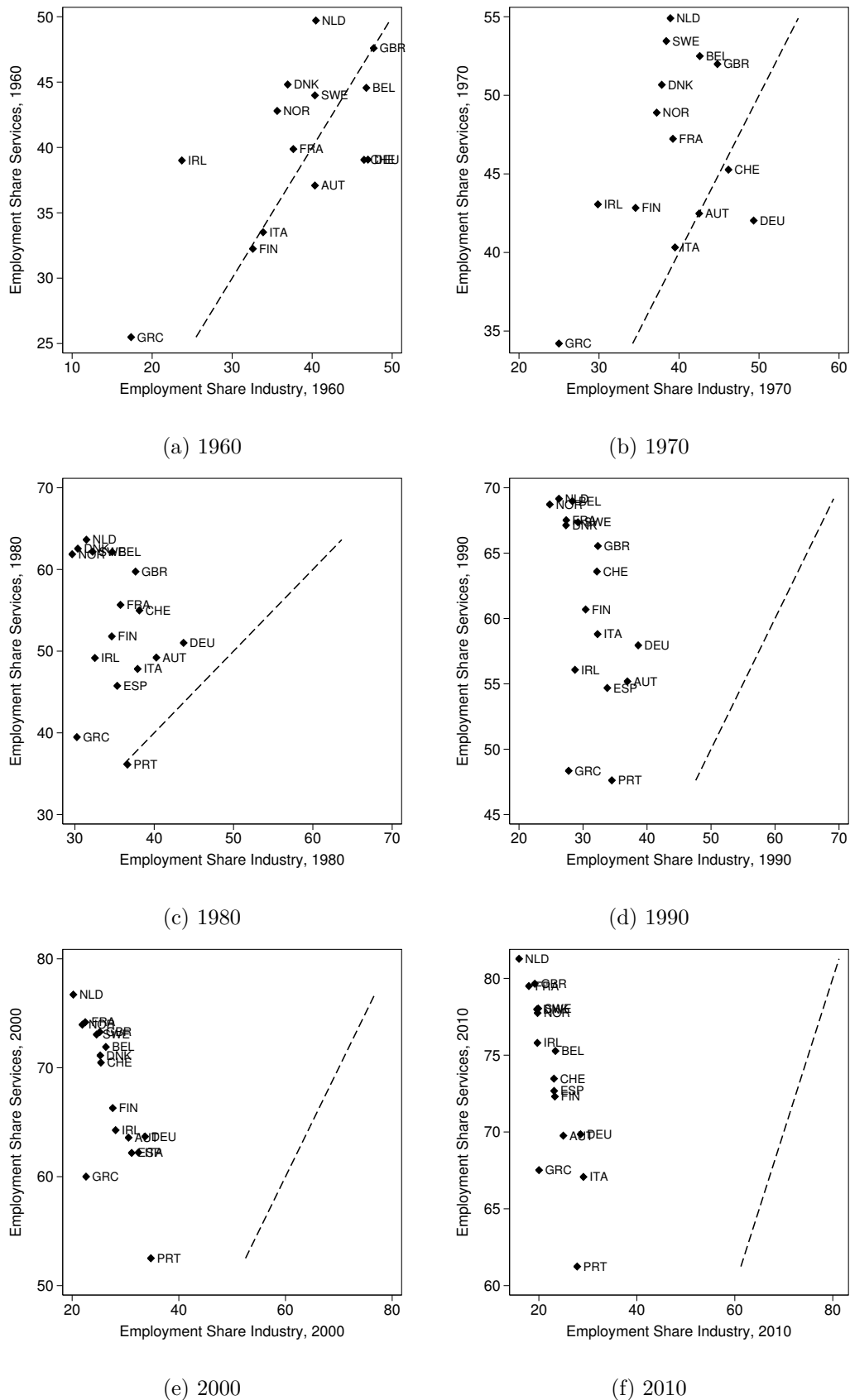
Figure 2.1: Employment shares in industry and services as a percentage of total civilian employment at six points in time, 1960-2010.

Notes: The diagonal represents an equal share of employment in industry and services. Calculations based on data from Armingeon et al. (2018).

By itself, deindustrialization and the transition to the service economy would not be a problem if it were not associated in the literature with a series of negative economic trends. The most famous argument is certainly Baumol's (1967) "cost-disease problem" of the service sector, which claims that the growth of the service sector is negatively related to economic growth. It is based on the assumption that productivity gains in the service sector are less likely (and if then lower) than in the industrial sector of the economy. Thus, with an increasing share of service employment, economic growth should decline. Figure 2.2 gives some empirical support to the proposed relationship. The share of employment in the industry is positively correlated with economic growth, whereas the share of employment in the service sector is negatively associated with economic growth. Obviously, a bivariate correlation is not causation. Later research has clearly demonstrated that economic growth depends mainly on the *type* of service sector jobs. Some parts of the service sector are exceptionally productive while in others productivity gains are less likely (Wren et al., 2013). Be that as it may, what is important here is not whether there is a direct relationship between service sector employment and economic growth, but rather that economic growth is in constant decline since the 1970s. In addition to declining economic growth since the 1970s, the literature also shows a rise in inequality (Kenworthy and Pontusson, 2005), unemployment and labor market precarity (De Grip et al., 1997; Oesch, 2006), and tighter fiscal constraints severely reduce government's room to maneuver. In this context, Torben Iversen and Anne Wren (1998) advanced the argument of the *Trilemma of the Service Economy*. Governments are confronted with a three-way choice between income equality, employment growth and fiscal discipline. For governments it is only possible to pursue two of these goals at the same time at the expense of the third one.[8] They describe similar roads for the different welfare regime types like Gøsta Esping-Andersen (1999) in his seminal work on the *Social Foundations of Postindustrial Economies*. The social democratic road combines employment growth with income equality at the cost of fiscal discipline. The conservative road combines income equality with fiscal discipline at the cost of employment growth. The liberal road combines employment growth with fiscal discipline at the cost of income equality. Overall, the new austere economic context brought about by structural change seems to have severely limited the possibility of welfare state expansion.

The transition to the service economy has gone hand in hand with three other profound transformations: demographic change, educational expansion and female

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[8]This is loosely connected to the trilemma of the word economy famously advanced by Rodrik (2011), though latter is more directly related to globalization than to the transition to the service economy.

(a) Industry   (b) Services
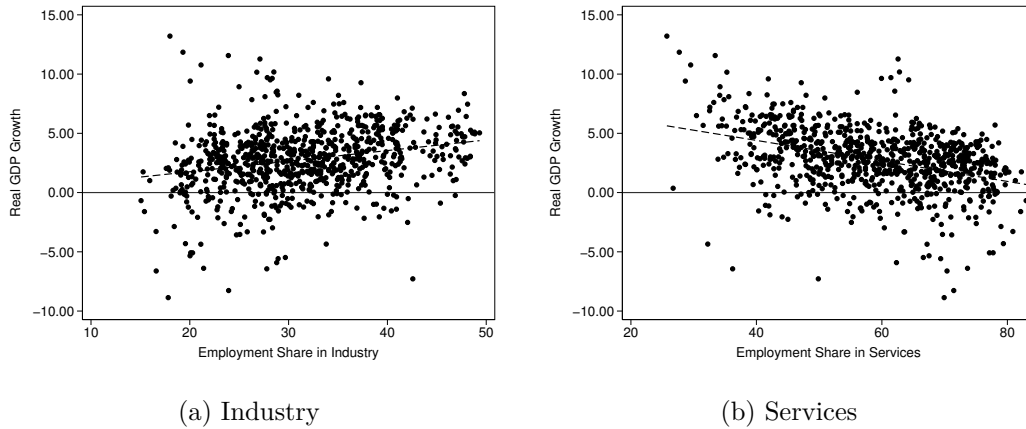
Figure 2.2: Relationship between economic growth and size of industrial and service sector, 1960-2013

Notes: The dashed line indicated the quadratic-fitted relationship between the two variables. Countries included are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and United Kingdom. Calculations based on data from Armingeon et al. (2018).

employment growth.[9] First, the transition from high mortality and high fertility rates to low mortality and low fertility in almost all Western European countries has caused massive demographic change (Bloom and Canning, 2004). The rising longevity results in an increasing demand for pensions and has the potential to crowd out other social spending in times of limited resources. Second, the rise of the service economy generates a demand for new skills and educational expansion (Iversen and Soskice, 2015). The move from fordism to the knowledge economy places a much greater emphasis on the importance of education. Recent studies have shown that the technological change associated with the transition to the service economy is skill-biased. While there appears to be a steady loss of jobs in the middle of the skill spectrum, both low- and high-skilled jobs are increasing. Labor economics have termed this process job polarization (Autor et al., 2003; Goos et al., 2009), yet others have argued that it is rather a process of polarized upgrading (Oesch and Rodriguez Menes, 2010). Most importantly, the rise of low-paid, low-quality jobs under atypical employment contracts (e.g. part-time or temporary work) poses new questions on how these labor market outsiders are can be protected and how their access to traditional welfare state arrangements can be guaranteed (Emmenegger et al., 2012). Finally, the increasing demand for labor in the service sector to sustain

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[9]The argument is not that deindustrialization and the transition to the service economy has necessarily caused these other transformations, but merely that they have taken place at more or less the same point in time.

the long-term viability of the welfare state, in conjunction with overall value changes on the role of women in the society (Inglehart, 1997), has caused an immense increase in female labor market employment (Nelson and Stephens, 2013).[10] This has put new issues on the welfare state agenda, such as the reconciliation of work and family life, care for frail relatives, single parenthood, and access to traditional social protection systems of new social risk groups due to their unstable work biographies (Bonoli, 2005).

To conclude this section, large-scale structural changes of deindustrialization, service sector transition, demographic change, educational expansion and female employment growth have led, on the one hand, to a new economic context of austerity and, on the other hand, to rise of new social demands. The next section will further elaborate on the rise of new social risks, how they create institutional frictions in the welfare state architecture and how welfare state reforms can be conceptualized in a multidimensional perspective.

2.2.2 New Social Risks and Multidimensional Welfare State Reforms

Both Gøsta Esping-Andersen (1999) and Jacob S. Hacker (2004) have argued that the real crisis of contemporary welfare states lies in the growing misfit between existing institutional configurations and exogenous socio-economic change. This "policy drift" (Hacker, 2004) leads to a situation where contemporary welfare states "have their origins in, and mirror, a society that no longer obtains" (Esping-Andersen, 1999, p. 5). Drawing from this line of research (Esping-Andersen, 1999; Hacker, 2004; Taylor-Gooby, 2004; Bonoli, 2005, 2007; Armingeon and Bonoli, 2007), I argue that there are two main conflict lines in welfare state politics. On the one hand, there is a growing conflict about the general *orientation* of the welfare state between traditional instruments of social protection and new instruments of the welfare state. This can be broadly conceptualized as a conflict between a protection- or an investment-oriented welfare state (Morel et al., 2012b; Hemerijck, 2013; Beramendi et al., 2015).[11] On the other hand, there is a more fine-grained distributive conflict between policies directed towards *old social risk groups* and those directed towards *new social risk groups*(Taylor-Gooby, 2004; Bonoli, 2005). More specifically

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[10]This has not been a uniform process across all countries. For example, Afonso (2018) has shown that most Scandinavian countries mobilized women into the workforce whereas most Continental European countries have mobilized migrant workers.

[11]In this thesis, protection refers to both typical consumption policies (passive labor market policy, early retirement, short-time work schemes) and regulation policies (employment protection legislation) and form the traditional dimension of the welfare state.

in the case of labor market reforms, this conflict is between labor market insiders and labor market outsiders (Rueda, 2005; Emmenegger et al., 2012). I will discuss in more detail the conceptualization of welfare state change along these two main conflict lines in Chapter 4. But it is important to emphasize already here that these two conflicts do only partially overlap with each other.

Old social risks relate to the needs of an industrial society and try to insulate against income or job loss due to sickness, invalidity, old age or unemployment. Social policies try to reduce the dependency of (male) wage earners on markets through unemployment benefits, old-age insurance and employment protection legislation (Bonoli, 2007). The goal of these policies is decommodification (Esping-Andersen, 1990). These policies are constructed on the premise of an industrial society with stable, full-time employment and nuclear family structures, latter associated with a strong division of labor between men and women.

In stark contrast, *new social risks* are "risks that people nowadays face in the course of their lives as a result of the economic and social changes associated with the transition to a post-industrial society" (Taylor-Gooby, 2004, p. 2). As already discussed in the previous section, these risk are the result of long-term structural changes, such as deindustrialization, tertiarization of employment, the feminization of labor markets, family instability and the deregulation of standard employment (Bonoli, 2005). The literature has identified the following groups as particularly prone to new social risks: young, low-skilled, female, low-income, migrant, single parent, atypically employed and long-term unemployed (Taylor-Gooby, 2004; Bonoli, 2005, 2007). There is a diversity of social policies that try to insulate against these new social risks. In order to improve the reconciliation between work and family life and to cope with single parenthood, more extensive childcare policies but also active labor market policies have been developed (Bonoli, 2013). Job market difficulties that arise from possessing low or obsolete skills have been countered by active labor market policies and specific educational policies that aim at life-long learning. Finally, as a result of the rise of atypical employment biographies in postindustrial societes, there are policies aiming to improve their insufficient coverage by traditional social security arrangements (e.g. unemployment benefits or old-age insurance) that were built on the premise of secure, full-time employment (Bonoli, 2005; Häusermann, 2012).

Admittedly, there is a strong overlap in the sense that most social investment policies do benefit new social risk groups. The situation is more complex with regards to traditional social protection systems. Although it is true that these policies were designed for old social risk groups, it is not impossible to recalibrate these

institutions to incorporate also the needs of new social risk groups. Let us take the example of the highly controversial *Jobs Acts* under the Renzi government in Italy. In 2015, Matteo Renzi managed to push through parliament a reform that aimed to balance a neoliberal reform of employment protection legislation with a very progressive expansion of unemployment benefits and some smaller improvements in active labor market policies (Sacchi, 2018). The first two parts of the reform clearly affected only the protection dimension of the welfare state (EPL and PLMP), but the distributive effects of those policies has been altered. Prior to the reform, it was not only very difficult for non-standard workers to even access the Italian unemployment benefit system due to the high eligibility requirements and long reference periods, but benefit duration also depended on the age of the recipient. The *Jobs Act* improved the eligibility and duration of unemployment benefits for labor market outsiders, thereby making the Italian unemployment benefit system "one of the most generous and inclusive in Europe" (Sacchi, 2018, p. 37). This example shows that an exclusive focus on the general *orientation* of the welfare state between consumption and investment would fail to recognize the important changes in the distributive effects within one dimension of welfare state change. Whereas employment protection for insider (old social risk group) was deregulated, access and duration of unemployment benefits were improved for outsiders (new social risk group). Even though Renzi's reform did only marginally improve the future-oriented investment dimension of the welfare state, it was nonetheless a path-breaking reform that significantly improved the protection of labor market outsiders. Consequently, it is essential to distinguish between the general *orientation* of the welfare state and the more fine-grained *distributive effects* on old and new social risk groups.

But why is this distinction between old social risk groups and new social risk groups in a postindustrial economy so important? Figure 2.3 shows that the enormous expansion of the welfare state in the Golden Age of the postwar years has been an extraordinary feature of advanced industrial democracies. But we also clearly see that aggregate social spending starts to level off over time. Ever since the economic crisis in the 1970s and the transition to a postindustrial society a further expansion of the welfare state seems extremely difficult to achieve. This has important implications regarding the question how we analyze welfare state change. In this era of permanent austerity (Pierson, 2001), the politics of welfare state reforms have transformed from a positive towards a zero-sum game (Levy, 1999; Häusermann, 2010). As the example of Renzi's *Jobs Act* strikingly demonstrates, governments increasingly enact reforms that improve only the situation of certain social groups at the cost of others. I argue that this puts distributive conflicts center stage. Recent studies have shown that governments face a dilemma (Levy, 1999; Rhodes, 2001;
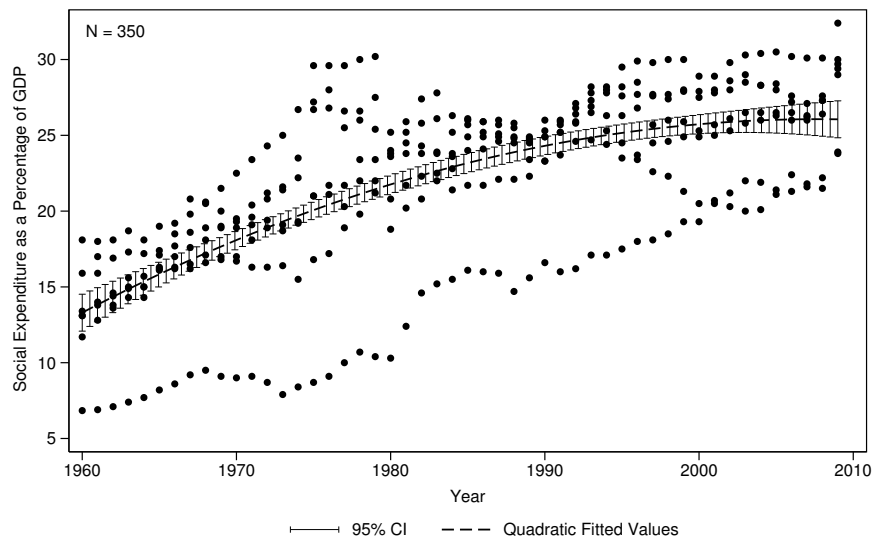
Figure 2.3: Social expenditure in Continental and Southern Europe, 1960-2010
Notes: The dashed line indicates the quadratic-fitted time trend. Countries included are Austria, Belgium, France, Germany, Greece, Italy, the Netherlands, Portugal, Spain. Calculations based on data from the OECD Employment Database and OECD Employment Outlook.

Häusermann, 2006; Häusermann, 2010; Bonoli and Natali, 2012b; Iversen and Soskice, 2015; Gingrich and Häusermann, 2015): On the one hand, there are demands to recalibrate welfare state institutions to the needs of new social risk groups. On the other hand, there is a strong constituency who wants to maintain or even expand traditional social protection systems such as passive labor market policies and rigid employment protection legislation for old social risk groups.

One might rightly object to the strong notion of trade-offs and the assumption that most reforms have to be zero-sum games in times of austerity. From a theoretical point of view, there is no need to design zero-sum reforms, because social policies can be complementary and generate Pareto superiority. This is what Hemerijck (2017, 2018) calls the "social investment life course multiplier". The essence of Hemerijck's argument is that an effective combination of stock, flow and buffer policies lead to higher employment rates, productivity and, eventually, higher economic growth rates. Following his logic, there does not need to be a strong conflict between protection and investment policies. For example, investing in children, work-family reconciliation policies and active labor market policies, can save the pensions of tomorrow. In a similar vein, Keynesian theorist would argue that governments can exploit a fiscal multiplier effect if spending is allocated in a way that it increases

the general level of economic activity. If the fiscal multiplier is positive and exceeds one, change in aggregate output is a multiple of the initial change in government spending (Bailly, 2000).

Even though I tend to agree with both claims on a theoretical level, I contend that in both cases there is a considerable time lag associated between social investment and actual returns. This inter-temporal trade-off, as Jacobs (2011) convincingly shows, makes it necessary for governments to scale down protection spending in order to spend more on investment. His study, and more recently the work of Ferrera (2017) shows, that reforms improving welfare in the long-term at the cost of reforms focusing on the short-term are not impossible but still very difficult to achieve. The main problem remains that holding protection policies constant and increasing investment policies might, in the long-run, result in a positive fiscal multiplier or a positive life course multiplier, but it would still lead to an increase of the public deficit in the short-run. As this seems in most countries not to be a politically feasible option, I proceed on the assumption that welfare state politics nowadays involves tough choices between protection- and investment policies on the one hand, and between improving the situation of old social risk groups and new social risk groups on the other hand. These choices do not necessarily have to be strictly zero-sum, but they surely have distributive consequences and a tendency towards being zero-sum.

Consequently, welfare state reforms should no longer be analyzed merely in terms of a crude distinction between retrenchment and expansion in the size and generosity of social policies, but rather in terms of their *welfare state orientation* and its *distributional effects* on old and new social risk groups. The questions are therefore twofold. First, how has the general *orientation* of the welfare state changes over time? Second, what are the *distributive effects* of welfare state reforms on old and new social risk groups? Put simply, it is about the recalibration of the welfare state and about who gets what in the age of austerity.

In conclusion, the main argument of this section is that we need to move beyond the simplistic view of expansion versus retrenchment in order to understand the transformation of welfare states over the last decades. If we continue to look at the old, simple distinction we are not able to capture the interesting evolution of welfare states. Chapter 4 will discuss in more detail the theoretical conceptualization behind these two main conflict lines in welfare state politics and how they can be measured empirically. The chapter will propose to classify welfare state reforms in two-dimensional policy-spaces. By mapping welfare state reforms like this, we can identify reform patterns both over time (longitudinal perspective) and across

countries (cross-sectional perspective). Based on these insights, one descriptive hypothesis for the empirical part can be derived:

Hypothesis 1 *Once we look at the multidimensional nature of welfare state transformation, we see that (a) there is neither a clear trend towards retrenchment nor towards expansion. Instead, there are clear trade-offs involved in the transformation of welfare states between investment, consumption, and regulation.*

The goal of this dissertation is not only to look purely at descriptive changes. The main interest is on the *politics* of welfare state reforms. The role of political parties and, more specifically, if and how they implement different welfare state reforms is a question the next section turns to.

2.2.3   The Transformation of the Social Democratic Electorate

As discussed at the beginning of this chapter, most approaches to explain welfare state development have a very static conception of classes and occupational groups. Many studies still simply equate social democratic parties with welfare state expansion due their working class constituency and secular, right-wing parties with retrenchment due to their middle class constituency. While this might have been true in the Golden Age, it is certainly a long shot to claim that this still holds today. More recently, two strands of literature have forcefully shown that these assumptions behind the traditional power resources approach do not hold anymore. Over the last decades, social democratic parties have been confronted with multiple internal divisions that have created tensions within their electorate, which have made predictions about their role in the politics of the welfare state more difficult. The two most important divisions in their electoral constituencies are, on the one hand, between the working class and the middle class, and, on the other hand, between labor market insiders and labor market outsiders.

From Working Class to Middle Class Parties

The literature on occupational change (Kriesi, 1998; Oesch, 2006) and the socio-structural transformation of party electorates (Kitschelt, 1994; Kriesi et al., 2008; Rennwald and Evans, 2014; Gingrich and Häusermann, 2015; Oesch and Rennwald, 2018) shows that structural change has profoundly altered voter's preferences as well as the socio-structural composition of party electorates over recent decades. According to Oesch (2006), large-scale structural processes of tertiarization (service sector

expansion), educational expansion (educational upgrading) and female employment growth have led to a new horizontal divide within the middle class, thereby creating a *old middle class* consisting of employers, petty bourgeoisie and technical experts and a *new middle class* composed of high-skilled employees who work in private or public jobs with an interpersonal (face-to-face service) work logic. Moreover, the old middle class primarily votes for moderate right-wing parties, whereas the new middle class has become a core constituency of social democratic parties in many advanced capitalist countries (Oesch, 2008a,b; Kitschelt, 1994).

In addition, these large-scale structural transformations have led to a new horizontal divide within the working class. Members of the *old working class* consist of relatively low-skilled, blue-collar production workers (e.g. mechanics, carpenters, assemblers, machine operators) (Oesch, 2006). Once the traditional core electorate of social democratic parties, now they have increasingly abandoned social democratic parties and have moved towards populist radical right parties (Oesch, 2008a,b; Kriesi et al., 2008). On the other hand, less is known about the political preferences of the *new working class*, consisting of relatively low-skilled workers in the service sector (e.g. cooks, shop assistants, home helpers, waiters) (Oesch, 2006).

As a result, traditional voter-party alignments once developed in an industrial society (Lipset and Rokkan, 1967) have not only realigned but have also become more differentiated and therefore more complex. Neither the middle class nor the working class should be conceptualized as a homogeneous, unitary actor anymore. As more recent research has shown (Beramendi et al., 2015; Gingrich and Häusermann, 2015; Iversen and Soskice, 2015; Manow et al., 2018), this often neglected transformation of voter-party alignments has major implications for the understanding of how parties reform the welfare state.

The Insider-Outsider Divide

In his seminal article and the following book *Social Democracy Inside Out*, David Rueda (2005, 2007) explores the idea whether social democratic parties still cater to the needs of the most vulnerable sectors of the labor market or if they have abandoned the idea of being the defenders of labor. He criticizes the assumption that the working classes are disproportionally affected by unemployment and that social democratic parties therefore have an incentive to expand labor market policies which promote higher employment. According to Rueda, it is not labor as a whole which is disproportionally affected by unemployment. Drawing on the insider-outsider theory (Lindbeck and Snower, 1988), he disaggregates labor into those with secure

employment (insiders) and those without (outsiders). He claims that social democratic parties have strong reasons to consider only insiders their core constituency, whereas outsiders are politically less active and thus less relevant in electoral terms.

Rueda (2007) continues by arguing that social democratic parties support only labor market policies that favor insiders, whose main policy objective is to increase (or at least maintain) rigid employment protection for standard contracts. In the field of active and passive labor market policy, however, social democratic parties are not expected to have any impact, because these policies primarily favor outsiders and are therefore in conflict with the interests of their core constituency (the insiders). Thus, Rueda "flips the power-resource theory on its head by suggesting that powerful social democratic parties (...) may well promote, rather than inhibit, inequality" (Thelen, 2012, p. 149).

His work has not only sparked a notable scholarly debate on the role of social democratic parties in a predominately post-industrial economy, but it has also marked the starting point of much research on the politics of dualization. The strength of Rueda's argument is that he takes the changing nature of labor markets into account and tries to integrate the rising share of atypical employees into the insider-outsider framework. By disaggregating the interests of labor he sheds light on possible strategies of social democratic parties in labor market reforms as well as on the potential for intra-class conflict over certain labor market policies. Other studies, however, have arrived at more ambiguous findings and have shown that social democratic parties do not purely favor insiders in labor market reforms. Eichhorst and Marx (2011), for example, do not find any support of this claim in German labor market reforms over the past quarter-century, neither do Palier and Thelen (2010) in France and Germany nor does Marx (2012) in France. Yet, other studies argue that social democratic parties have prevented dualization with universalistic and redistributive policies (Palier and Thelen, 2010; Lupu and Pontusson, 2011) or through cooperation with encompassing unions (Obinger et al., 2012; Rathgeb, 2018; Durazzi et al., 2018).

A New Concept and Measure of Electoral Relevance

Apparently, there are contradictory findings in the literature regarding the role of social democratic parties in labor market reforms. In order to better understand how social democratic parties reform the welfare state, we need to assess more carefully the transformation of voter-party alignments with regards to the two division discussed above. Thus, we need to focus on *intra-party heterogeneity* instead of *inter-*

party heterogeneity that often implicitly assumes *intra-party homogeneity*. There has been some advancements recently, most notably by Gingrich and Häusermann (2015), which aimed to look more at intra-party heterogeneity. As Chapter 7 and 8 will discuss in more detail, all the current research still does not appropriately factor in all three relevant parameters necessary to fully assess intra-party heterogeneity.

In order to assess *intra-party heterogeneity* we need a measure of electoral relevance of each social group of interest. I propose a threefold argument to assess the electoral relevance. First, sheer group size: whether a certain social group is attractive depends on their size relative to other groups. Second, the attractiveness of a certain social group also depends on their electoral participation. If the group is only big in sheer numbers but only goes to the polls to small extent, it can be considered as less attractive and electorally relevant. Third, we have to look at their vote choice and calculate the electoral relevance of certain social groups for specific parties. The assessment of electoral relevance builds on earlier work by Axelrod (1972) to study what he called the "contribution to a coalition". The electoral relevance of a particular constituency for a specific party can be summarized as follows:

$$\text{Electoral relevance} = \frac{(\text{group size}_{it}) \text{ x } (\text{group turnout}_{it}) \text{ x } (\text{group vote share}_{it})}{(\text{national turnout}_t) \text{ x } (\text{national vote share}_t)}$$

The formula specifies how the three parameters size, turnout and vote share are combined and then divided by the product of the national turnout and national vote share in order to assess the total contribution of a given group i at time t. Most importantly, it also provides a straightforward handle to empirically compare the electoral relevance of one group i at time t.

To give an example of why this might matter for welfare state reforms, let's consider the social democratic parties. Some studies have shown that social democratic parties in Western Europe increasingly attract new middle class voters (Kitschelt, 1994; Kriesi, 1998; Gingrich and Häusermann, 2015; Oesch and Rennwald, 2018), who suffer from different social risks and have welfare state preferences that differ from the traditional core constituency of social democratic parties (blue-collar workers). Whereas the welfare state was built for blue-collar workers in stable, full-time employment, the new middle class demands social policies linked to new social risks (e.g. family policy, activation, social investment, increasing social security coverage for atypical work biographies). Under these circumstances, social democratic parties might not in all countries pursue similar welfare state reforms, but rather the character of welfare state reforms might depend on the relative electoral relevance of these

two groups for social democratic parties.These expectations lead to the following two hypotheses, one for each relevant social division:

Hypothesis 2 *The higher the electoral relevance of the middle class relative to the working class for the social democrats, the more social democrats will pursue a investment-oriented over a consumption-oriented reform agenda.*

Hypothesis 3 *The higher the electoral relevance of outsiders relative to insiders for the social democrats, the more social democrats will pursue a reform agenda favoring outsiders over insiders.*

In conclusion, parties may pursue over time different welfare state reforms, because they represent at times different social groups with different sets of preferences. In order to explain reform strategies of political parties it is crucial to look closer at the changing electoral relevance of social groups within the social democratic electorate.

2.2.4   Preference Divides

The previous two hypotheses on how the electoral relevance of occupational groups and insiders/outsiders affects labor market reforms under social democratic governments builds on one strong assumption. Namely, that there are observable preference divides between middle classes and working classes, on the one hand, and between insiders and outsiders, on the other hand.

Even though the *new politics of the welfare state* focus on endogenous growth of the welfare state has predicted that class divides are about to fade away (Pierson, 2001), studies on electoral realignment have shown that middle class and working class do differ in their preferences. Clear preference divides between the middle class and the working class have been identified with regards to more liberal-universalistic, cultural values (Kitschelt, 1994; Kriesi, 1998; Häusermann and Kriesi, 2015). However, there are strong reasons to believe that there are also significant preference divides with regards to the welfare state. In stark contrast to social consumption policies, the middle class has been identified as one of the main beneficiaries of social investment policies. Given this "Matthew effect" of social investment (Rigney, 2010; Cantillon, 2011; Nolan, 2013; Bonoli and Liechti, 2018), the likely supporters are the middle classes. On the other hand, social consumption policies are more likely to profit the working classes. In addition to the such an explanation based on material interest, Beramendi et al. (2015) have argued that the middle classes

are more willing to agree to the future-oriented logic of social investment, whereas the working classes clearly favor the more immediate benefits of social consumption. Following the logic of the literature on inter-temporal trade-offs (Jacobs, 2008, 2011; Jacobs and Matthews, 2012), the working classes are expected to less myopic. In other words, they have a much higher discount rate on future-oriented policies than the middle classes.

Hypothesis 4 *Working classes have a higher priority for consumption spending, whereas the middle classes favor investment spending.*

There is an broad literature discussing to what extent labor market insiders and outsiders differ in their welfare state preferences (Rueda, 2005, 2006, 2007; Emmenegger, 2009; Schwander and Häusermann, 2013; Häusermann et al., 2015). The preference divide between insiders and outsiders is more directly related to distributive consequences of labor market reforms than for occupational groups. I expect that in mature welfare states, distributive conflicts have become more about the distribution of resources to specific groups than about support for the welfare state in general (Busemeyer and Neimanns, 2017; Busemeyer and Garritzmann, 2017). Thus, specific policy constituencies should react very strongly to changes that affect them directly. In line with this reasoning, labor market outsiders should have a *narrow self-interest* in defending labor market policies from which they profit directly and this should be reflected in their higher priority for both passive and active labor market policy compared to any other social group.

Hypothesis 5 *Labor market outsiders have a much higher priority for passive and active labor market policy than any other social group.*

2.3   Conclusion

This theoretical chapter advances the argument that the politics of welfare state recalibration in the age of austerity are different from the politics of welfare state expansion during the Golden Age of the post-war years. Welfare state expansion during the Golden Age took place in a context of relatively clear positions of political parties with stable core constituencies in an overall favorable context of industrialization and strong economic growth. In stark contrast, the politics of welfare state recalibration shifts the focus towards multidimensional welfare state changes, which can only be explained if we also study in detail new social divides, changing political preferences and sweeping transformations party constituencies.
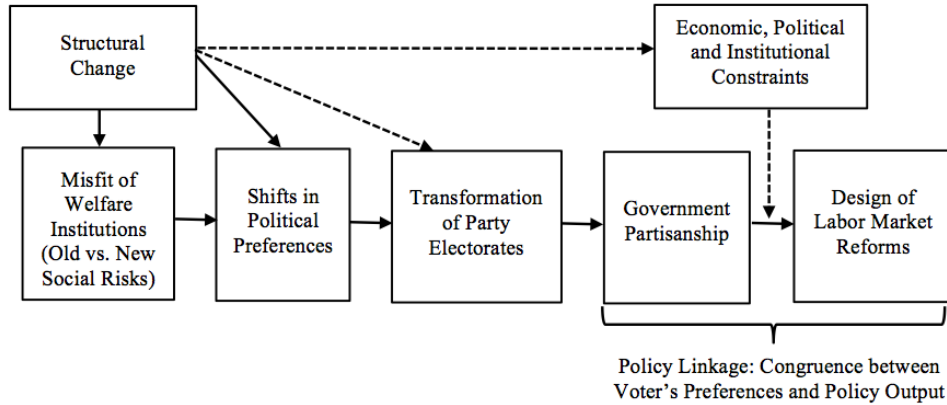
Figure 2.4: Stylized mechanism to explain welfare state recalibration

Figure 2.4 shows a stylized version of the whole argument. Since the 1970s, the transition to the service economy in conjunction with a series of concomitant structural and political changes has altered the economic context within which welfare state reforms occur. While increasing fiscal constraints have severely reduced the leeway of governments' policy-making, the rise of the service economy has also changed the needs and demands for social policy, revealing institutional frictions and new social risks. As a result of these processes, the main conflict lines in welfare politics are not anymore about expansion versus retrenchment, but about the recalibration of the welfare state along different *orientations* (consumption, investment, regulation) and along *distributive effects* of such policies on old and new social risk groups. Thus, in order to understand the politics of welfare state recalibration, we need to conceptualize the dependent variable of welfare state change in a multidimensional way and distinguish between different welfare state orientations and the distributive effects such policies entail. The first hypothesis therefore assumes that by looking at the multidimensional nature of welfare state transformation, we should neither see a trend to retrenchment nor expansion, but rather clear trade-offs between different dimensions of welfare state change.

The second part of the theoretical chapter has argued that social democratic parties are unlikely to all follow a uniform strategy of welfare state reforms. Instead, social democratic parties are expected to change their reform strategies depending on the relative electoral weight of different constituencies within their party. The two most important internal divisions social democratic parties are confronted with are between the working class and the middle class on the one hand, and between labor market insiders and labor market outsiders on the other hand. Depending on the electoral relevance of each social group, social democratic parties in government are expected to pursue labor market reforms largely in line with their electorally

more relevant constituencies. More specifically, I assume that the class divide is important for the broader *orientation* of welfare state change. I hypothesize that the higher the electoral relevance of the middle class relative to the working class for the social democrats, the more social democrats will pursue a investment-oriented over a consumption-oriented reform agenda. In addition, I suppose that the division between insider and outsider affects more directly the *distributive effects* of labor market reforms: The higher the electoral relevance of outsiders relative to insiders for the social democrats, the more social democrats will pursue a reform agenda favoring outsiders over insiders. Ultimately, this part is about the "policy linkage" (Dalton et al., 2011), namely to what extent parties are responsive to their voters and to what extent the policy output is congruent with voters' preferences.

In order to fully assess the policy linkage, we need to study the extent to which there are observable preference divides across occupational classes and social risk groups (insiders and outsiders). Building on the literature of electoral realignment and insider-outsider politics, I assume that the working class and the middle class as well as insiders and outsiders do differ in their policy preferences. The working classes are expected to have a higher priority for consumption spending, whereas the middle classes favor investment spending. Labor market outsiders are assumed to have a higher priority for passive and active labor market policy than any other social group.

Before moving on to the empirical part of this thesis, I want to stress that the link between government partisanship and the design of labor market reforms is also constrained by a variety of additional factors that have so far only been insufficiently addressed. Even if governing parties would like to reform the welfare state according to the demands of their pivotal voters, they are still confronted with multiple constraints to do so. Most of these constraints will be discussed in the respective empirical chapters, but it is important to already emphasize that they can be broadly summarized into economic, institutional, and political constraints. First, *economic constraints* can be further distinguished into short-/mid-term constraints and long-term constraints. Long-term economic constraints have resulted out of the processes of globalization and deindustrialization, though the empirical evidence is mixed to what extent these processes lead to welfare state expansion (compensation hypothesis) or to a rollback of the welfare state (efficiency hypothesis) (Cameron, 1978; Katzenstein, 1985; Rodrik, 1998; Iversen and Cusack, 2000; Garrett and Mitchell, 2001; Walter, 2010, 2017). Short-term economic constraints are result of common growth fluctuations in the economy, where tight fiscal resources and spiraling public deficits could open up a window of opportunity to justify "across the board cuts"

in social policy (Clasen et al., 2012), lead to dualization as governments protect core workers while deregulate at the margins (Palier and Thelen, 2010), or even result in a possible recalibration of welfare states (Hemerijck, 2013). Second, *institutional constraints* are not only political institutions that define the distribution of horizontal and vertical power, but also the institutional policy legacies of countries that to a certain extent defines the reforms on the political agenda and the feasibility of welfare state reforms more generally. Third, *political constraints* can come from government coalition effects (van Kersbergen, 1995; Arndt and van Kersbergen, 2015; Beramendi et al., 2015), from the power distribution within the parliament, from inside pressure due to party competition where mainstream parties face challenger parties from the far left and/or from the far right (Kitschelt, 1994; Rennwald and Evans, 2014; Watson, 2015; Manow, 2015; Manow et al., 2018), and from the process of Europeanization influencing welfare state reforms (Goetschy, 1999; Martinsen, 2005; Obinger et al., 2013). Many of the political constraints are already captured in my measure of electoral relevance, whereas the relevance of economic and institutional constraints will be discussed jointly in Chapter 5.

Chapter 3

Public Opinion on Welfare State Recalibration in Times of Austerity: Evidence from Survey Experiments

3.1 Introduction

A large literature has shown that public opinion can have a strong conditioning effect on policy-makers (Brooks and Manza, 2007; Page and Shapiro, 1983, 1992). In liberal democracies, citizens can hold governments accountable, establishing a close link between policy and public opinion as governments anticipate the public's reaction to policy changes at the next election (Stimson et al., 1995). As a result policy-makers do respond to changing preferences of voters over time (Jacobs, 1993; Wlezien, 1995). Public opinion can be an important variable affecting public policies, especially if politics is loud and noisy as opposed to quiet (Culpepper, 2013). In advanced capitalist democracies, welfare issues are a constant source of political debate and we should therefore expect public opinion to influence the development and recalibration of the welfare state. Not necessarily in the most direct way possible as a "public thermostat" (Wlezien, 1995, 2004; Jennings, 2009), but rather through the transmission of political parties which represent the preferences of their pivotal voters. Studying public opinion can thus help us to understand what kind of a social policies citizens demand in return for taxation and how citizen react to changes in the institutional design of welfare states.

Existing research indicates that most forms of government spending such as education, old-age pensions, labor market and family policies are very popular among the wider public. This omnipresent support for the welfare state is also mentioned as a major factor that explains why full-frontal attacks on major welfare state programs are difficult (Pierson, 2001; Brooks and Manza, 2007). As has been discussed in the theoretical part, the literature on the multidimensional nature of welfare politics has forcefully shown that the main issue of conflict does not only revolve around more or less general social spending *per se*, but rather around different welfare state orientations (Pierson, 2001; Häusermann, 2010; Häusermann, 2012; Morel et al., 2012b; Bonoli and Natali, 2012b).

Yet, the most existing research on public opinion towards welfare state recalibration is limited by its empirical foundation. Most research asks about attitudes towards individual social policies, but these unidimensional questions fail to capture priorities and trade-offs inherent in the multidimensional recalibration of the welfare state (Giger and Nelson, 2013). As Jacoby (1994, p. 338) already put it, "the underlying structures [of public opinion]...cannot be discerned from responses to a single survey item." This is especially true in times of "permanent austerity" (Pierson, 1998), when the debate among policy-makers and scholars is not primarily about more or less welfare state spending. An emerging literature therefore has attempted to study preferences in a two-dimensional setting. They show that preferences towards social investment are distinct from preferences towards more traditional, consumption-oriented social policies (Fossati and Häusermann, 2014; Beramendi et al., 2015; Busemeyer and Garritzmann, 2017; Busemeyer and Neimanns, 2017). Still, it remains unclear what shapes preferences towards social investment as opposed to other social policies. More specifically, these studies could not address differences in the support structure *within* different social investment and social consumption policies, because the maximum these studies could assess were preferences towards two-dimensional trade-offs. Moreover, there is still little evidence about possible differences in the support structure for those policies among occupational groups and insiders/outsiders.

In times of austerity, governments face multiple trade-offs between spending in different social policy areas. In order to address this weakness of the existing literature, I use two original survey experiments conducted in Germany, Italy, Spain and the United Kingdom in January 2018. First, I use a split-sample experiment to further test whether citizens change their preferences towards these social policy subfields, when they are confronted with trade-offs. Second, I use a conjoint analysis that simultaneously varies spending on six subfields of social policy including labor

market policy, education, family policy, and pensions. These survey experiments allow me to shed light on how citizens evaluate different forms of welfare state recalibration in different contexts. Moreover, possible preference and priority divides across different subgroups can be identified.

The remainder of this chapter is structured as follows. First, I briefly review the existing literature and develop the theoretical expectations with regards to the preferred forms of welfare state recalibration by citizens. The second part describes the two survey experiments and the third part presents the results. The final section concludes with a discussion of the broader implications of the findings.

3.2 Theory

3.3 Literature Review and Motivation

The potential shift from social consumption towards social investment has generated a new research agenda that attempts to understand the politics of social investment (Esping-Andersen, 2002a; Bonoli, 2005, 2013; Hemerijck, 2013; Morel et al., 2012b; Hemerijck, 2017). Initially, the literature focused on causes and effects of these new policies, but it hardly studied public preferences towards social investment. While some scholars analyzed preferences towards specific policies like higher education (e.g. Ansell, 2010; Garritzmann, 2016), childcare (e.g. Goerres and Tepe, 2010, 2012), or active labor market policies (e.g. Rueda, 2005), there was little analysis of social investment policies more generally.[1] This omission was partly due to a lack of data, which prevented scholars from analyzing preferences towards different types of social policies more carefully. Still, given that public opinion towards the welfare state is not unidimensional (van Oorschot and Meuleman, 2012; Roosma et al., 2013; Cavaillé and Trump, 2015), the literature was unable to fully analyze the politics of welfare state reform.

To fill this gap, a few important contributions emerged more recently. First, Fossati and Häusermann (2014) examined data from Switzerland showing that preferences towards social investment and social consumption are distinct. Using these preferences as independent variables they then show that preferences towards social investment are an important predictor for vote choice in the Swiss election in 2011. Second, several contributions by Busemeyer and Garritzmann (2017); Busemeyer and Neimanns (2017); Garritzmann et al. (2018); Neimanns et al. (2018) signifi-

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[1]Other scholars analyzed the politics of consumption-oriented social policies like old-age pensions more explicitly (e.g. Bonoli, 2000).

cantly expanded our knowledge about preferences towards social investment. Based on an novel survey, Garritzmann et al. (2018) tested whether citizens hold coherent preferences on social investment policies. They show that the preferences of citizens towards the welfare state cluster along two dimension, a social investment and social consumption dimension. The support coalitions for these two different types of social policy vary: while social consumption is mostly supported by people with a low-income, a low level of education, and people that lean towards traditional values, social investment policies are supported by people with a higher educational background and left-libertarian views. In two other papers based on the same survey Busemeyer and Garritzmann (2017) and Busemeyer and Neimanns (2017) also show that the support for social investment decreases among respondents when they are confronted with possible trade-offs. They argue that popular support for social investment policies is limited, when citizens are confronted with the necessity to cut back other parts of the welfare state in exchange for expanding investment policies (Busemeyer and Garritzmann, 2017). Still, the willingness to accept trade-offs depends on self-interest: while individuals that benefit from social investment are more willing to accept cutbacks in other areas, the potential losers of such changes are opposed to it. Thus, Busemeyer and Garritzmann (2017) conclude by arguing that the political conflict between supporters of social investment and supporters of social consumption is indeed present at the level of individual attitudes.

These works have advanced our understanding of preferences towards welfare state recalibration a great deal, but they are still somewhat limited in their empirical foundation. The maximum that these studies could assess were *two-dimensional* trade-offs between different policy fields (e.g. preferences towards education vs. pension spending). We therefore still end up assessing the popularity of only one or maximum two subfields of the welfare state. This approach, however, still falls short of capturing the *multi-dimensional* nature of welfare state change. When designing reforms, governments face trade-offs between spending on multiple social policy areas at the same time. Existing surveys do not tell us a lot of the preferences towards these multi-dimensional trade-offs that are inherent in designing government budgets and welfare state reform packages. Do voters prioritize childcare spending over active labor market policy spending? Are voters willing to pay for family policy by lowering spending on unemployment benefits and training for the unemployed? Are voters ready to reduce spending on pensions in order to pay for spending on education and childcare? The motivation behind this paper is therefore to examine preferences regarding these multi-dimensional trade-offs across different social policies.

3.4   Theoretical Expectations

3.4.1   Trade-Offs and Attitudes Towards Welfare State Recalibration

The necessity to make trade-offs is inherent in designing social policies. Politicians and policy-makers need to evaluate the importance of different social spending packages and make compromises between distinct ideal worlds. Some of the existing research suggests that voters' preferences are logically incoherent and fundamentally irrational. Voters may not have real political preferences all together (Zaller, 1992), they may be 'fiscally ignorant' (Lewis, 1982), they may willfully ignore the existing trade-offs between different individual ideal policies (see Busemeyer and Garritzmann, 2017 based on Pierson, 2001) or they could be cognitively overwhelmed to appreciate these trade-offs (Achen and Bartels, 2017).

Other research is more optimistic about the ability of respondents to evaluate trade-offs. Hockley and Harbour (1983) used a survey in the UK that was designed to reduce the nature of "fiscal illusion", which showed that voters could make meaningful decisions about how they allocated a hypothetical budget increment. Similarly, Hansen (1998) showed that when citizens are primed about trade-offs, opinions about budgetary alternatives became more consistent. More recently, research by Busemeyer and Garritzmann (2017) explicitly tried to study how respondents change their behavior when they are confronted with two-dimensional trade-offs. Their findings show that an increase in spending on education or family policy is not so popular anymore if it comes at the cost of existing social insurance schemes (unemployment benefits and old-age pensions). Moreover, they show that support for an increase in education drops substantially once trade-offs are introduced. The strongest trade-off they found is with lower old-age pension, followed by higher debt and, finally, higher taxes. Focusing only on labor market policies in Spain, Gallego and Marx (2017) have found that increases in generosity of unemployment benefits are more popular than increases in their coverage. An increase in training programs for the unemployed is only marginally preferred (as long as they are not provided by trade unions). Surprisingly, the costs of the program do not seem to be very important. However, how the reform is funded is very important. Spending cuts in education and health are strongly disliked, whereas increases in income tax and public debt are preferred. Finally, the recent study by Häusermann et al. (2018) on the Swiss pension reform also highlights the importance of carefully balanced reforms in order to find enough public support, especially if the financing of the reform is connected to taxation (VAT increase).

Based on this evidence, I expect that citizens also change their preferences towards different social policies, when they are confronted with trade-offs. The way respondents make this evaluation should differ across individuals, but on average I expect them to respond in a systematic way. In principle, support for most forms of social spending, such as education, old-age pensions, labor market policies, and family policies, is very high among the wider public, but I expect that this broad support will drop substantially when a respondent is forced to evaluate the trade-offs associated with these policies. In order to avoid "free lunches" where a respondent can support spending increases on all social policies, I impose a situation of austerity to gauge which social policies they prefer over others.

Even though I expect average support for additional spending to decline drastically once I introduce policy trade-offs, I assume that there will be some differences across social policy field. I expect that voters are especially reluctant to reduce government spending on education and old-age pension as these are two most popular pillars of the welfare state that also affect most people in a direct way. Thus, respondents should be supportive of increasing spending if a social policy field benefits a large amount of respondents and, conversely, react most sensitively to retrenchment in these fields. For example, pension spending is thought to be the most popular form of social spending in advanced welfare states because most people expect to retire and expect to receive a pension.

> Hypothesis 1: Once respondents are being confronted with a trade-off, average support decreases substantially. The decrease should be largest if the most popular elements of the welfare state - old-age pensions and education - are involved.

3.4.2   Differential Reactions to Trade-Offs

Material Self-Interest: Income and Occupational Groups

The way that citizens respond to trade-offs should vary across individuals. Citizen do not only evaluate policies based on their expect aggregate effects, but they also consider the consequences on their own pocketbook. A large group of scholars identified economic self-interest as the primary source of preferences (Meltzer and Richard, 1981; Alesina and La Ferrara, 2005; Piketty, 1995). People with low skills, low incomes, and economically insecure jobs are expected to prefer more redistribution and be in favor of the welfare state compared to people with high skills, high incomes, and more secure jobs (e.g. Iversen and Soskice, 2001; Rehm, 2009, 2011;

Rehm et al., 2012). One of the most common determinant of attitudes towards social policies and redistribution is material self-interest (Meltzer and Richard, 1981; Alesina and La Ferrara, 2005; Piketty, 1995). Most famously, in the Meltzer-Richard model, the goal of the median voter is to maximize income. Voters with low incomes are expected to prefer more redistribution through increased social spending or higher (progressive) taxation compared to voters with high incomes (Iversen and Soskice, 2001; Rehm, 2009, 2011; Rehm et al., 2012). Although on the macro-level the expectations of the Meltzer-Richard model have repeatedly been challenged by empirical evidence, on the individual-level income seems to be inversely related to support for social spending (e.g. Iversen and Soskice, 2001): the higher the income of individuals, the more likely they are to search for private alternatives that insure them against economic insecurity.

More specifically, however, different social policies benefit different constituencies. In particular, research has shown that the middle classes are the biggest beneficiaries of social investment policies. Given this 'Matthew effect' (Rigney, 2010; Cantillon, 2011) of social investment, the likely supporters of social investment are the (new) middle classes (Bonoli, 2013; Beramendi et al., 2015; Gingrich and Häusermann, 2015), yet others claim that social investment policies "have a distinctive win-win and cross-class coalition flavor" (Bonoli, 2013, p.64). In contrast, traditional consumption policies (except pensions) are not able to attract support from a variety of different groups others than the working classes. As a result, individuals that are better off might be less supportive of increases in government spending in general, but the middle classes should be in favor of recalibrating the welfare state. They are less likely to rely on social benefits and should be more likely to support welfare state recalibration that shifts government spending from social consumption to social investment.

> Hypothesis 2: The middle classes are more willing to trade social investment for social consumption than the working classes. Vice versa, the working classes prefer social consumption over social investment.

Narrow Self-Interest: Policy Constituencies

Another factor close to material self-interest, that is likely to affect how individuals evaluate trade-offs, is a more narrow conception of self-interest. Thus, I expect that in mature welfare states distributive conflicts have become more about the distribution of resources to specific groups than about support for the welfare state in general (Busemeyer and Neimanns, 2017; Busemeyer and Garritzmann, 2017). In

other words, I expect positive feedback effects of existing welfare state programs in the sense that social policies create their own support coalitions. This means that individuals should have a much higher priority to maintain policies that are already in place and benefit them more or less directly(Pierson, 1993).

As a result, specific policy constituencies should react most sensitively to trade-offs that affect them (more or less) directly. Thus, having young children should make individuals not only more supportive of spending on family policies (like child benefits or childcare), but should also make them reacting more strongly to trade-offs that involve a reduction of family policy spending. Similarly, labor market outsiders should have a strong interest in labor market policies (unemployment benefits and training for the unemployed) that help to improve their situation directly. Being a student and/or having young children should make you more receptive to changes in education spending. Finally, being retired should obviously make you more sensitive to changes in pension spending and much less interested in trade-offs that involve policies that do not affect you anymore in your life stage.

> Hypothesis 3: Specific policy constituencies react more sensitively to trade-offs that affect them (more or less) directly.

Political Ideology

Preferences towards social policy are not only a matter of self-interest, but they are also shaped by ideology. A variety of empirical evidence shows that there is a strong link between voters' political ideology and their attitudes towards taxation, debt, and government spending (e.g. Jacoby, 1994, 2000). In particular, the existing literature has shown that support for the welfare state is higher among individuals that are left-wing compared to individuals that in the center and on the right. The main problem with this finding is that political ideology is obviously somewhat endogenous to preferences, given that individuals' social policy preferences also contribute to shaping their left-right orientation. Yet, Busemeyer and Garritzmann (2017, p. 880) argued that the problem of endogeneity should be smaller in the study policy trade-offs, because "ideology and normative orientations are factors that are part of deep belief systems and thus likely to affects individuals' perceptions of trade-offs. Particular responses to trade-offs, however, would not necessarily determine ideological predispositions."

At the same time, the role of ideology for preferences towards social policy trade-offs is less clear-cut than its relationship with attitudes towards the welfare state in general. In particular, people on the left are generally supportive of the welfare state

and support both social consumption and social investment. When confronted with trade-offs, it makes it difficult for them to chose between different spending types. However, I assume that differences between left- and right-wing voters are bigger with regards to consumption than investment spending. The reasons is that (center- and) right-wing voters are composed of economic liberals and conservatives. True (economic) liberals should have a preference for both less consumption spending and less investment spending, as they usually prefer private over public solutions to welfare provision. However, one could argue that if liberals had to choose between investment and consumption spending, they would most likely prefer investment spending because education, active labor market policies and childcare policies raise the human capital stock. Christian democrats or conservatives should have similar preferences. Even though Christian democratic parties have been allies in building passive, consumption-oriented welfare states in the past (Esping-Andersen, 1990; van Kersbergen, 1995), there is little reason to expect them to be in favor of more consumption spending. Nowadays, it is more likely that they favor, if any, additional spending on social investment policies such as active labor market policies and child-care policies.[2] On the other hand, voters of the center left and far left should have a strong preference for both increased consumption and investment spending. There-fore, all things considered, left-wing voters are more likely to be united in favor of more consumption and investment spending, whereas right-wing voters are divided. Thus, left-wing voters should react more sensitively towards trade-offs in both con-sumption and investment spending, but the difference compared to right-wing voters should be bigger for consumption than for investment policies. This lead me to the following hypothesis:

> Hypothesis 4: Differences between left- and right-wing voters are bigger with regards to consumption than investment spending.

Country Differences

Finally, there is little reason to expect that voters have similar preferences regarding different types of social spending across countries. The institutional feedback hy-pothesis argues that preferences are embedded in welfare state institutions. They are endogenous to the institutional design of the welfare state and the socio-economic institutions more generally because these institutions are ultimately rooted in dif-ferent norms and concepts of reciprocal altruism (Alesina et al., 2001). Thus, the

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[2]The case in point here being the policy switch of the German Christian democratic CDU on the issue of family policy (Häusermann, 2018).

specific configuration of social policy institutions itself, through norm diffusion and strong policy constituencies, is likely to affect voter's preferences for public welfare provision and redistribution (Korpi and Palme, 1998; Kumlin, 2004; Brooks and Manza, 2007; Larsen, 2008). This argument would lead to me expect positive feedback effects of the existing institutions or a self-reinforcing cycle: in countries with high levels of social spending on certain policy fields, people should be more supportive of further increases in these fields.

However, there is also a competing expectation. In countries with already high levels of spending on certain policy fields, people could be more reluctant to support even further increases. As the level is already (much) higher than in other countries, people might be more opposed to additional increases if they compare the existing level of spending to that of other countries or with an "ideal" level. Moreover, it could be the case that citizen anticipate that spending (too) much in one subfield might affect the chances to spend more in another one. Therefore, there could be a ceiling effect, after which additional increases/decreases in spending have diminishing returns on citizens' support. For example, Italy spends an extremely big share of its total social spending on old-age pensions and it might be possible in this case that, even though generally in favor of high pension spending, citizens would prefer to allocate their money in other social policies fields like childcare or active labor market policies that still remain underdeveloped.

3.5   Research Design

Existing surveys do not allow me to answer the questions posed above because they largely pose uni- or two-dimensional questions and fail to measure *multidimensional* priorities and trade-offs. In order to address this weakness, I use two different survey experiments that aims to overcome these problems with conventional surveys. In the first part, I use an experiment with split-sample questions to measure individuals' support for different social policies given different kinds of trade-offs. In the second part, I use a conjoint survey experiment that simultaneously varies six characteristics of a government spending in order to measure how citizens evaluate different social policies.

3.5.1   Part 1: Experiment with Split-Sample Questions

In the first survey experiment, I test how individuals change their preferences when they are confronted with two-dimensional trade-offs. To test how respondents per-

ceive and react to trade-offs, I confronted respondents with a series of questions that try to measure individuals' support for different social policies given different kinds of trade-offs. Following Busemeyer and Garritzmann (2017), respondents were randomly assigned to four different groups, including one 'control' group and three different 'treatment' groups. In each group, respondents were asked to evaluate six different statements about government social spending. Respondents in the 'treatment groups' were presented with statements that raised awareness for different kind of trade-offs, while the control group was presented with statement that did not allude to any kind of trade-offs. Subsequently, respondents were asked to evaluate to what extent they agree or disagree with these different statements. Table 3.1 shows the full list of statements that were included in the four different groups.

To analyze whether support for certain forms of government social spending varies across the four groups, I will first analyze the results descriptively. For this, I graphically present the means and 95 per cent confidence intervals of the control group and the three different treatment groups for each of the six statements. Using unpaired t-tests of differences in means between the control and each treatment group, respectively I test whether any observed differences between the groups are statistically significant. To assess whether there are significant differences across countries, I will also plot cross-country variations across the four different groups. I will present the subgroup analyses graphically by showing plots with results for different groups side by side. These subgroups are created based on the following variables: country, partisanship, occupational classes, and employment status. Partisanship is measured by the question which party the respondent will vote for in the next elections. I then distinguish between the far right, center right, center left and far left. To operationalize occupational class, I follow the conceptualization by Gingrich and Häusermann (2015) and distinguish between employers, middle class, working class and routine workers.[3] To measure employment status, I largely follow Rueda (2005) original status-based operationalization distinguishing between upscale, insiders, outsiders and those out of work (homekeepers, retired, disabled, students). Outsiders consist of part-time workers (less than 30 hours), temporary workers and the unemployed. Insiders are those with a full-time permanent working contract.[4]

Afterwards, I used OLS regression analysis to test for the robustness of these subgroup findings. For this purpose, I used support for the different statements

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[3]Due to the small sample size, I collapse working class and routine workers into one group. A detailed operationalization ca be found in the Appendix A.7.

[4]Only small distinction with Rueda (2005) original conceptualization is that I coded students only as outsiders if they indeed faced some form of atypical employment.

Table 3.1: Design of the split experiment

Split 1 (Control)	Split 2 (Treatment 1)	Split 3 (Treatment 2)	Split 4: (Treatment 3)
The government should increase spending on old-age pensions.	The government should increase spending on old-age pensions, even if that implies lower spending on unemployment benefits.	The government should increase spending on old-age pensions, even if that implies lower spending on childcare services.	The government should increase spending on old-age pensions, even if that implies lower spending on training schemes for the unemployed.
The government should increase spending on education.	The government should increase spending on education, even if that implies lower spending on training schemes for the unemployed.	The government should increase spending on education, even if that implies lower spending on unemployment benefits.	The government should increase spending on education, even if that implies lower spending on childcare services.
The government should increase spending on training schemes for the unemployed.	The government should increase spending on training schemes for the unemployed, even if that implies lower spending on old-age pensions.	The government should increase spending on training schemes for the unemployed, even if that implies lower spending on childcare services.	The government should increase spending on training schemes for the unemployed, even if that implies lower spending on unemployment benefits.
The government should increase spending on unemployment benefits.	The government should increase spending on unemployment benefits, even if that implies lower spending on childcare services.	The government should increase spending on unemployment benefits, even if that implies lower spending on training schemes for the unemployed.	The government should increase spending on unemployment benefits, even if that implies lower spending on old-age pensions.
The government should increase spending on childcare services.	The government should increase spending on childcare services, even if that implies lower spending on child benefits.	The government should increase spending on childcare services, even if that implies lower spending on old-age pensions.	The government should increase spending on childcare services, even if that implies lower spending on unemployment benefits.
The government should increase spending on child benefits.	The government should increase spending on child benefits, even if that implies lower spending on old-age pensions.	The government should increase spending on child benefits, even if that implies lower spending on training schemes for the unemployed.	The government should increase spending on child benefits, even if that implies lower spending on childcare services.

as the dependent variable, which was regressed on a number of basic control variables and independent variables (e.g. age, sex, occupational classes, income, education, employment status, partisanship, parents with children). Moreover, I included country-fixed effects and country-clustered standard errors in the models to account for possible contextual effects. The results presented in the mean plots do hold also if I control for these additional variables.

3.5.2   Part 2: Conjoint Survey Experiment

Before confronting respondents with the questions from above, I also used a conjoint survey experiment to study attitudes towards social policies in a multi-dimensional setting. Conjoint surveys have previously been used widely in product analysis in order to measure how people value different attributes of a product or service. Recently, conjoint experiments have also successfully been employed by social scientists (e.g. Bechtel and Scheve, 2013; Hainmueller et al., 2014; Hainmueller and Hopkins, 2015; Bansak et al., 2016) and they are increasingly used in comparative political economy to capture the importance of trade-offs (Gallego and Marx, 2017; Häusermann et al., 2018; Kölln and Wlezien, 2016). Conjoint analysis is well suited for this purpose because it requires respondents to evaluate entire packages instead of simply asking about support for individual measures (Häusermann et al., 2018).

The survey asks respondents to evaluate different reform proposals regarding changes to government spending in a set of choice tasks. Each task presents respondents with two profiles of possible spending changes and respondents have to select their most preferred alternative. Profiles comprise six attributes corresponding to particular elements of a government spending and each attribute can take on a set of discrete and pre-defined levels, which represent different spending options. The profiles are then generated randomly, i.e. they contain a fixed number of attributes attributes, which are shown to respondents in random order and with a random display of an attribute level.

Concretely, the reform profiles contain six attributes (as shown in Table 3.2) that were chosen to represent two different dimensions of government social spending, namely social investment and social consumption. Education, childcare services and training for the unemployed (active labor market policy) are used as proxies for social investment spending. Old-age pensions, child benefits and unemployment benefits (passive labor market policy) are used as proxies for social consumption spending. The profiles do not include spending on health care for two reasons: first, there are large differences between the funding of health care in the countries that I study,

Table 3.2: Attributes and Levels of the Conjoint Experiment

	Attribute	Attribute Levels
Investment	Training for the unemployed	Decrease spending No change Increase spending
	Childcare services	Decrease spending No change Increase spending
	Education	Decrease spending No change Increase spending
Consumption	Unemployment benefits	Decrease spending No change Increase spending
	Child benefits	Decrease spending No change Increase spending
	Old-age pensions	Decrease spending No change Increase spending

which makes a comparison difficult; second, spending on health care has both an element of investment and consumption and, hence, it is difficult to categorize.

For each attribute, I developed three levels, allowing me to test attitudes towards different forms of government social spending, as shown in Table 3.2. In theory, there would be 729 combinations of all the levels in a fully randomized setting. However, the focus of this conjoint survey experiment is entirely on trade-offs and priorities between consumption and investment policies. In order to avoid "free lunches" where respondents can favor spending increases on all social policies, I force respondents to make a decision, which social policies they prefer over others. This is achieved by showing respondents only zero-sum reform proposals where the budget is balanced. This means that no reform proposal either increases or decreases spending overall.

I therefore impose a situation of austerity on the respondents that they might disagree with. What if someone wants to decrease spending on all social policies? Or what if someone wants to increase spending on all social policies? This is very likely from an individual point of view, but I know from the literature that full-scale welfare state expansion is *economically* unlikely due to austerity, while full-scale retrenchment is *politically* unlikely due to electoral repercussions. This balanced-budget restriction allows to tease out the respondent's policy priorities on welfare

state recalibration in times of austerity, where a (more or less) budget-neutral reform is politically most likely.[5]

Thus, only combinations are allowed in which every increase in expenditure in an attribute is matched by a simultaneous decrease in expenditure in another attribute. As a result, I exclude 588 combinations and I am left with 141 possible combinations. Importantly, when the profiles are randomly generated, the likelihood that a level is shown remains the same for all possible levels. Hence, as Hainmueller et al. (2014) have shown, respondents do not need to evaluate every possible combination of attributes and levels to identify the component-specific effect. Our research design exploits this important feature of conjoint experiments, allowing me to efficiently run multiple-treatment choice experiments without needing a sample size large enough to present respondents with every possible comparison. The full instructions for the conjoint tasks, including screenshots, can be found in the Appendix A.3.

Respondents are asked five times to choose (i) between two packages (choice variable) and (ii) to indicate how likely they are to support each of the proposals (ranking variable). Through randomization and a high number of such pairwise comparisons, conjoint analysis allows me to identify – and quantify – the causal effect that individual elements (attribute levels) have on the support for the entire reform proposal, compared to a reform proposal that contains the baseline category on a particular attribute. The order in which the attributes are presented to different respondents is randomized to avoid that the order influences the relative impact of attributes on the acceptance of different reform proposals. However, the order is held constant within individual respondents across the five different tasks to avoid confusion.

The main variable of interest that is generated from the conjoint experiment is the average marginal component-specific effect (AMCE) of a change in the value of one of the six dimensions on the probability that the reform proposal is chosen by the respondent. The variable is binary and it takes the value of 1 if a reform proposal is chosen and 0 if a reform proposal is not chosen. Following the recommendations from Hainmueller et al. (2014), I estimate the AMCE by using linear probability models and regress the dependent variable on dummy variables for each of the levels (where the status quo is used as the baseline for each dummy) with clustered errors by respondent to account for correlations within responses from a given respondent.

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[5]One might object that there is no need for such a strong balanced-budget assumption given the possible existence of either a Keynesian or a social investment life-course multiplier. As discussed in more detail in the theoretical chapter, the significant time lag associated with social investment and its actual returns, makes it still necessary for government to choose and scale down certain policies in order to spend more on others.

The variable is binary and it takes the value of 1 if a budgetary reform is chosen and 0 if a budgetary reform is not chosen. Following the recommendations from Hainmueller et al. (2014), I estimate the AMCEs by using linear probability models and regress the dependent variable on dummy variables for each of the levels (where the status quo is used as the baseline for each dummy). To estimate the effects I use Ridge regression (as developed by Hoerl and Kennard (1970), which is a common regularization method and has also been used by Horiuchi et al. (2018) for conjoint analysis.[6]. To estimate the AMCEs, I use the R package `glmnet` and afterwards I rely on bootstrapping to calculate non-parametric confidence intervals.

In a first step, the AMCEs for the entire sample are calculated. Afterwards, I will test whether the AMCEs differ between different social groups by using split-sample analyses. I will present the analysis of heterogeneous effects graphically by showing plots with results for different groups side by side. Following my theoretical expectations, the subgroup analysis is based on the following variables: income level, partisanship, occupational classes, employment status (insider/outsider), policy constituencies, and country. Following the recommendations by Hainmueller et al. (2014), I also conducted several robustness test, which did not change the results and are discussed in the Appendix A.3.

3.5.3   Sample

The survey was fielded in four large European countries: Germany, Italy, Spain, and the United Kingdom (UK). The countries were selected to represent major European economies with advanced welfare states, including different variants of capitalism (Hall and Soskice, 2001) and different welfare state regimes. In each country, 1,200 respondents were recruited to participate in the survey. For this purpose, I use large online panels provided by Qualtrics. Respondents were drawn from a pool of eligible voters in each country and my sample was representative of all eligible voters based on gender and age. Further, I used weights to match the demographic characteristics of the population in each country as closely as possible using entropy balancing (Hainmueller, 2012; Hainmueller and Xu, 2013). The survey was fielded simultaneously in January 2018 in all four countries. Due to an unfortunate programming

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[6]I use this method because in the design the values that each attribute take are linearly dependent on the other attributes (to ensure that the reform is balanced). For example, consider a simple matrix X: In this matrix the columns are linearly dependent: the first column is the row-wise sum of the other two columns. In this case, the matrix are said to be super-collinear. This super-collinearity means that in a linear regression one cannot numerically estimate the regression coefficients β, when all levels of X are included as independent variables. To solve this problem, when X is super-collinear or close to super-collinearity, Hoerl and Kennard (1970) proposed to use a Ridge regression.

error, the randomization of the conjoint experiment did not work properly in Spain and therefore had to be excluded from the analysis of the conjoint results.

3.6 Results

3.6.1 Average Preferences Towards Two-Dimensional Trade-Offs

Figure 3.1 shows the mean support and 95% confidence intervals for spending increases in six different subfields without a trade-offs (control group) and with three different trade-offs introduced (treatment groups). The results are pooled across all four countries. The results by country for all six social policy fields can be found in Figure A.4 in the appendix. I will first briefly discuss the findings for pension, education and family policy. Then I will focus in more detail on the two split-sample experiments regarding labor market policy, which is most strongly related to the overall topic of the dissertation.

In general, the results indicate that people's support for social policies drops significantly when they are confronted with trade-offs. The top left panel indicates an extremely high overall support for increased spending on old-age pensions. Without any trade-off mentioned (the control group), the mean support for more pension spending is around 7.8 on an eleven-point scale from 0-10. The average support, however, declines substantially to around 6 or even lower if trade-offs are introduced. The differences between the three trade-offs, however, are marginal. Interestingly, there is still a majority that demands higher old-age pension spending even if it implies lower spending in other areas of the welfare state.

There is a similar picture if I look at the support for education spending. Increasing education spending without constraints is highly popular with a mean support of about 8. But again, support decreases substantially if it implies lower spending on training for the unemployed (6.1), lower unemployment benefits (5.9), or especially lower spending on childcare (5.5). In a similar case, Busemeyer and Garritzmann (2017) show that support for education spending declines even further and effectively becomes a minority demand if the trade-off would imply lower spending on old-age pensions. Given the high popularity of pensions, this might not be very surprising. Still, the findings indicate that a trade-off with pension might be an outlier because there is still a majority that would trade higher education spending for lower spending in other areas of the welfare state. Respondents are slightly more willing to make these cuts in labor market policy (ALMP and PLMP) than in childcare services.
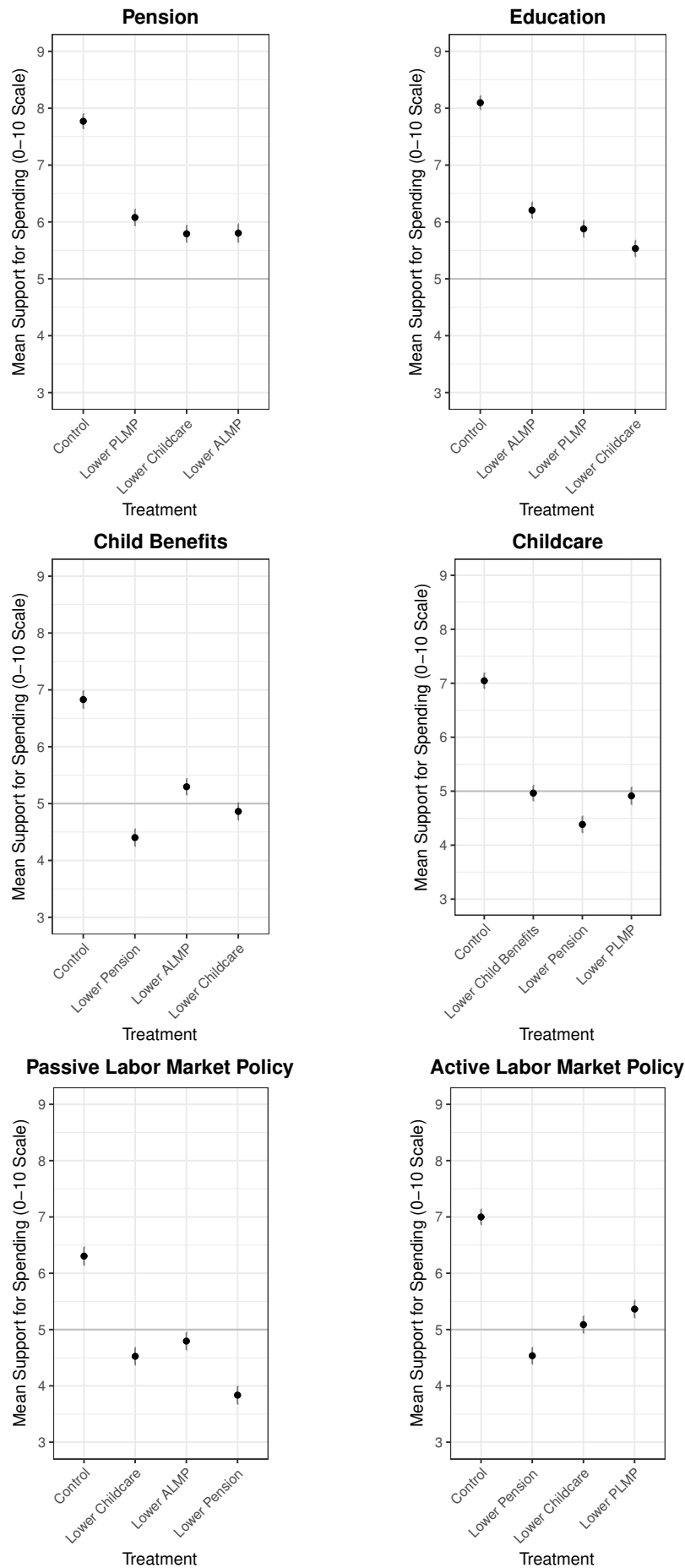
Figure 3.1: Average support for spending increases by treatment, pooled

After the two most popular pillars of the welfare state, the results for family policies, a field of increasing relevance, are being presented. Child benefits are seen here as a proxy for social consumption and childcare as proxy for social investment. The average support for child benefits is at around 6.8. Once again, support declines drastically once trade-offs are introduced. If the trade-off implies lower spending on childcare, ALMP or old-age pensions, mean support decreases to 4.8, 5.2 and to 4.3, respectively. On the other hand, childcare services are slightly more popular than child benefits. Increasing spending on childcare services without constraints is quite popular with a mean support of about 7.1. Mean support decreases if it implies lower spending on child benefits (4.9), on unemployment benefits (4.9), or on old-age pensions (4.5). Thus, for both family policy fields I barely find any trade-off that creates majority support.

Finally, moving to the core topic of this dissertation, the bottom two panels display mean support for spending on unemployment benefits and active labor market policy. The biggest difference to pensions and education is the overall much lower support for unemployment benefits, yet there is still a majority support higher spending in the unconstrained setting (mean value around 6.3). Again, support for spending on unemployment benefits drops profoundly if it implies lower spending on ALMP (4.8), on childcare services (4.5) or on old-age pensions (3.8). There is no majority support for any of the three treatments, but especially a trade-off involving lower pension spending is highly unpopular. The investment-oriented side of labor market policy is, on average, more popular than the consumption-oriented nature of unemployment benefits. The mean support for increased spending on ALMP is around 7.0. Support for ALMP decreases to 5.1 if it implies lower spending on childcare services and to 4.5 with lower pension spending. Interestingly, there seems to be a small majority that is willing to trade increased ALMP spending with lower PLMP spending, whereas the reverse is not. Therefore, the results indicate that there is indeed a potential to recalibrate labor market policy in the direction of activation.

Overall, the results show the generally high levels of support for most forms of government social spending. In line with my first hypothesis, support for individual policies is consistently overestimated if questions are being posed in a unconstrained setting. In the real world, though, governments usually have to make trade-offs as they cannot just increase spending on all policy domains. Once I introduce these trade-offs, support for all forms of social spending decreases substantially. As a result, welfare state reforms that involve such trade-offs are politically very contentious. Moreover, the two most popular pillars of the welfare state are clearly

education and pension. Due to the focus of this thesis, I will from now on mainly focus on the trade-offs that involve passive and active labor market policy.

3.6.2 Subgroup Preferences Towards Two-Dimensional Trade-Offs

According to the theory, the evaluation of trade-offs should varies across countries and different electoral constituencies. The top two panels in Figure 3.2 shows to what extent occupational classes differ in their preferences. The working class and the middle class do differ in their support for ALMP and PLMP spending in the unconstrained setting. In both cases, the working class is more supportive of increased ALMP and PLMP spending compared to the middle class. These differences, however, become much less pronounced once respondents are confronted with trade-offs. Figure A.5 in the Appendix A.3 shows that the middle class and the working class follow a distinct pattern in their evaluation of trade-off. In general, the working class is more willing to trade an increase in a consumption policy (especially unemployment benefits or pensions) with a decrease in an investment policy (especially active labor market policy or education). On the other hand, the middle class does exactly the opposite and prefers to trade investment increases with consumption decreases.

The middle two panels in Figure 3.2 show how the preferences vary by employment situation. I am mainly interested in possible differences between labor market insiders and outsiders. In comparison to all the other groups, outsiders are by far the strongest supporters of PLMP spending. Yet, these differences become again much smaller with the introduction of trade-offs. Interestingly, differences are much less pronounced for ALMP spending. Outsider do prefer ALMP spending slightly more, but the differences are not substantive. In addition, I see that there is still a majority in all subgroups to trade increased ALMP spending with a decrease in PLMP spending, though it is preferred the least by outsiders. The opposite, trading increased PLMP spending at the cost of a decrease in ALMP spending, is less popular.

The bottom two panels show how preferences vary by partisanship. Voters of the far left are the most supportive PLMP spending. Once trade-offs are introduced, many subgroup differences still remain. Voters of the far left are the most supportive for PLMP spending even if it implies lower childcare or lower ALMP spending. Latter means that far left voters are the least sympathetic towards an activation turn and that they would like to remain high PLMP spending. In stark contrast, voters of the political mainstream (center right and center left) are increasingly more sympathetic towards an activation turn in labor market policy. This is most clearly
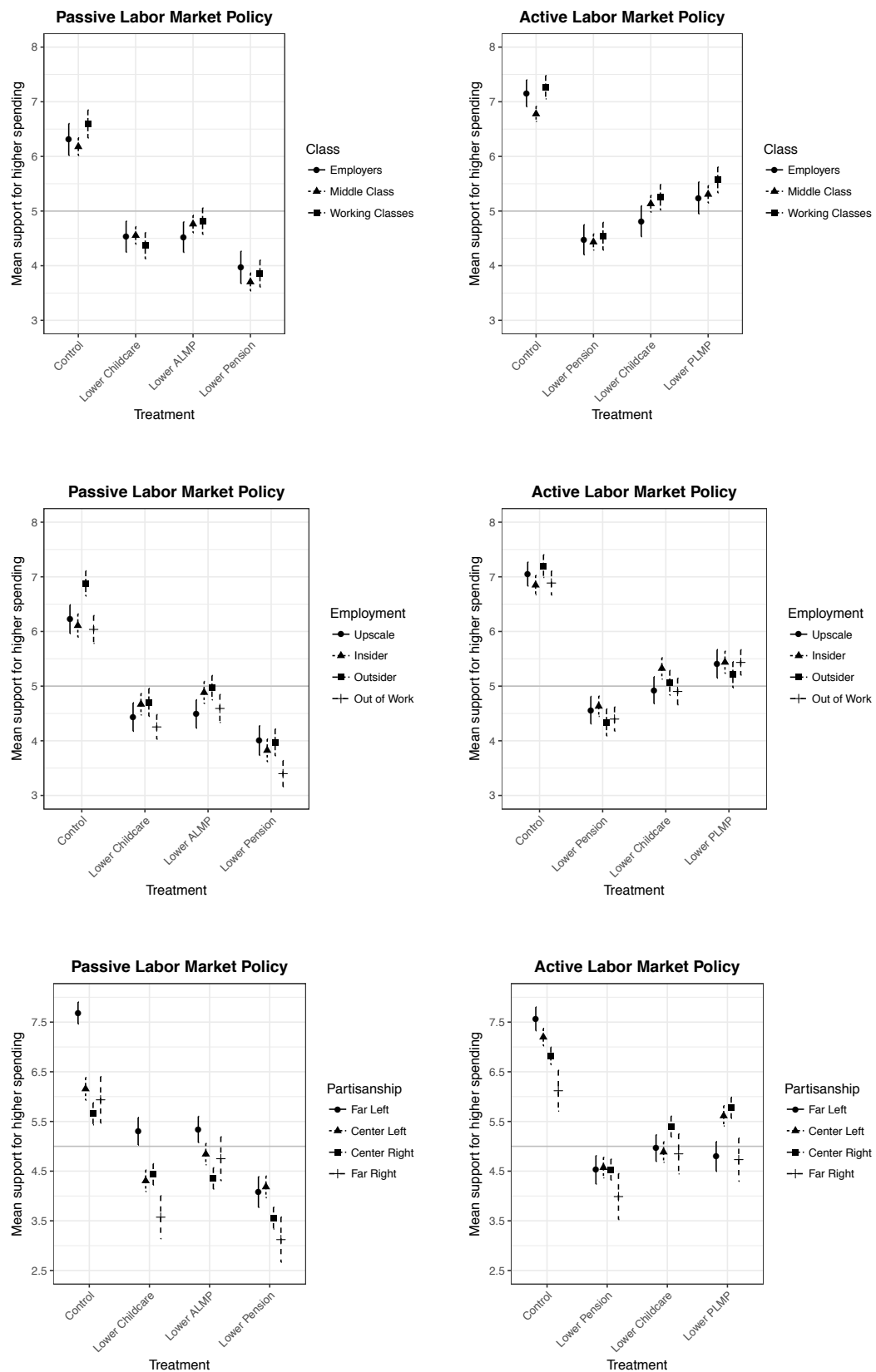
Figure 3.2: Average support for PLMP and ALMP spending increases subgroups
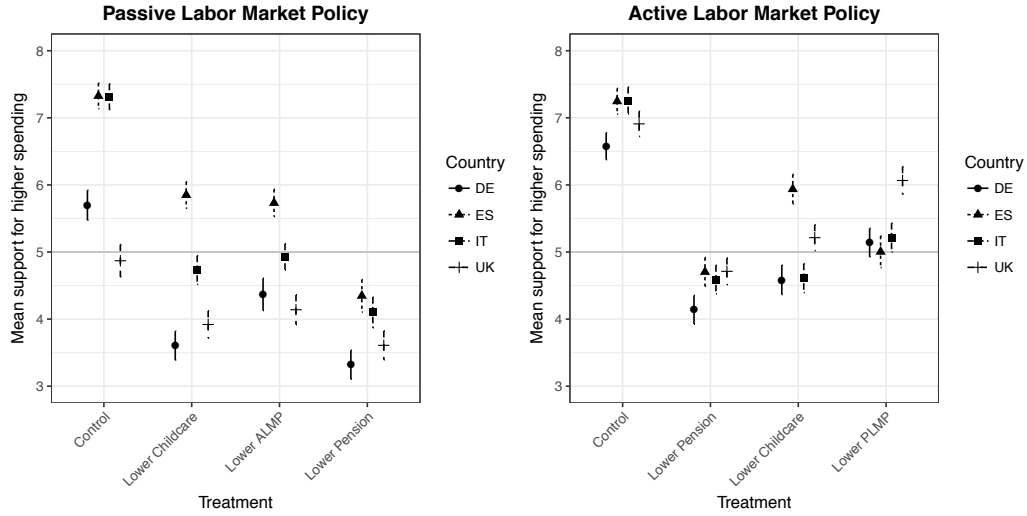
Figure 3.3: Average support for spending increases by treatment and country

shown in the last panel for the last treatment effect where higher ALMP spending comes at the cost of lower PLMP spending. In general, partisanship preferences are more polarized for PLMP spending than for ALMP spending, especially once respondents are confronted with possible trade-offs.

Finally, Figure 3.3 shows the differences across countries. Overall, there are stark country differences with regards to PLMP spending. Respondents in Spain and Italy are more in favor of increased PLMP spending compared to those in Germany and the United Kingdom. Especially respondents in Spain are most willing to trade increases in PLMP spending with decreases in either childcare or ALMP spending. This could be a compositional effect due to the high unemployment rate in Spain, which creates a much stronger demand for PLMP spending in times of crisis. In general, there is a higher preference for consumption policies in Spain and Italy, whereas German and British respondents are strongly against trading higher PLMP spending for lower ALMP spending.

The results presented above, however, still have one major shortcoming. Due to the simplicity of such a design, it only allows to assess citizens' preferences towards two-dimensional trade-offs. Yet, welfare state recalibration involves often multidimensional trade-offs. In order to tease out preferences and priorities of citizens in a multidimensional setting, the next section discusses the results from the conjoint experiment.
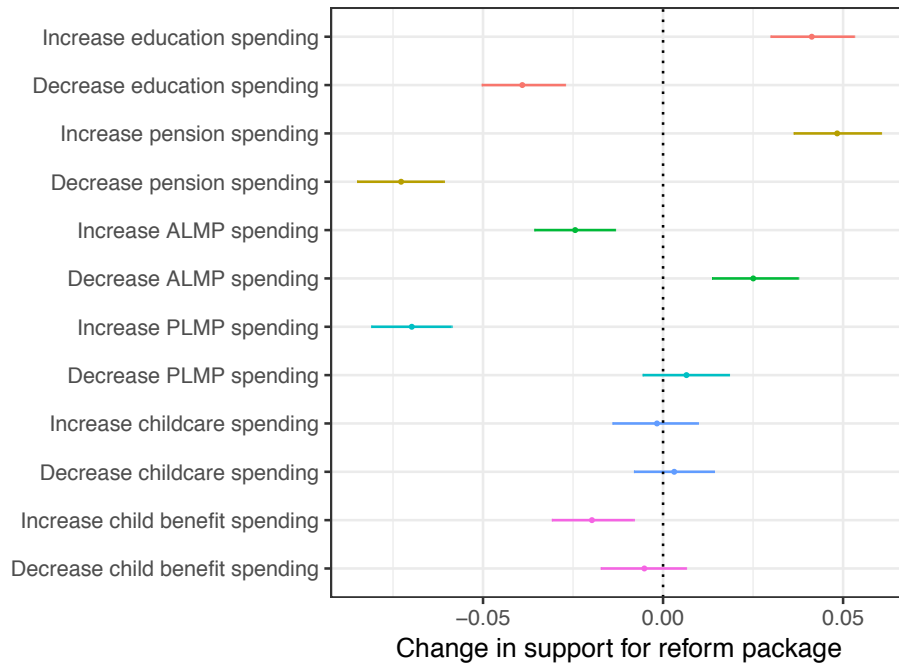
Figure 3.4: AMCEs from conjoint survey experiment, pooled

3.6.3 Conjoint Results of Multi-Dimensional Trade-Offs

The benefit of the conjoint design is that it allows me to study how public opinion changes when I vary policies on several dimensions simultaneously. This is particularly true for the "forced choice" outcome in which respondents have to choose one of the two profiles in each pairing that they support. Therefore, they have to choose between different packages of policies that vary across different dimensions simultaneously, allowing me to observe how they evaluate policy trade-offs. The results from the experiment are shown in Figure 3.4. For each attribute, the plot shows the AMCEs of increasing or decreasing spending items relative to the baseline ("no change") on the probability that a given package of policies is supported. The AMCEs can be interpreted as the change in the probability (expressed in percentage points) that a package will win support when it includes the listed attribute value instead of the baseline attribute value.

The results confirm some findings from above. First, spending on education and pensions is popular among citizens. Additional pension spending increases the probability that respondents choose the overall package by almost five percentage points compared to the status quo, whereas lower pension spending decreases the probability that they choose the overall package by more than seven percentage points. Education spending is slightly less important to respondents: lower edu-
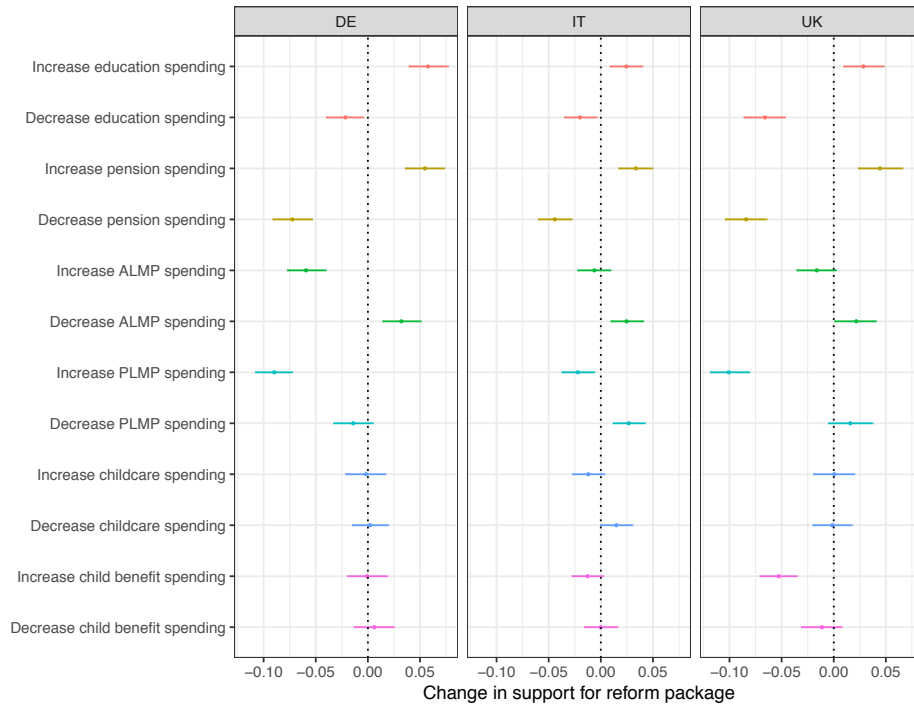
Figure 3.5: AMCEs from conjoint survey experiment by country

cation spending reduces support for the overall package by almost four percentage points compared to the baseline, wheres additional spending on education increases the support by a similar amount.

Second, spending on labor market policies are unpopular in the context of austerity. In particular, citizens react negatively to increasing spending on PLMP, which reduces the probability that they support a given policy package by around seven percentage points. Training for unemployment is slightly less unpopular but increasing ALPM spending still reduces the probability that respondents support a given reform proposal by 2.5 percentage points. Interestingly, the pattern is reversed when it comes to decreasing spending on labor market policies: decreasing ALMP spending actually raises the probability that respondents support a given package, whereas decreasing PLPM spending does not have a statistically significant effect. In sum, this suggests that respondents on average are more supportive of reducing spending on ALMP than PLMP policies in the context of austerity, but they certainly do not want to increase PLMP spending, either.

Third, the results show that family policies have a relatively small influence on the probability that respondents support a given package. On average, respondents are opposed to increasing spending on child benefits but decreasing these benefits

does not have a statistically significant effect. For childcare neither increasing nor decreasing has an effect on the probability that respondents support a given package, indicating that they do not matter for the evaluation of the policy package. Therefore, on average, respondents seem to be ambivalent with regard to most forms of family policy, although they are opposed to increasing child benefits.

Finally, I also expected that the support for social policies varies across countries and thus I repeat the analysis from above for each country. Figure 3.5 shows the results from this analysis, indicating that general pattern from above holds across the three countries. Still, there are some smaller differences. First, decreasing pension spending has a smaller effect in Italy than it does in Germany and the UK, while there are no statistically significant differences with regard to the effect of increasing pension. Second, increasing education spending has a stronger effect in Germany than it does in Italy and the UK. In reverse, however, the negative effect of decreases in education spending is twice as large in the UK than in Germany and Italy. Third, Italian respondents are much less opposed to increasing PLMP spending than respondents in Germany and the UK. Finally, the UK is the only country that is strongly opposed to increasing child benefits. For all other countries, family policy has no effect.

3.6.4 Conjoint Subgroup Results

Occupational Class and Partisanship

As theorized above, there are reasons to believe that the support for different social policies varies across subgroups. The main focus lies on the extent to which this is the case for occupational classes and different party supporters. The heterogeneity in effects by occupational class is presented in Figure 3.6. As opposed to the middle class, the working class cares less about education and more about pension spending. For the working classes, a decrease in education spending does not even have a significant effect on the probability to support a reform package. With regards to the importance of ALMP spending, there are few differences between the groups. However, differences are more pronounced regarding PLMP spending. The working classes are much less opposed to increase PLMP spending compared to the middle class. In addition, a decrease in PLMP spending has a positive effect for the middle class, whereas this is not the case for the working class. Overall, the working classes are more in favor of consumption-oriented spending than the middle class, especially when it comes to labor market policy.
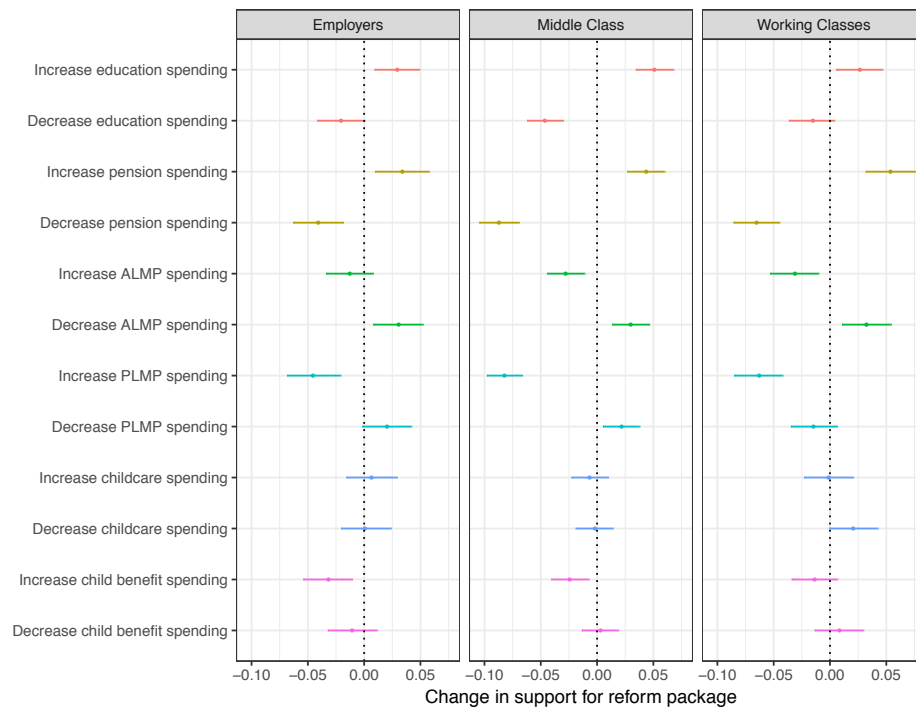
Figure 3.6: AMCEs from conjoint survey experiment by occupational class
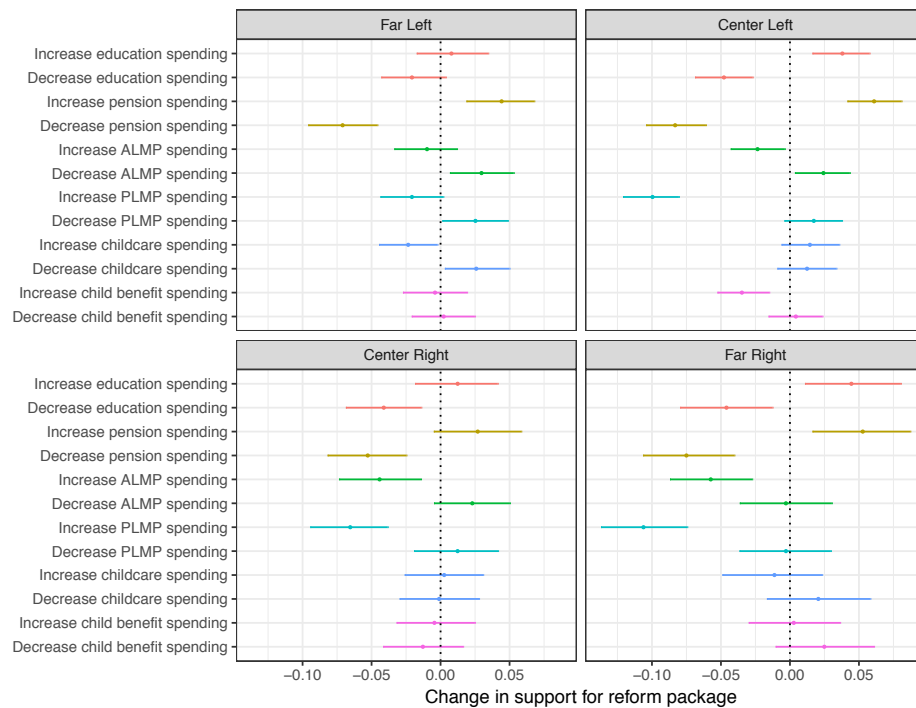
Figure 3.7: AMCEs from conjoint survey experiment by partisanship

Figure 3.7 shows the heterogeneity in effects by partisanship. Voters of the center left are the most supportive of education and pension spending. This is clearly shown by the consistently negative effect for spending decreases and the strong positive effect for spending increases. Interestingly, when it comes to ALMP spending, center left voters are not so different anymore to voters from other parties. However, subgroup differences are again more pronounced with regards to PLMP spending. In this case, center left voters are more similar to voters on the right. Only far left voter are much more in support of PLMP spending, whereas all the other voters are strongly against it. Thus, the support for active labor market policies seems more evenly distributed across party supporters than support for passive labor market policies where the support clusters within the far left. Overall, far left voters have higher tendency to support consumption policies than any other partisan group.

Policy Constituencies

I also expected heterogeneous effects due to narrow self-interest of policy constituencies. Table 3.3 compares the responses of policy-constituencies vs. non-constituencies. By constituencies I mean those people who are most likely to benefit directly from social policies that are already in place. The main policy-constituency are the retired for pensions, those with tertiary education for education, the labor market outsiders for both labor market policies, and people with children under the age of 10 for both family policies.

The results show that specific policy-constituencies do indeed react more sensitively to change that involve specific policies from which they benefit more or less directly. They are more likely to support additional welfare state spending than the average citizen, when existing policies benefit them directly and they are more likely to withdraw support if the reform proposal involves cutting "their" policies. Most of the differences between the two groups go in the expected direction. Retired respondents react more sensitively to reform proposals that involve an increase and, especially, a decrease in pension spending compared to the rest of the population. For example, the retired have a 9.6 percentage points higher probability to support the reform proposal, if it includes increased pension spending as opposed to "no change". For all the others (the non-constituency) it is only a 5.9 percentage points higher probability. The differences between retired and all the others are even bigger if the reform proposal includes a decrease in pension spending.

Table 3.3: Heterogeneous effects of attributes, policy constituency vs. non-constituency (in percentage points)

		Constituency	Non-Constituency
Pension	Increase	9.6	5.9
	Decrease	-15.3	-7.0
Education	Increase	2.9	2.6
	Decrease	-3.3	-3.2
PLMP	Increase	-4.0	-7.3
	Decrease	-1.0	2.6
ALMP	Increase	-2.2	-4.1
	Decrease	1.0	3.8
Child benefits	Increase	1.5	-3.6
	Decrease	-1.9	0.5
Child care	Increase	2.8	-1.7
	Decrease	1.2	0.55

Notes: Constituencies are the retired for pension, the tertiary educated for education, the outsiders for PLMP and ALMP, and those having children under the age of 10 at home for child benefits and childcare.

With regards to the education attribute, I do not find any significant differences between constituency (people with tertiary education) and non-constituency (people with primary or secondary education). This is most likely due to the fact that there is no clear constituency for education as there is for pension, labor market policy and family policy. Given the diffuse nature of the constituency, it is not so surprising that I do not find any heterogeneous effects.

Moving on to labor market policy, I find the biggest difference between labor market outsiders and all the others if the reform proposal includes an increase in spending on unemployment benefits. Whereas the non-constituency is strongly against an increase in this policy area compared to the status quo, outsiders are much less against such an increase. If the reform packages includes cutbacks to unemployment benefits, then outsiders are less likely to support the package, whereas all the others are more likely to support it. I do find very similar effects also for active labor market policy. Outsiders are consistently more in favor of active labor market policy compared to all the other respondents.

Finally, there are also some heterogeneous effects in the field of family policies. People with young children are clearly more supportive of additional spending on both childcare and child benefits than all the other respondents. Respondents with young children have a higher probability to support a reform proposal that involves

an increase in either child benefits or childcare, whereas for the other respondents this leads to a lower probability of support.

3.7   Conclusion

This chapter presented evidence that citizen strongly change their preferences towards social policies when they are confronted with trade-offs. On the one hand, the split-sample experiments indicate that most social policies are very popular among the public and that they are very much in favor of increased social spending. As most reforms nowadays, however, increase spending in one policy field at the cost of decreases in another one, such unidimensional questions are not very helpful to tease out citizens' *priority ordering*. The split-sample experiments indicate that two-dimensional trade-offs reduce the overall support profoundly and that certain policies are of higher priority than others. In particular, spending on pensions and education is clearly the first priority. Even though family and labor market policies are also relatively popular, every trade-offs that involves decreases in pension or education spending shrinks overall support the most. Vice versa, every single trade-offs that involves increased pension or education spending still creates majority support. Moreover, the results also show that, on average, active labor market policy is slightly more popular than passive labor market policy.

On the other hand, the findings from the conjoint show that the public has a clear *priority ordering*. Spending on education and pensions is the first priority and respondents react very sensitive to changes in these two policy fields. On the contrary, family policies have only a small influence on the probability that respondents support a given reform proposal, which means that they are quite ambivalent with regards to most forms of family policy. The two attributes of labor market policies lie somewhere in between. Among the wider public, spending on labor market policies are quite unpopular in the context of austerity. This is mainly due to the high popularity of pension and education spending. Respondents certainly do not want to increase PLMP spending. Instead, they are more supportive of reducing spending on ALMP than PLMP.

In addition, further analyses show that the findings from the split-sample and the conjoint experiment vary across subgroups. First, the middle classes put a higher priority on social investment compared to social consumption, whereas the working classes favor social consumption over social investment. Second, left- and right-wing voters do have different priorities and these differences are more pronounced with regards to social consumption than social investment spending. Interestingly, this

effect is to a big extent driven by the very high support for social consumption among far left voters, which are the least sympathetic towards an activation turn in labor market policy. In stark contrast to this, voters of the political mainstream (center right and center left) are increasingly most in favor of an activation turn in labor market policy. Third, narrow self-interest is a strong predictor of preferences. Policy constituencies react very strongly to trade-offs that affect them directly. For example, labor market outsiders do put a higher premium on PLMP and ALMP spending compared to all the other respondents.

The findings support the expectation that in mature welfare state distributive conflicts have become more about the distribution of resources to specific groups than about support for the welfare state in general. As a result, successful welfare state reforms need to include carefully balanced compensation for individual policy constituencies, which see their benefits at risk (Häusermann et al., 2018). Moreover, the results also show that the support structure for social investment and social consumption policies also varies *within*. In other words, it not enough to just use education as a proxy for social investment spending and passive labor market policy as a proxy for social consumption spending. Depending on the proxy, the findings might turn out very different and it is crucial to add more nuance to the literature on preferences towards social investment and social consumption.

In general, all the trade-offs that I studied show how difficult welfare state recalibration is in times of austerity. If there are no more financial resources, shifting resources between different social policy fields is extremely difficult. Pensions and education are highly popular and retrenchment in these areas may cause electoral havoc for governing parties. Still, even changing policies in all other areas is extremely difficult because it creates winner and losers. Therefore, welfare state recalibration is a complex process where policy-makers need to carefully think about what kind of reforms they want to implement and how they want to compensate losers in order to garner majority support for the policy implementation.

Chapter 4

Conceptualizing and Measuring Welfare State Change: A Policy-Based Approach

4.1 Introduction

The "dependent variable problem" in the study of welfare state change is a widely discussed topic in the literature. There are several established approaches to assess welfare state transformation over time and across countries, each approach have its strengths and weaknesses. The two most common approaches to assess welfare state change are through aggregate spending data or welfare state entitlement data (for a good overview, see Green-Pedersen, 2004; Clasen and Siegel, 2007). The most common approach to assess welfare state change is still by simply using aggregate social expenditure data as a proportion of gross domestic product (GDP) or by focusing on the expenditure of some specific social policy field (e.g. pension) as a proportion of GDP. The big advantage of using aggregate spending data is the fairly good comparability across countries and over time. Using spending data, however, has come under quite some criticism in recent years. First, Huber and Stephens (2001, p. 58) have argued that economic cycles confuse the picture for the expenditure data because they do not only affect the numerator (e.g. social expenditure increases in recessions due to rising unemployment and vice versa during booms) but also the denominator (e.g. GDP drops in recession and augments during booms). As a result, we can never be certain whether spending actually increased due to specific political decisions or not. Second, spending data can tell us relatively little about the important distributional question how and on whom the money is spent (Al-

lan and Scruggs, 2004). Referring to this, Esping-Andersen (1990) famously stated that "it is difficult to imagine that anyone struggled for spending per se" (p. 21). Spending data cannot really capture distributional effects of reforms. In the age of austerity, most reform are neither a clear case of expansion nor of retrenchment. Rather, reforms are multidimensional packages in which some current services are reduced while others are expanded in terms of resources allocated or the degree of coverage (Bonoli and Natali, 2012a). Finally, social expenditures (e.g. on unemployment benefits) can also increase without any specific reforms undertaken and the impact of reforms on social expenditure is temporally delayed, making it difficult to attribute expenditure increases to specific governments. In sum, social expenditure data can give us a good overview on spending profiles of different countries, but the data is less capable to illuminate distributional questions, it tends to be confounded by various other factors, and it is temporally delayed from the actual policy changes enacted by a government.

Allan and Scruggs (2004) have tried to overcome some of these shortcomings and proposed a new measure with their *Comparative Welfare State Entitlements Dataset.* Instead of looking at spending data, they focus on the specific characteristics of welfare state programs, such as their size, their duration, and their coverage. They calculate this for two groups of recipients: (i) an employee without children and without a partner and (ii) a married average production worker with two children and a non-working partner. They look at the following welfare programs: unemployment insurance, sick pay insurance and public pensions. They do not specifically focus on welfare state reforms, but rather study the replacement rates that follow from policy changes. The advantage of this approach is the possibility to look more at distributive questions. Unfortunately, the replacement rates are calculated only for a few and rather outdated group of recipients (e.g. average production workers), which makes it difficult to assess overall changes in labor market policy.

Depending on the research question at hand, one of the two approaches might suffice. However, when being interested specifically in the *politics* of welfare state *change*, a third approach based on coding the actual policy output is more useful to assess the politics of welfare state recalibration. The aim of this chapter is to present a new approach to the measurement of welfare state change based on detailed information on the policy content of all enacted labor market reforms in nine Continental and Southern European countries from 1990 to 2016. Measuring policies is a challenging task. According to the seminal work on measuring democracy by Munck and Verkuilen (2002) and similar approaches to measure immigration policies (Helbling, 2013; Helbling et al., 2017), three aspects need to be taken into account

when measuring policies: conceptualization, measurement, and aggregation. In a similar vein, Adcock and Collier (2001) stress the importance to establish a clear relationship between abstract concepts and actual observations in terms of four levels. The broadest level of the background concept is in this case welfare state change in the field of labor market policy. Welfare state change then needs to be more specifically formulated into systematized concepts. In a third step, indicators to assess the systematized concepts are being discussed and, in a final step, the scoring of cases are being reviewed. According to them, conceptualization is the process that links the background concept to the more systematized concepts, operationalization links the systematized concepts to indicators, and the scoring of cases links indicators to scores.

In order to assure measurement validity, the remainder of this chapter is therefore structured as follows. The chapter first introduces the theoretical conceptualizations behind assessing welfare state change in terms of the overall change in welfare state orientations (social consumption, social investment, regulation), the type of activation being implemented, and the policy changes' distributive effect on labor market insiders and outsiders. The second part describes the data collection, the process of operationalization and the specific coding of policy output. The last part aims to assess the validity of the proposed measure in light of already established indicators.

4.2 Theoretical Conceptualization

4.2.1 Welfare State Orientations

The development of the welfare state in Western Europe after 1945 is often divided into three different phases (Morel et al., 2012a; Hemerijck, 2013). The first phase was the tremendous expansion of the welfare state after the Second World War. Firmly anchored in the economic ideology of Keynesianism, the main goal was to provide full employment. Social protection was expanded through unemployment, sickness and disability benefits and old-age pensions. However, the newly built institutions of social protection mainly hedged the male breadwinner in the family against future income loss. As a consequence, traditional gender roles were cemented - especially in Continental and Southern European (Esping-Andersen, 1990).

The second phase started with the breakdown of the Bretton Woods institutions and the oil shocks in 1973 and 1979. Whereas the Golden Age of welfare state expansion has been characterized by industrialization and strong economic growth, the period since the 1970s is marked by severe structural changes that led to question

the future of the welfare state. In the face of mass unemployment, high inflation and sluggish economic growth, the economic narrative of Keynesianism lost its credibility. The welfare state had "grown to limits" (Flora, 1986). Neoclassical economics became the new economic policy doctrine and shifted the focus to the supply-side (Scharpf, 1991). In this "era of permanent austerity" (Pierson, 1996), achieving balanced budgets via welfare state retrenchment and increasing labor market flexibility through deregulation have become the main economic priorities. Since "frontal assaults on the welfare state carry tremendous electoral risks" (Pierson, 1996, p. 178) and blame avoidance is only possible under certain circumstances, institutional stickiness usually prevailed over retrenchment. Despite economic pressures, welfare states have remained fairly resilient to changes.

Since the 1990s, a third phase has emerged. Moving beyond the narrow focus on retrenchment by the "new politics of the welfare state" literature (Pierson, 2001), welfare states have incorporated a new set of functions and policy tools that aim to alleviate new social problems that have occurred due to structural change (Bonoli and Natali, 2012a). This reorientation in social policy-making has been captured by different terms such as social investment (Morel et al., 2012a; Hemerijck, 2013), new social risk policies (Taylor-Gooby, 2004; Bonoli, 2005; Armingeon and Bonoli, 2007; Häusermann, 2012) or flexicurity (Wilthagen and Tros, 2004; Viebrock and Clasen, 2009). They all share in common a multidimensional perspective of welfare state reforms and stress the importance to recalibrate welfare state institutions to the needs of new social risk groups. The concept of social investment is the most encompassing, ranging from traditional social policies (old-age pension, passive labor market policies, employment protection legislation) over new social policies (active labor market policy, family policy, early childcare and education) to policy fields previously neglected in the welfare state literature (education, life-long learning). The main argument of this strand of literature is to transform the welfare state from a protective, consumption-oriented welfare state to a more capacitating, investmemt-oriented welfare state (Esping-Andersen, 2002b; Morel et al., 2012a; Hemerijck, 2013).

As discussed in the theoretical chapter, large-scale structural changes of tertiarization, educational expansion and female employment growth have not only led to a new economic context of permanent austerity (Pierson, 1996) but have changed also needs and demands for social protection. These new needs and demands (new social risks) have revealed institutional frictions in a welfare state built on the premise of an industrial (male-breadwinner) society. The literature on social investment (Esping-Andersen, 2002b; Morel et al., 2012a; Hemerijck, 2013) empha-

sizes the need to move beyond purely transfer-oriented social consumption polices
and towards future-oriented social investment policies. Whereas former relate to
the needs of an industrial society and try to insulate against income or job loss
due to sickness, invalidity, old-age or unemployment (Bonoli, 2007), latter focus on
the reconciliation between work and family life, single parenthood, low and obsolete
skills through family and childcare policy, active labor market policies and certain
educational policies (Taylor-Gooby, 2004; Bonoli, 2005; Bonoli and Natali, 2012a;
Hemerijck, 2013).

The common denominator of this literature is the multidimensionality of welfare
state transformations. Since welfare states are very often severely constrained by
limited financial resources and increasing social demands, the politics of welfare state
reforms have in most cases transformed from a positive- to a zero-sum game (Levy,
1999; Häusermann, 2010). Governments increasingly enact reforms that increase
spending on one policy dimension at the cost of less spending on another one. Instead
of focusing on an unlikely rollback of the welfare state, it is important to analyze
welfare state change in a multidimensional framework.

Drawing from this line of research, welfare state reforms in times of limited
resources are conceptualized as a two-dimensional policy-space where the main con-
flict line is between protection- and investment-oriented policies (see Figure 4.1).
Protection-oriented social policies hedge against traditional social risks such as un-
employment, sickness, disability or old-age (Nikolai, 2012, p. 92). Investment-
oriented social policies, on the other hand, are more future-oriented and about
preparing individuals, families and societies to cope with structural changes rather
than *repairing* damage through compensatory social policies (Esping-Andersen, 2002b).
The policy repertoire consists of active labor market policy, childcare, paternity and
maternity leave, and some forms of educational policies (Nikolai, 2012).[1]

Figure 4.1 shows that the combination of these two dimensions leads to four
different reform patterns that each indicate potential trade-offs between protection-
and investment-oriented welfare state reforms in times of austerity. The lower right
quadrant symbolizes the *traditional, old welfare state* after 1945. It is based on
the Keynesian idea of social protection against future income loss and is mainly
a transfer-heavy welfare state with strong employment protection legislation. In-
vestment policies are very limited or even totally absent. The lower left quad-
rant illustrates the neoliberal agenda of a *lean state*, where both investment- and
protection-oriented policies are scaled down to an absolute minimum. The upper left

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[1]See Nolan (2013) for a critique of this simplified distinction of policies into investment or
consumption.
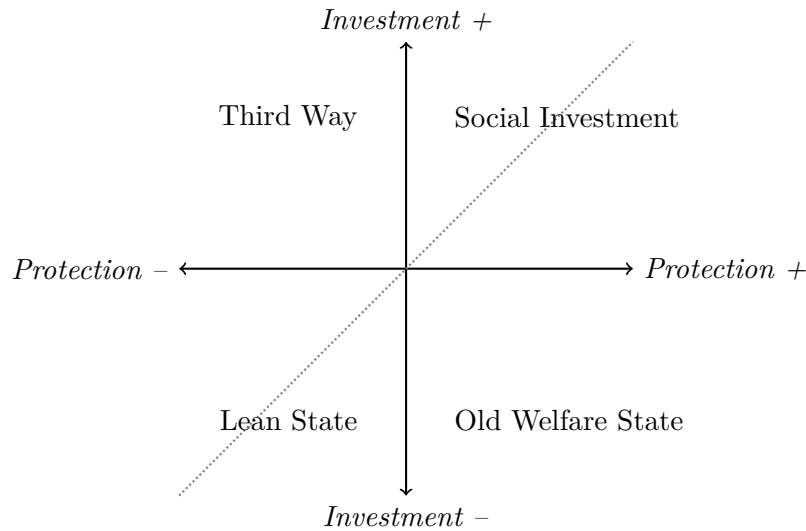
Figure 4.1: Welfare state reforms between protection and investment

quadrant exemplifies the *Third Way* (Giddens, 1998). It shares with the neoliberal approach the assessment that generous passive welfare benefits coupled with strong employment protection legislation lead to moral hazard. In order to avoid welfare state dependency, protection policies should be decreased. In contrast to the neoliberal approach, the Third Way additionally emphasized the necessity and urgency to create more opportunities for people through (demanding) activation, reintegration and education. This turn has been most visible during the Blair government (Clasen, 2005). Finally, the upper right quadrant indicates *social investment*. In opposition to the Third Way, investment-oriented policies are not seen as a sufficient substitute for social protection. The social investment approach is not about moving all resources away from the traditional pillar of the welfare state to the new investment pillar. Both protection- and investment-oriented policies are important (Hemerijck, 2013). What matters is to strike the right balance between protection and investment (Esping-Andersen, 2002b). Morel et al. (2012a) have defined it as follows:

> "The social investment approach rests on policies that both invest in human capital development (early childhood education and care, education and life-long training) and that help to make efficient use of human capital (through policies supporting women's and lone parents' employment, through active labor market policies, but also through specific forms of labor market regulation and social protection institutions that promote flexible security), while fostering greater social inclusion (notably by facilitating access to the labor market for groups that have traditionally

been excluded). Crucial to this new approach is the idea that social policies should be seen as a productive factor, essential to economic development and to employment growth" (p. 2).

In an ideal world, consumption should be kept at fairly high levels while additional resources should be directed towards investment. In times of limited resources, however, such an ideal world is very difficult to realize for some countries. A recent expert report (Bouget et al., 2015) has identified three different clusters. Scandinavian and some Continental European (Austria, Belgium, Germany, France, the Netherlands) countries belong into the first cluster with fairly well-established social investment policies. The second cluster consists of countries such as the United Kingdom, Spain, Portugal, and Ireland where only certain social investment policies have been implemented. The last cluster consists of Greece, Italy, Romania, Bulgaria, and the Baltic states where coherent social investment ideas are basically absent and only very few policies have been implemented.

4.2.2 Types of Activation

Moving beyond the simple distinction between social protection and social investment, it is important to look more closely at active labor market policies, which has been the most dynamic policy field together with family policies over the last two decades (Morel et al., 2012a; Bonoli, 2013).

Active labor market policies (ALMPs) are clearly on the rise in Europe and they consist of a variety of activation measures. Barbier and Ludwig-Mayerhofer (2004) differentiate between two ideal-types of activation: a liberal type and a universalistic type. The *liberal* type increases the individual's dependency on the labor market. ALMPs play only a limited role and they are usually combined with strong workfare policies such as the duty to seek for a job and accept any job on the market. The *universalistic* type, on the other hand, guarantees relatively high standards of living, ALMPs play a strong role and they are usually more oriented towards human capital investments through training. In a similar vein, Taylor-Gooby (2004) refers to the two ideal types as *positive activation* and *negative activation.*

Bonoli (2010, 2013), on the other hand, highlights in his work the diversity of different activation policies. He distinguishes between two different dimensions. The first dimension refers to what extent policies have a pro-market employment orientation and the second one is concerned with the extent to which policies invest in human capital. The combination of these two dimensions leads to four different types of activation (see Table 4.1 for an overview of his conceptualization).

Table 4.1: Types of active labor market policy

		Investment in Human Capital		
		None	Weak	Strong
Pro-Market Employment Orientation	Weak	(Passive Benefits)	**Occupation:** job creation schemes in the public sector; non-employment related training programs	(Basic Education)
	Strong	**Incentive Reinforcement:** tax credits; in-work benefits; time limits on recipiency; benefit reductions; benefit conditionality	**Employment Assistance:** placement services; job subsidies, counselling, job search programs	**Upskilling:** job-related vocational training

Note: This table is based on Bonoli (2013, p.24).

The first type is called *incentive reinforcement* and refers to measures that increase incentives to work for benefit recipients (e.g. increased conditionality between passive benefits and participation in activation programs or use of sanctions). This type has a strong pro-market employment orientation and has no focus on investment in human capital. The second type he identified is called *occupation* and has a weak pro-market employment orientation. The primary goal is not to reintegrate the unemployed into the primary labor market but to keep them busy with work (e.g. by job creation and work experience programs in the public or non-profit sector). Moreover, it has a limited/weak focus on investment in human capital. The third type is *employment assistance* and alludes to measures that reduce barriers to labor market participation (e.g. programs to improve job search and job placement). It therefore has a strong pro-market employment orientation and a weak focus on investment in human capital. Finally, *upskilling* is the last type and has a strong focus on human capital investment and also a strong pro-market employment orientation. It mainly refers to activities that improve the skills of the unemployed, for example by vocational training or by retraining those whose skills have become obsolete.

Given the detailed nature of Bonoli (2010, 2013) four types of activation, I will follow his conceptualization for the measure of different types of active labor market policies.

4.2.3   Distributional Effects on Insiders and Outsiders

In addition to the broad focus on welfare state *orientations*, labor market reforms also have important *distributive effects*. Since the 1970s, labor markets of most advanced capitalist democracies have been described as inherently dualistic. The dual labor market theory (Berger and Piore, 1980) and the insider-outsider theory (Lindbeck and Snower, 1988) have described an increasing segmentation of the labor market between highly protected workers (insiders) and little to unprotected workers or the unemployed (outsiders). More recent studies on dualization (Rueda, 2005, 2006, 2007; Emmenegger et al., 2012; Häusermann and Schwander, 2012) have taken the changing nature of labor markets into account and have tried to integrate the rising share of atypical employees into the insider-outsider framework. Rueda (2005) defines insiders as workers with highly protected jobs who are not threatened by high levels of unemployment, whereas outsiders are either unemployed or hold low-paid, insecure jobs without sufficient employment rights, benefits and social security privileges. The outsiders therefore consist of the unemployed, the involuntary fixed-term and the involuntary part-time employed.

In order to assess welfare state change in times of austerity, it is therefore crucial to focus on the distributional effects of labor market reforms on insiders and outsiders and to try to measure them as adequately as possible. However, when trying to measure welfare state effort and its distributional effects on different social groups, we are generally confronted with what has been termed the "dependent variable problem" in welfare state research (Green-Pedersen, 2004). Given the importance of labor market dualization, there have been surprisingly little attempts to establish better measures. Most recently, Rueda has emphasized this problem yet again:

> "In spite of the abundance of work using insider-outsider differences as
> a concept, there is very little guidance in the literature about how to
> measure dualization per se. Although there are many impressionistic and
> case-specific treatments of dualization, it is difficult to find systematic
> measures that would allow us to assess whether particular countries are
> more dualized than others (or whether these national differences have
> changed over time)" (Rueda, 2014, p.385).

On these grounds, most studies in the field of political economy and welfare state research struggle to appropriately measure *distributive effects* of labor market reforms. Although there have been some promising attempts by either disaggregating spending data (Bonoli, 2010; Vlandas, 2013; Rueda, 2014) or by focusing on the

size, duration, coverage and eligibility of certain social policies (Allan and Scruggs, 2004), none of those specifically focuses on the distributive effects of reforms on insiders and outsiders. For this very reason, it is important to first theoretically classify distributional effects of labor market reforms on insiders and outsiders and subsequently operationalize these distributional effects as adequately as possible.

Since the process of dualization is considered to be one of the most obvious trends in advanced capitalist democracies in the last decades (Emmenegger et al., 2012), I classify labor market reforms in terms of their distributional effect on insiders and outsiders. I propose to map the distributional effects of labor market reforms in a two-dimensional policy space (see Figure 4.2). The horizontal axis refers to policies that positively or negatively affect insiders, whereas the vertical axis relates how outsiders are affected by each policy change. The specific distributional effects of each labor market reform can then be located anywhere in this two-dimensional space. By mapping reforms in this policy-space we are able to identify reform patterns both over time and across countries.

The combination of the two dimensions leads to four different reform patterns. Reforms located in the lower left quadrant worsen the labor market situation of *both* insiders and outsiders at the same time (*retrenchment*), whereas reforms in the upper right quadrant improve the situation of *both* groups (*expansion*).

In the upper left quadrant are reforms that only improve the situation of outsiders over insiders. These *recalibration reforms* are trying to ameliorate the situation of outsiders either by reallocating resources or/and protection from insiders to outsiders or by simply increasing the overall resources or/and protection for outsiders while leaving the situation of insiders untouched. In line with similar definitions (Clasen et al., 2012; Häusermann and Palier, 2008; Pierson, 2001), these reforms seek to share the risks of post-industrial labor markets more equitably than in past. Finally, reforms located in the lower right quadrant can be characterized as *dualization.* In contrast to recalibration, dualization reforms further improve the situation of insiders over outsiders. This reform strategy has also been called partial deregulation (Ebbinghaus and Eichhorst, 2007; Marx, 2012), flexibilization at the margin (Bonoli and Emmenegger, 2010; Palier and Thelen, 2010; Viebrock and Clasen, 2009) or two-tier selective labor market policy (Esping-Andersen, 2000).

In addition, the diagonal in Figure 4.2 indicates the trade-off between insiders and outsiders. If a reform is perfectly located on the diagonal, it has the exact same positive or negative effect on both groups. However, all reforms that will be located below and above the dashed diagonal do not equally favor or discriminate insiders and outsiders. Reforms above the diagonal privilege outsiders over insiders
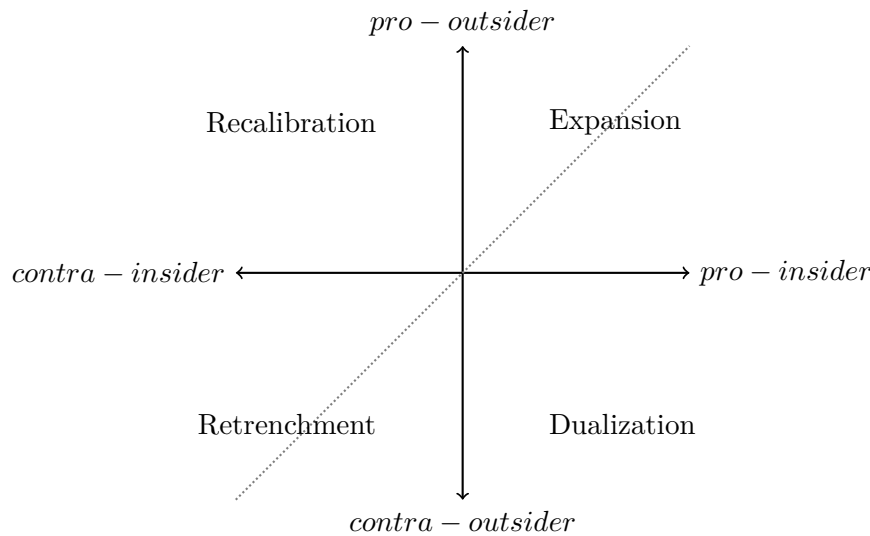
Figure 4.2: Distributional effects of labor market and social policy reforms

and all below the diagonal vice versa. For example, a reform above the diagonal in the upper right quadrant would positively affect both insiders and outsiders but outsiders would profit more than insiders. The reform could therefore also be characterized as a recalibration reform because it diminishes the existing dualization of the labor market. The same is true for reform above the diagonal in the lower left quadrant. Despite the fact that it has a negative effect for insiders and outsiders, it has less negative effects for outsiders than insiders. This has also been described as "subtractive recalibration" (Ferrera et al., 2012), where insider-outsider divides diminish because insiders have become less protected over time. Conversely, all dots below the diagonal lead to a further dualization of the labor market.

Before I will discuss the coding rules of policies, it is important to mention that I will not discuss these different policy fields in terms of whether outsiders or insiders *prefer* these policies. Rather, my focus lies on the extent to which policies directly *affect* the labor market situation of insiders and outsiders. My approach is therefore not directly linked to the debate to what extent insiders and outsiders actually differ in their preferences over these policies.[2]

Therefore, the pro-insider and pro-outsider policies in Figure 4.2 do not refer to those policies insider or outsiders prefer but to those policies that directly improve the protection or status of insiders and outsiders in the labor market. This is by no means an artificial differentiation. For example, it may very well be the case that

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[2]For this, nonetheless, interesting debate whether dualization leads to a preference divide between insiders and outsiders see Rueda (2005, 2006, 2007); Emmenegger (2009); Schwander and Häusermann (2013); Häusermann et al. (2015); Häusermann et al. (2016) as well as Chapter 3.

outsiders prefer rigid employment protection legislation of permanent work contracts (Emmenegger, 2009), although they are not directly affected by and hence do not directly profit this legislation. The following coding of how different labor market policies affect insiders and outsiders is therefore detached from the discussion about preferences. It is about to what extent certain policies insulate insiders and outsiders from particular labor market risks and hence about the distributional effects of different labor market policies. Some policy preferences of insiders and outsiders can, of course, be similar or even equal to how those policies affect them "on the ground". But for two reasons it is better to differentiate between preferences and effects. First, the two might not always overlap or even go in opposite directions, as seen in the before mentioned example regarding EPL for standard workers (insiders). Second, the ongoing debate about the individual preferences of insiders and outsiders is by no means conclusive and preferences might change over time and across country.

4.3   A Policy-Based Measure of Welfare State Change

4.3.1   Defining Policy Output

It is important to note that I follow a narrow definition of *policy* by exclusively focusing on policy output. Policy output refers to legally binding regulations enacted by a government and/or parliament on the national level (Helbling et al., 2017). The phase of policy implementation comes after a specific policy change has been enacted and links the policy outcome (e.g. spending on active or passive labor market policy) to the policy output. The extent to which a specific policy output is actually being implemented, however, may vary quite drastically across country, over time, and depending on the policy field. For example, the capacity to actually implement binding legal regulations may be severely impeded in some countries, especially in some Southern European countries with low state capacity (Beramendi et al., 2015).

   In spite of differences in state capacity, it is important to differentiate between policy output, implementation, and outcome. This allows me to isolate the effects of policy output and policy implementation on policy outcomes. If there is a big discrepancy between a policy outcome and the recently enacted policy output, it is very likely that it has not been properly implemented. For example, if a policy outcome measure shows stagnating government expenditure on active labor market policies over time, despite the fact that this policy outcome measure indicates multiple expansive active labor market policy reforms being enacted over the last years, we can strongly assume that the implementation process has not been successful.

Therefore it is crucial to keep these stages analytically separate and to measure exclusively the policy output.

4.3.2 Coverage and Data Collection

The countries covered in this dataset are Italy, Greece, Portugal and Spain as representatives of Mediterranean welfare states and Austria, Belgium, France, Germany and the Netherlands as representatives of Continental European welfare states. The time period under investigation goes from 1990 to 2016, which allows to assess three periods in Europe, each under fairly different economic circumstances: a pre-EMU period (1990-1998), a EMU period (1999-2008), and a crisis period (2009-2016).

The policy fields studied are labor market policies that are generally considered as being typical fields of social investment and social consumption. In the field of labor market policy, all policy changes affecting passive labor market policy (PLMP), active labor market policy (ALMP), employment protection legislation (EPL), early retirement (ER) and short-time work (STW) were collected. The first three policy instruments are the most important ones, but ER and STW have also played a role in earlier crises (Levy, 1999; Häusermann and Palier, 2008; Bonoli, 2010; Clasen et al., 2012) and there are some signs that this has also been the case for short-time work programs during the Great Recession (OECD, 2008, 2010; Hijzen and Venn, 2011; Leschke, 2012; Rinne and Zimmermann, 2012).

In this dataset, the unit of analysis is a single policy change. A policy change can be different from a reform. A reform can be a collection of multiple policy changes, which have been formally ratified in one document. Projected and rejected reform projects are not part of the dataset. Multidimensional reform packages that affect more than just one policy field (e.g. ALMP and PLMP) are coded separately for each policy change (that is to say for each institution affected by the reform). Moreover, this dataset only collected policy changes enacted on the national level.

The data collection proceeded in three stages to ensure that information on all enacted labor market reforms were gathered. A detailed list of the sources used in these three stages can be found in Table A.1 the Appendix A.4. In the first stage, I collected information on legislative changes from five international (ILO Natlex, ILO EPLex, ILO Travail, EU-MISSOC, EUR-Lex) and nine national databases (the respective official gazette of a country). I wrote a short summary of each legislative change in English, outlining the main changes of a newly enacted reform. In addition, I systematically gathered information on the exact name of the law, the policy field affected by it (ALMP, PLMP, EPL, ER, STW), the general topic of reform, who (if

any) is being targeted by the reform specifically and under which government it has been enacted.

In the second stage, I compared my collected reform database with the already existing LABREF database (2000–2016) and the Fondazione Rodolfo DeBenedetti's Social Reform Database (1980–2007). The reason why I have not used the two already established databases has to do with both their scope of policy fields and their selection criteria of reforms. Both databases include policy changes that are not directly related to legislative changes and the LABREF database includes additionally local/regional reforms. In both instances, it is difficult to keep them apart due to the limited information these databases provide. Moreover, both databases do not fully capture all the policy fields I am interested in and has especially strong limitations with regards to active labor market policy reforms. Already at this second stage, there were only a few reforms that were not already collected in the first stage. If I encountered a reform in the second stage that has not been identified in the first stage, I went back to the respective legislative databases to search for the reform.

In a final step, I double checked the collected data with the country-specific secondary literature that describes most of the relevant reforms in detail (see Table A.2 in the Appendix A.4 for a detailed list of the secondardy literature). This last step can be seen as both a check for the completeness of my data and a first step of data validation. Only four smaller reforms in three countries were additionally detected in this last step. Thus, there is a very low probability to have missed any (important) reforms.[3]

In total, the dataset contains detailed information on 1'279 policy changes enacted in 678 reforms in Continental and Southern Europe from 1990 to 2016. Table 4.2 presents a breakdown of all the policy changes by policy field and by country. Out of 1'279 policy changes, roughly a third each concerned policy changes in either active labor market policy (33.5%) or employment protection legislation (31.7%). Another quarter related to changes in passive labor market policy (24.8%). Finally, changes in early retirement (5.8%) or short time work (4.1%) have been rather limited. There are some country- and region-specific differences in the intensity to which reforms are being pursued in different policy fields. First, policy changes in Continental European countries did most commonly taken place in the field of active labor market policy, whereas in Southern European countries (except Portugal) policy changes regarding employment protection legislation did prevail. Second, changes in passive labor market policy do not show a big variation across countries.

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[3]The longer the reform dates back, however, the more likely it has been missed. Hence, there is the small possibility that some minor reforms were not included in the dataset. But it is very unlikely that it would change the results in any meaningful way.

Table 4.2: Number of Policy Changes by Policy Field and Country

	Policy Field					
	ALMP	PLMP	EPL	ER	STW	Total
Austria	36	30	27	15	10	118
	30.5%	25.4%	22.9%	12.7%	8.5%	100%
Belgium	60	39	29	12	7	147
	40.8%	26.5%	19.7%	8.2%	4.8%	100%
France	51	31	46	13	7	148
	34.5%	20.9%	31.1%	8.8%	4.7%	100%
Germany	55	43	39	5	9	151
	36.4%	28.5%	25.8%	3.3%	5.9%	100%
Greece	42	20	47	1	4	114
	36.8%	17.5%	41.2%	0.8%	3.5%	100%
Italy	40	44	84	5	6	179
	22.4%	24.6%	46.9%	2.8%	3.4%	100%
Netherlands	47	29	44	6	4	130
	36.1%	22.3%	33.9%	4.6%	3.1%	100%
Portugal	55	38	34	7	2	136
	40.4%	27.9%	25.0%	5.1%	1.5%	100%
Spain	43	43	56	10	4	156
	27.6%	27.6%	35.9%	6.4%	2.6%	100%
Total	429	317	406	74	53	1'279
	33.5%	24.8%	31.7%	5.8%	4.1%	100%

Note: Absolute number of policy changes and relative row percentages in the dataset.

Finally, changes in short time work schemes and early retirement were more common in Continental Europe than in Southern Europe.

The frequency of policy changes does also vary over time. Figure 4.3 shows some explicit time trends in the distribution of policy changes over time by policy field (upper panel) and by country (lower panel). Not surprisingly, changes in active labor market policies really started to took off since the early 1990s and only came to a halt since the onset of the Great Recession. Apart from that, there is also an overall increase from 1990 to 2016 in policy changes affecting employment protection legislation, only with the exception of a small phase in the mid-2000s where not so many changes were registered. Latest since the start of the Eurozone crisis in 2009/2010, there have been multiple far-reaching reforms in this field. As the next chapter will illustrate, most of these reforms took place in the hard hit countries of Southern Europe. And as was to be expected, short time work schemes were only reformed during the economic crisis.
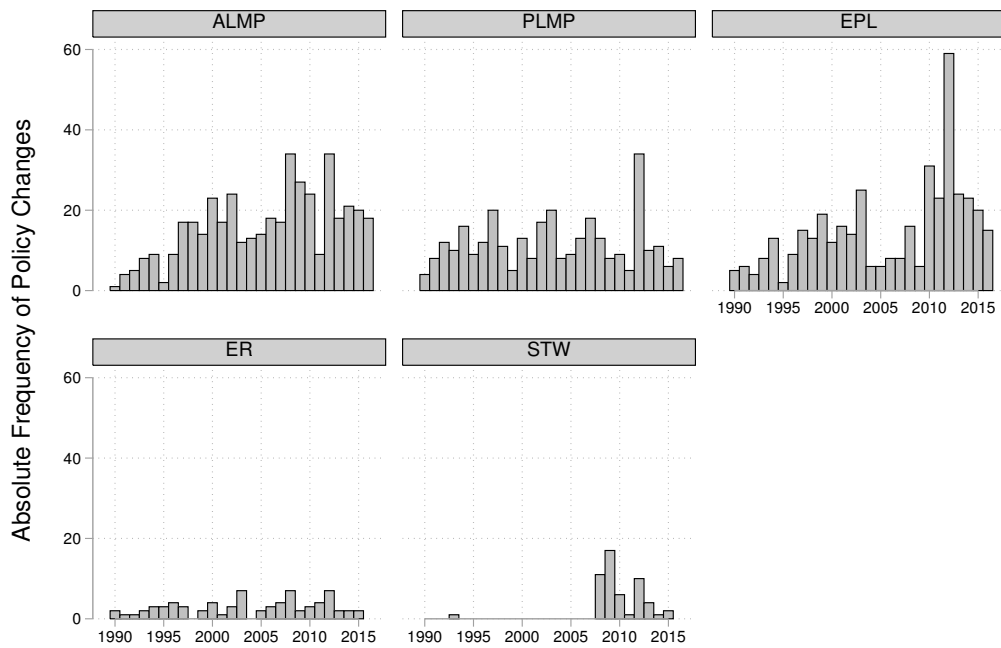
(a) Absolute Frequency of Policy Changes by Policy Field over Time
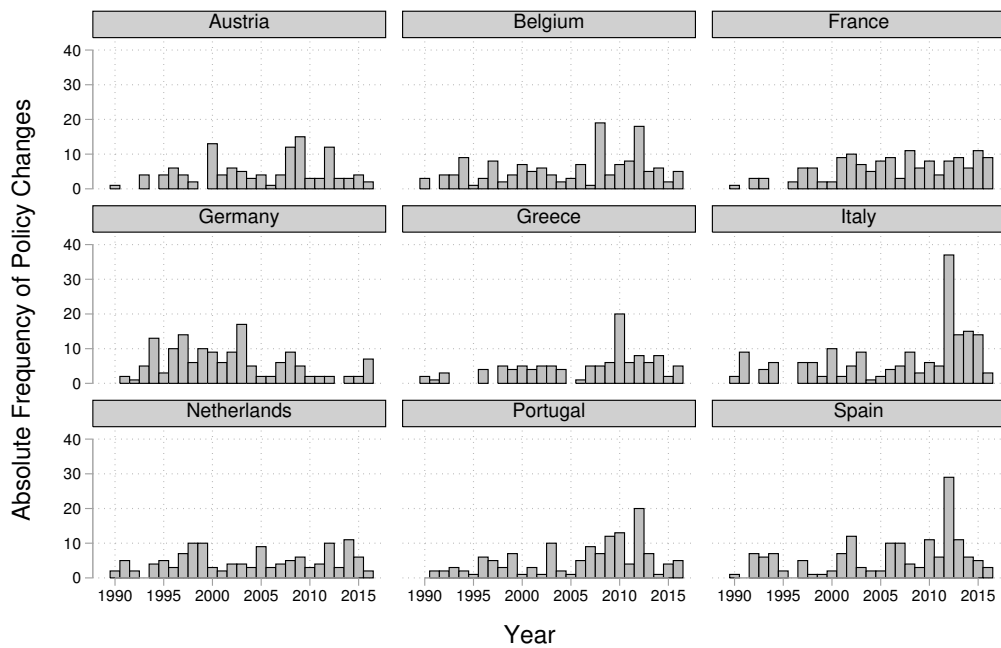
(b) Absolute Frequency of Policy Changes by Country over Time

Figure 4.3: Absolute Frequency of Policy Changes

4.3.3 Coding of Reforms

Based on the detailed policy content collected, I coded each policy change following the theoretical conceptualization. Broadly, three different aspects of welfare state change are being measured. The first group of variables concerns the broader orientation of the welfare state (social consumption, social investment, regulation). The second group of variables assesses exclusively active labor market polices and distinguishes between four different types of activation according to the conceptualization originally proposed by Bonoli (2010, 2013). Finally, the last group of variables concerns the distributive effect on labor market insiders and labor market outsiders.

In addition, each policy change is weighted by its importance/gravity. This could be done in two different ways. One way of assessing the importance of different policy changes could be by relying on the seminal distinction of first-, second- and third-order changes by Hall (1993). A first-order change affects only the levels of a specific policy instrument and is usually the result of social learning, much alike the conceptualization of policy making by Heclo (1974) as a process of puzzling and powering. Second-order changes go one step further and affect not only the level but also the policy instrument itself. Finally, third-order changes are not only simultaneous changes in the first two dimensions but furthermore alter the hierarchy of goals behind policies. Such a distinction has proved fruitful for the analysis of macroeconomic policy-making and the shift from Keynesianism to monetarism. It is, however, more difficult to use these three orders of change in the context of welfare state change. Whereas first- and second-order changes could potentially be used to assess the severity of policy changes, it is ultimately the long-term development of first- and second-order changes that could give us an indication to what extent we also witness a third-order change of social policy making.

A second way to weight policy changes is based on the concept of status quo change by Baumgartner (2013). He shows that a slightly simpler distinction could be more useful for policy analysis. On the one hand, policy changes can strongly challenge and alter the status quo and, on the other hand, policy changes can bring about only minor changes. In line with Baumgartner (2013), each policy change is therefore weighted by 1 if it is a comprehensive change that addresses the broader design of existing policy instruments or by 0.5 if the change only marginally affects the overall design of existing policy instruments.

In the next part, I describe the coding rules for each policy field. An overview of final variables in the dataset can be found in Table 4.3 and in Table 4.4 I present a specific coding example based on the Jobs Act reform in Italy in 2014.

Table 4.3: Variables in the dataset

Variable	Operationalization
year	Year of the reform
month	Month of the reform
idr	Each reform get a unique code (e.g. IT001)
idpc	Each policy change within a reform get a unique code.
country	Greece, Italy, Portugal, Spain
law	Law code or title of the approved document
description	A detailed qualitative description of each policy change
field	Policy field: Active labor market policy (ALMP), passive labor market policy (PLMP), employment protection legislation (EPL), short-time work schemes (STW), early retirement (ER)
scope	A policy change is structural (1) if it is a comprehensive reform, addressing the broader design of existing systems, rather than their minor features. It is marginal (0.5) otherwise.
epl	Does the policy change affect regular contracts (1) or irregular/atypical contracts (2)?
target	Target population of this policy change (qualitative description)
cabinet	Under which government has the measure been introduced?
govparty1,2,3	Name of the first, second and third government party
direction	Direction of the policy change: 1: expansion; 0: no change; -1: retrenchment
consumption	Compensation dimension of the welfare state: expansion (1), no change (0), retrenchment (-1)
investment	Investment dimension of the welfare state: expansion (1), no change (0), retrenchment (-1)
regulation	Regulation dimension of the welfare state (only EPL): expansion (1), no change (0), retrenchment (-1)
almptype	Type of activation (Bonoli 2010, 2013): incentive reinforcement (1), employment assistance (2), occupation (3) or upskilling (4)
insider	Effect on labor market insiders (only labor market policies): positive (1), no change (0), negative (-1)
outsider	Effect on labor market outsiders (only labor market policies): positive (1), no change (0), negative (-1)

Table 4.4: Coding Example of a Labor Market Reform, based on Law 183/2014 (Jobs Act) under Renzi Government in Italy, 2014

ID	Description	Field	Scope	Dir	Con	Inv	Reg	Almp	Ins	Out
IT0581	Reform merges ASPI and mini-ASPI into NASPI, a more broad-based insurance benefit with longer duration (up to 2 years), depending on previous contributions.	PLMP	1	1	1	0	0		1	1
IT0582	As a pilot, a new unemployment insurance scheme for atypical employees (DIS-COLL) will be introduced with a maximum duration of six months.	PLMP	0.5	1	1	0	0		0	1
IT0583	Creation of ASDI, a means-tested form of unemployment assistance for those who have exhausted their entitlement to unemployment insurance.	PLMP	1	1	1	0	0		0	1
IT0584	Provision of new ways to help benefit recipients conduct active job search.	ALMP	0.5	1	0	1	0	EA	0	1
IT0585	Creation of a National Agency for ALMPs (ANPAL). The intention is to strengthen public employment services in order to create an adequate institutional foundation for active labor market policies in Italy. Main goal is to create a national employment agency to replace the current decentralized services.	ALMP	0.5	1	0	1	0	EA	0	1
IT0586	Reform intends to promote open-ended contracts by reducing non-wage labor costs for new hires. The main incentives are reduced employer contributions.	ALMP	0.5	1	0	1	0	EA	0	1
IT0587	Introduction of new sanctions to assure compliance of the unemployed. Sanctions established by law, range from the reduction to the loss of the entitlement to unemployment benefits, as well as the reduction or loss of income support measures during the employment relationship (CIGO, CIGS, SC, SF).	ALMP	1	-1	0	-1	0	IR	0	-1
IT0588	Relevant proposition in the law affects Article 18 only indirectly; for new hires, of the open-ended contract with increasing protection in relation to seniority. Thus, the law specifies that for those on the new contract type, reinstatement is excluded for economic dismissals, remaining only for discriminatory and for some illegitimate disciplinary dismissals. By comparison, Article 18 (after the Fornero reform and still in force for existing unlimited contracts) maintains reinstatement after unjustified economic dismissal only if the reason is manifestly absent. The new contract will be compulsory for all new hires on unlimited contracts.	EPL	1	-1	0	0	-1		-1	0

Notes: To improve readability the description of the policy changes has been shortened. There is more detailed information available in the database. In addition, some variables (country, law number, target group of the policy change, cabinet, government parties) are not shown here.
Abbreviations: Dir=direction; Con=consumption; Inv=investment; Reg=regulation; Ins=insider; Out=outsider; EA=employment assistance; Almp=activation type; IR=incentive reinforcement.

Employment Protection Legislation

Welfare state orientation: In the literature, it is unclear if and to which dimension employment protection legislation belongs. Some see it as part of consumption (Beramendi et al., 2015, p. 15), others argue that the right balance between flexibility and protection is key (Hemerijck, 2013). In order to avoid this conceptual confusion, employment protection is coded on a separate dimension of *regulation*. All the policy changes that increase the regulation of EPL are coded as +1 and -1 if the protection is being deregulated. This is irrespective of whether it affects standard (full-time open-eneded) contracts or atypical (temporary, part-time, zero-hour, etc.) contracts.

Insider/outsider: Unlike before, here we now focus on the difference between standard and atypical work contracts. Rigid employment protection legislation for standard employment contracts clearly privileges insiders due to the fact that it increases the turnover costs of labor (Saint-Paul, 2002). And "the greater the turnover costs, the greater the wage that insiders can achieve without creating the threat of dismissal" (Lindbeck and Snower, 2002, p. 4). Outsiders, on the other hand, are penalized since their chance to enter standard employment decreases. Labor market reforms that only improve EPL for the standard employed lead to a further dualization of the labor market. But, in the past, there were also attempts to increase EPL for atypical employment contracts (e.g. part-time or fixed-term contracts), which would then in contrast, privilege outsiders. Therefore, it is important to distinguish between EPL for standard employment contracts (the insiders) and EPL for atypical contracts (the outsiders).

Passive Labor Market Policy

Welfare state orientation: Passive labor market policy is a classical case of social consumption. It is essentially a direct financial transfer that hedges against income or job loss. Policy changes that improve passive labor market policy (e.g. increased coverage, eligibility, generosity) are all coded as +1 on the consumption dimensions. Changes that negatively affect passive labor market policy are being coded as -1.

Insider/outsider: The distributional effect of passive labor market policies (PLMPs) on insiders and outsiders is more ambiguous. Rueda (2007) argues that PLMPs focus on the financial support of the unemployed and are therefore pro outsider policies since outsiders are either already unemployed or are likely to become unemployed due to their precarious jobs. Insiders, in contrast, enjoy high levels of job protection and are less vulnerable to unemployment. I, however, doubt that this explanation

is accurate for two reasons. First, PLMPs, of course, support the unemployed, but in social insurance welfare regimes like the ones in Continental and Southern Europe outsiders with their atypical work biographies often do not even have sufficient social rights to access these schemes (Häusermann and Schwander, 2012). Second, Rueda forgets that PLMPs also affect the wage formation process. If the threat of becoming unemployed is attenuated by relatively generous PLMPs (in the case of unemployment) for insiders, then insiders will demand for higher wages further reducing outsiders chance to enter the primary labor market (Saint-Paul et al., 1996). Due to this complexity, the analysis of the distributional effects of PLMPs should, according to Boeri (2011), look at (least) three dimensions: (i) the eligibility conditions (the norms determining the access to the benefit), (ii) the entitlement conditions (the rules concerning the duration of the payment) and (iii) the replacement rates (the fraction of previous income replaced by the transfer). Of particular importance for outsiders are the eligibility conditions of PLMPs. If labor market reforms extend the eligibility conditions to, for example, fixed- term contracts, then the reform clearly improves the situation of outsiders. But, as it often was the case, PLMPs can be manipulated to further exclude outsiders and favor insiders, for example, by limiting the eligibility criteria to access PLMPs (Rueda, 2007, p. 178).

Active Labor Market Policy

Welfare state orientation: Active labor market policy is generally being considered as a typical case of social investment. However, here it is only considered as investment if it used as an instrument of social promotion through upskilling and employment assistance. If it is about strengthening the principle of incentive reinforcement through sanctions and benefit conditionality (workfare), it is coded as negative investment (Bonoli, 2013).

Insider/outsider and ALMP type: Rueda describes ALMPs as "unambiguously pro-outsider" (2007, p. 73). However, here I follow the conceptualization of Bonoli (2010, 2013) and distinguish between four types of ALMPs that have been discussed in the theoretical part. Although these four types of ALMPs have in common that they all aim at outsiders, not all of them can be classified as pro-outsider policies. In particular, the measures of incentive reinforcement often do not improve the situation of outsiders but sanction them and force them to take any job offer they get independent from whether it matches their skills and preferences. Nonetheless, most of ALMPs clearly favor outsiders and would therefore be placed in Figure 4.2 in the upper left quadrant of recalibration reforms.

Short-Time Work

Welfare state orientation: Short-time work schemes are also a rather classical case of social consumption. Thus, all policy changes that increase the availability and accessibility of short-time work schemes is coded as +1 on the consumption dimensions. Changes that negatively affect short-time work schemes are being coded as -1.

Insider/outsider: Short-time work (STW) programs temporarily permit firms in times of crisis to temporarily curb the working hours of full-time jobs without firing the employed. STW programs were extensively used in many countries at the beginning of the Great Recession with the intent to prevent a further rise in unemployment (OECD, 2010, p. 85–88). However, not all workers benefit from these measures. Insiders benefit strongly from STW programs as they keep their jobs, whereas outsiders are usually dismissed (Palier and Thelen, 2010, p. 210). Saint-Paul et al. (1996, p. 267) add that STW programs are a subsidy to not firing insiders and thereby raise the "outside option" of insiders in bargaining, hence bidding up wages. In a nutshell, short-time work programs clearly favor insiders.

Early Retirement

Welfare state orientation: In contrast to STW programs, early retirement (ER) reforms do not aim at keeping workers in employment, but rather at easing withdrawal from work. ER reforms were heavily used during earlier crises but less so in the Great Recession (Hijzen and Venn, 2011; Clasen et al., 2012). Easing the access to early retirement was especially in the 1970s and 1980s in Continental Europe part of a common strategy of so-called *labor shedding* thereby reducing the labor market participation rate dramatically (Clasen et al., 2012; Häusermann and Palier, 2008). Early retirement can therefore also be considered as a classical case of social consumption whereby transition from work into retirement is eased. Thus, all policy changes that increase the availability and accessibility of early retirement options are coded as +1 on the consumption dimensions. Changes that restrict early retirement options are being coded as -1.

Insider/outsider: In line with the argumentation about distributional effect of PLMPs, ER reforms do not have clear-cut distributional effects. If ER is only granted to people with a standard work biography who paid their social contributions for some 30 to 40 years (as it is often the case), then ER clearly favors insiders and does not apply to outsiders. But if eligibility criteria to access ER programs are widened to include some atypical employees, then it clearly privileges outsiders.

4.3.4   Aggregation

The last issue of measurement to be discussed concerns the rules of aggregation. There is no standard, objective rule for the aggregation of policy output measures (Nardo et al., 2005). In my data, the most disaggregated level is that of the policy changes. It is where all the information has been compiled and where the coding of the variables has taken place. For most of the analysis to follow in the next chapters, however, the measures have been aggregated into different levels depending on the research question at hand. Broadly defined, aggregation is usually done through an additive or multiplicative rule. If the goal is to aggregate multiple criteria into a broader concept where some criteria need to be given, like in the case of measuring democracy, a multiplicative approach to aggregation is used. If certain criteria do not necessarily need to be present, additive aggregation is the most straightforward way to go.

The aim of this measure is not to aggregate the measured variables on the level of policy changes into a bigger concept, but to aggregate it into meaningful levels for analysis. Apart from the most disaggregated level of policy changes, four other levels of analysis are being used in the forthcoming chapters. First, policy changes are being aggregated to the *reform level* as often a single reform is compromised of multiple policy changes. It also allows assessing multidimensional reform packages where different compensation strategies are crucial for the success of reforms Häusermann (2010); Bonoli and Natali (2012a); Häusermann et al. (2018). Second, policy changes are being aggregated to the *monthly level* for the analysis of trends over time. It could also be possible to use such a monthly measure to assess the timing of important reforms or to link it to macroeconomic fundamentals. Third, policy changes are being aggregated to the *yearly level* for classical time-series cross-section analyses, as most other political, socio-structural, and economic data is usually also available in a yearly format. Finally, policy changes are being aggregated to the *cabinet level*. Unlike the country-year format before, the unit of analysis are country-cabinets. According to Schmitt (2016, p. 1443), "cabinets are usually the reference point for political actors and voters, and therefore are a more appropriate empirical instrument for translating standard theoretical assumptions".

4.4   Measurement Validation

In this last section, the goal is to assess the validity of the new policy output measures. According to Adcock and Collier (2001), measurement validation should

focus on the relationship between the new measure and the systematized concepts. A measurement can be considered valid when "the scores, derived from a given indicator, can meaningfully be interpreted in terms of the systematized concept that the indicator seeks to operationalize" (Adcock and Collier, 2001, p. 531). Convergent or construct validation therefore aims to compare to what extent a given indicator/measure is empirically associated with other already more established indicators. Given the limited availability of similar indicators assessing welfare state change based on policy changes, such a comparison is difficult to do. But there is a way to approximate meaningful comparisons with other indicators, if we compare the new policy output measure by policy fields where there is an overlap with existing indicators. Unfortunately, the only overlap exists only in the field of employment protection legislation.

In conceptual terms, the closest comparison can be achieved between the regulation dimension of EPL policy changes and the well-established OECD Employment Protection Index. Latter aims to measure the strictness of regulation on dismissals for regular workers (insiders) and the use of temporary contracts (outsiders). In a first step, I generate a standardized, over-time cumulative variable of all the policy changes in EPL regulation overall and by how it affects insiders and outsiders. In a second step, I also standardize the OECD EPL Index. Finally, the starting point of the cumulative policy measure in 1990 is set to the same level as the OECD EPL Index in order to achieve a meaningful comparison of the time trend. Figure 4.4 compares the time trends of the two measures by country and shows that the new measure is closely related to the OECD EPL Index. Three minor differences stand out. First, even though the two measure follow very similar trends over time, the new policy measure indicates more changes over time. Given that this is a more detailed measure than the OECD EPL Index, however, such a finding is not surprising. Second, big changes are usually temporarily delayed in the EPL index because it assesses regulatory changes later than the policy measure which records policy changes in the month they are enacted. As a consequence of this temporal delay, using the OECD EPL Index for the study of partisanship effects might link policy changes to the wrong party in government. Finally, the panel c shows that the policy measure for outsiders has a tendency to overestimate positive or negative policy changes. This is most likely due to the fact that the EPL Index focuses exclusively on the ease of use of temporary contracts, whereas my policy measure for outsiders includes a broader range of regulatory issues of atypical work.

A further validation exercise is to look at the yearly correlations between these indicators. Table 4.5 shows the results of the correlation tests. By and large, there
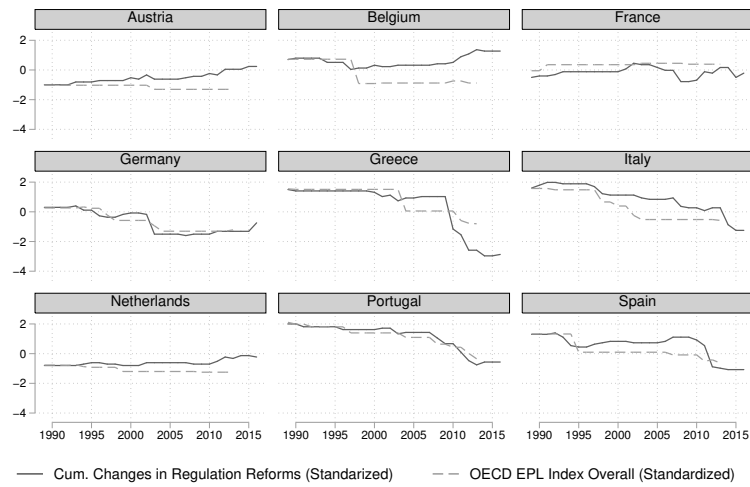
(a) Validation: Overall Regulation Measure
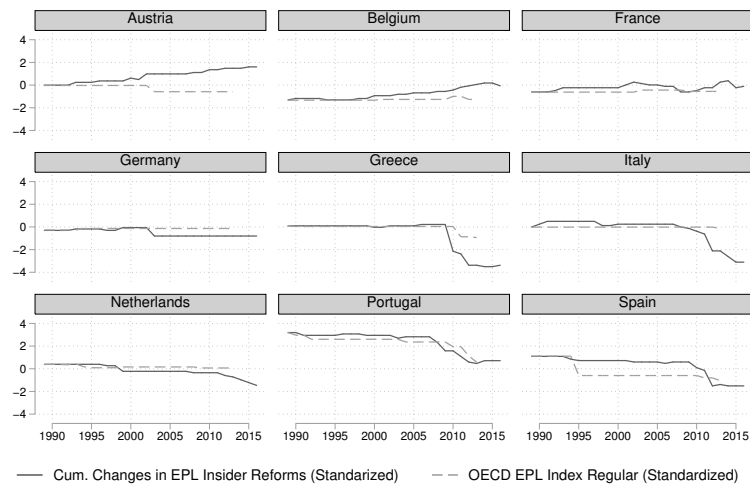
(b) Validation: Insider Regulation Measure
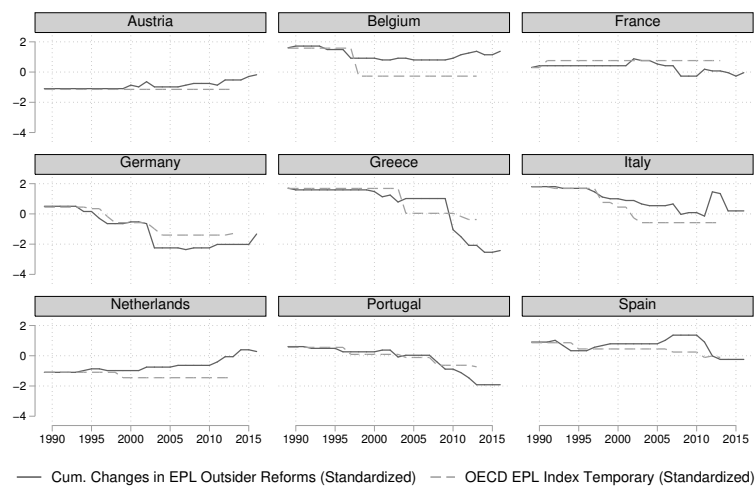
(c) Validation: Outsider Regulation Measure

Figure 4.4: Comparison of Regulation Measures with OECD EPL Indeces

Table 4.5: Correlation of Regulation Measures with OECD EPL Indeces

	(1)	(2)	(3)	(4)	(5)	(6)
(1) ReformEPLOverall	1.00					
(2) EPLIndexOverall	**0.79**	1.00				
(3) ReformEPLinsider	0.55	0.43	1.00			
(4) EPLIndexRegular	0.38	0.47	**0.80**	1.00		
(5) ReformEPLoutsider	0.83	0.66	0.07	-0.12	1.00	
(6) EPLIndexTemporary	0.68	0.86	0.03	-0.04	**0.81**	1.00

strong correlations visible in Figure 4.4 is further corroborated and the highest correlations (marked in bold) are always between the two corresponding indicators of the regulation measures and the OECD EPL indeces. Overall, these findings gives strong support to credibility and validity of my policy output measure.

There is no sensible validation exercise for the consumption and investment dimension, because there is simply no alternative policy-based measure available. A comparison with the Comparative Welfare State Entitlement Dataset is not feasible because of its narrow focus on replacement rates and two groups of recipients. Thus, the only alternative is to compare the policy measures with passive and active labor market policy spending data. As latter are policy outcome and not policy output data, however, we would end up comparing apples and oranges. We should therefore only expect a loose empirical association between spending and policy output data. Even though this comparison is not a validation exercise, it still indicates that big divergences between policy output and policy outcome could be related to an unsuccessful process of policy implementation. This gives us hints for the interpretation of country-specific trends in the following empirical chapters.

Like before, I generated two standardized, over-time cumulative variables of all the policy changes in passive and active labor market policy. In a second step, I calculate the spending effort by dividing spending of active and passive labor market policy (in % of GDP) with the unemployment rate. Even though still far from perfect, calculating the spending effort per unemployed comes closer to assessing the actual government effort (Ronchi, 2018) and make the two measures slightly more comparable. Finally, the starting point of the cumulative policy measures in 1990 is again set to the same level as the spending effort measures. Figure 4.5 compares the time trends of the consumption and investment measures against the spending effort on passive and active labor market policy. With the exception of Italy, the overall consumption measure (changes in the field of PLMP) is reasonable associated with PLMP spending per unemployed (correlation = 0.65), whereas the investment mea-
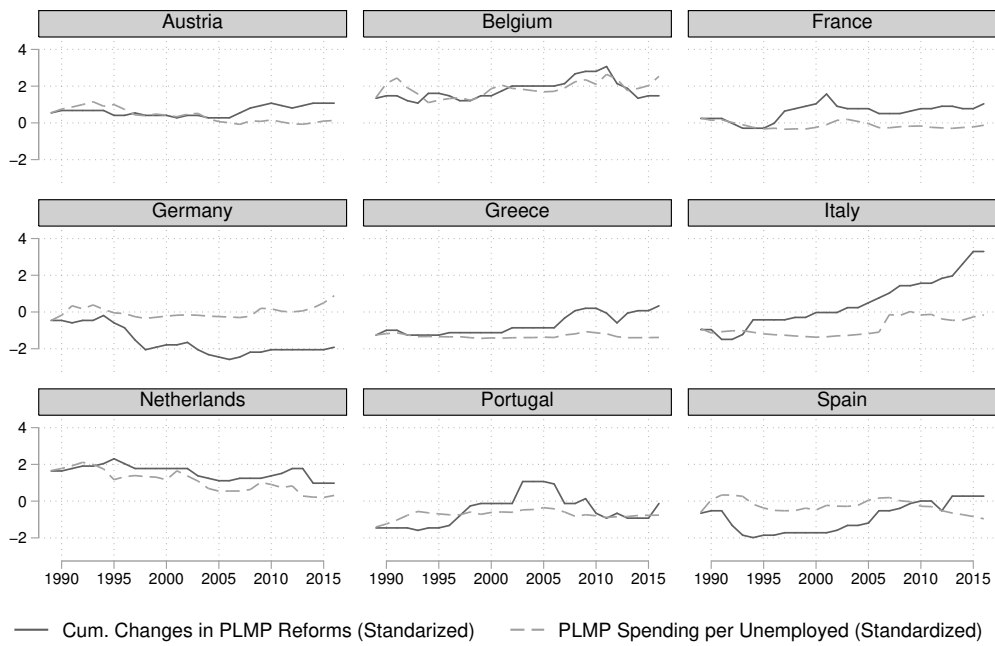
(a) Comparison PLMP
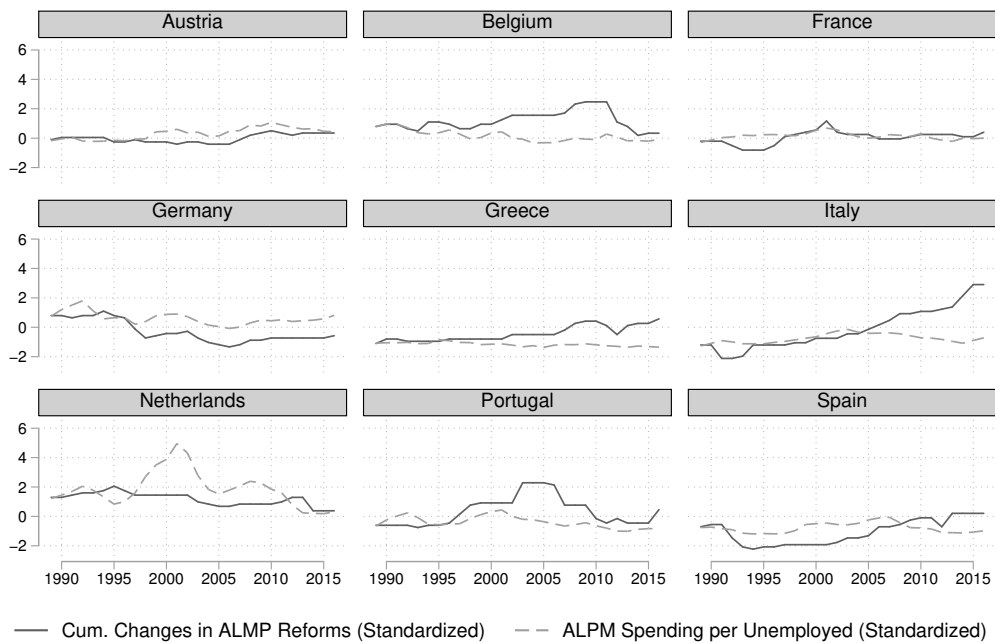
(b) Comparison ALMP

Figure 4.5: Comparison of Consumption/Investment Measures with PLMP/ALMP Spending per Unemployed

sure is less strongly associated with ALMP spending per unemployed (correlation 0.51). The biggest mismatch between the two indicators is for Greece and Italy. This might point to the problem of policy implementation in these countries. There seems to be a growing discrepancy between the spending on active labor market policy, which essentially remains flat over time, and the recently enacted expansive policy reforms. It is therefore likely that either policy reforms have not been properly implemented or the budget for those policies has been cut, rendering them unusable. This finding for Italy and Greece is important to keep in mind for the next chapters that analyze the politics of welfare state recalibration using this data.

Finally, there is no validation exercise for the fields of early retirement and short-time work due to two reasons. First, there are simply not enough observations over time to achieve a meaningful comparison of time trends by country. Reforms of short-time work scheme cluster around the time of the Great Recession and have barely been used before that. Early retirement reforms have taken place over the whole 26 years, but there have been so few that makes it difficult to properly assess these changes. Second, there is no established indicator to compare the policy measures to and even data disaggregated into spending on short-time work and early retirement schemes is not available.

4.5   Conclusion

This chapter has proposed a new conceptualization and measure of welfare state change based on assessing the policy output. The advantages of such a policy-based measurement approach are manifold. First, a policy-based approach tries to distinguish more clearly between an enacted policy change and the effective policy outcome. First, coding the actual policy output can minimize the potential of confounding factors. Using aggregate policy outcome measures such as social spending are usually confounded by a variety of other factors and as such make it difficult to properly assess the extent to which these outcomes are directly a result of political decision making. Second, a policy-based approach can disentangle reform packages by only looking at specific policy changes and can thereby closer examine multidimensional package deals. Third, it allows us to not only identify descriptive trends over time and across country, but also to tie policy outputs *directly* to specific parties in government. By looking only at spending or other outcome data this is rarely possible. It can be very difficult to attribute certain spending outcomes to policies that usually take a long time to become visible in the outcome variable. As Hemerijck (2013) rightly points out, big reform packages only become visible in the

budget (and the spending outcomes) years later and very often the newly incoming government reaps the benefits of reforms implemented before they even took office. In order to avoid linking outcomes to the "wrong" government, a policy-based measure can link policy output clearly to the parties in office. Fourth, a policy-based approach further allows to distinguish between different distributional effects on social groups. Depending on the research interest, one can define social groups of interest and code policy changes accordingly. In this exercise, distributional effects on labor market insiders and outsiders have been distinguished. Fifth, separating policy output from policy outcome can give way for a new research agenda on the trinity of policy output, policy implementation, and policy output.

There are also some concerns that can be leveled against such a policy-based approach. First, one might raise the question to what extent subjective assessment of how a given policy change is being coded is involved. Even though I have coded all these reforms by myself, a pre-test has been designed to test the subjectivity and reliability of coding decisions. Four persons with similar knowledge about welfare state policy were assigned to code the same 20 reforms (with a total of 35 policy changes) and then agreement scores were calculated. Agreement scores between the test coder and the main coder (myself) were overall high and varied from 0.73 up to 0.89 (average of 0.82). These results suggest that different coders evaluated the policy changes in a very similar way and give further credibility to the approach. In addition, the results of the measure where always compared to the relevant country-specific literature and, if possible, critically discussed with country experts.

A second drawback of this approach could be the difficulty to assign weights to policy changes. The measure implicitly assumes that most policy changes have a similar magnitude. Every policy change can only be coded into one of five categories ranging from -1 to +1 (direction * scope). As a consequences, this measure is more an ordinal approximation to the actual policy effect. An alternative approach to code policy changes on more than a five-point scale, however, turned out to be difficult to implement. This would have involved more subjective and less reliable coding decisions and ultimately a less transparent way of the data generating process. Another alternative to assess the important of different policy changes would have been to weight policy changes based on their impact on the public budget. However, this turned out to be problematic for two reasons. On the one hand, it is not only almost impossible to find reliable data on the budget impact of 1'279 policy changes, but policy changes are often regulatory changes (like in the obvious case of employment protection legislation) where such changes do not directly impact the public budget. On the other hand, weighting policy changes based on their budget

impact conflates the policy output with the policy outcome, which should be kept analytically apart. Moreover, the previous section has shown that the weighting of policy changes into five categories leads to measures that are strongly associated with some established indicators, especially where an established, comparable indicator is available such as the OECD EPL index. In such cases, the measurement validation presented here gives strong support for the credibility and validity of the measure.

Chapter 5

Institutional Legacies, Economic Context, and Labor Market Reforms

5.1 Introduction

The previous chapter has introduced a new measure to assess labor market reforms. In total, detailed information on more than 1'200 policy changes has been gathered and subsequently coded along their general welfare state orientation (consumption, investment, regulation), type of activation, and the distributive effect on labor market insiders and outsiders. Building on this data, the goal of this chapter is twofold. First, the chapter relates to the first hypothesis developed in the theoretical chapter and aims to assess descriptively to what extent welfare state recalibration has taken place in Continental and Southern European countries over the last 26 years. It assumes that welfare state transformation occurs in a multidimensional nature where there is neither a clear trend towards retrenchment nor towards expansion. Instead, welfare state reforms should have clear trade-offs along multiple dimensions. Second, the chapter discusses and tests to what extent structural/functional factors, such as institutional legacies and the economic context, affect the specific design of labor market reforms.

In order to better situate the different trajectories of Continental and Southern European welfare states, the chapter starts with a discussion of the historical, institutional legacies and the economic context and how they could affect the labor market reforms. I therefore briefly discuss the literature on institutional legacies and

situate the countries under investigation in the wider European context. In order to do so, I discuss the spending profile of these countries in the late 1980s, which sets the starting point of my reform measure.

After this discussion on institutional legacies and spending profiles in the late 1980s and the role of the economic context, the chapter proceeds with the assessment of welfare state transformation over the last 26 years. It describes to what extent countries have shifted the general welfare state orientations along the three dimensions of investment, consumption and regulation. In addition, the chapter also look more closely at the type of activation being pursued and shows a striking variation in the emphasis of such types. In the discussion of welfare state change, a particular focus lies on how the changing economic circumstances over these last 26 years have affected the reform outcome. The chapter concludes with a regression analysis to test the role of institutional legacies and economic factors on labor market reforms.

5.2   Context Conditions

5.2.1   Institutional Legacies

Esping-Andersen (1990) identified three different welfare state regimes and considered Southern European countries to be part of the group of Continental European conservative regimes that are characterized by the idea of the preservation of status differentials and the traditional male-breadwinner model. In accordance with the principle of subsidiarity, the state only interferes if the family's ability to cope with strain is exhausted. In his view, the conservative welfare state was the outcome where the working class was confronted with strong Christian democratic parties.

Since Esping-Andersen (1990) initial regime classification, an ongoing controversial issue in the literature has been whether Southern European countries are part of the conservative welfare regime or whether they form a distinct welfare regime. On the one hand, Castles (1995) has argued that in terms of social security they belong to the conservative regime. On the other hand, Leibfried's (1993). "Latin Rim" model and Ferrera's (1996) "Southern model of welfare" have argued the other way (see Rhodes (1997) for a more detailed discussion). For example, Ferrera (1996) advanced the argument that Greece, Italy, Portugal, and Spain share some common traits that sets them apart from conservative welfare regimes. These traits include a (i) highly fragmented income maintenance system, (ii) establishment of almost universal health care, (iii) the absence of a rational, Weberian public administration (low state capacity) and (iv) the prevalence of clientelism.

In a first attempt, Ferrera (1996) hints at the interaction between weak state institutions, parties as the main actors and a divided left as the main explanatory factors of the Southern model of welfare. More recently, Manow (2015) has taken up the last point and argued that the most distinctive feature of the Southern European model of welfare is exactly this divided left with strong communist parties and unions. He contends that the radicalization of the left is a response to the strong dominance of Catholicism and additionally highlights the strong presence of a religious cleavage between anticlerical left and clerical right parties in Italy, Spain and Portugal. Even though the aim of this thesis it not to investigate the origins of the Southern European model of welfare, it is worth to keep these points in mind when it comes to explaining reform trajectories over time.

If we focus more closely on two core policy dimensions of social investment, namely labor market and family policy, additional features of Southern and Continental European welfare states stand out. In both regions, labor markets are characterized by a strong dualization between core workers (insiders), who still enjoy highly protected employment contracts and access to unemployment insurance, and those who cannot rely on either of them or are already unemployed (outsiders) (Emmenegger et al., 2012; Bonoli and Natali, 2012a). The interaction between Bismarckian insurance models in Continental and Southern Europe and strong labor market dualization further exacerbates insider-outsider divides in these countries (Palier and Thelen, 2010).

Another defining feature is what Esping-Andersen (1999) has called the more "family-oriented" or "familialistic" character of Continental and Southern European countries. The family plays a pivotal role as provider of welfare and there is only very limited state support for families. According to the principle of subsidiarity, the state only intervenes when the family's financial capacities are exhausted. Furthermore, there is also a strong influence of religion on family policy. Historically, the churches had a central role in the provision of welfare and, in particular, issues concerning family and education (Morgan, 2006; van Kersbergen, 2009). Naldini (2003) argues that Southern European countries stretched the male breadwinner family model to a "family-kin solidarity model" that extended responsibilities well beyond the household and included kin obligations as well.

To situate the Continental and Southern European countries in the wider European context, I briefly outline the spending profile of the nine countries in the late 1980s. This point in time was chosen because the measure of policy change discussed in the last chapter starts in 1990. Once the starting point of each country is discussed, we can turn to tracking the policy changes since the 1990s.
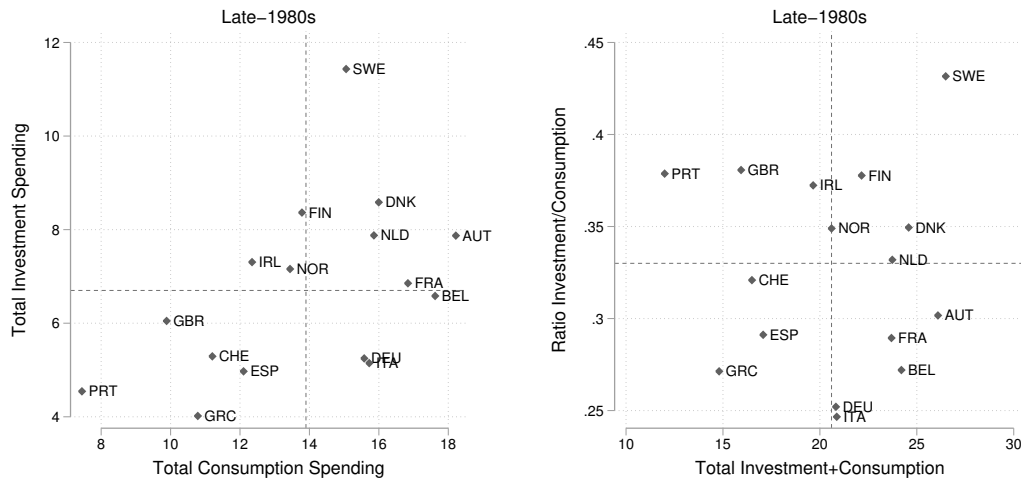
Figure 5.1: Spending on Investment and Consumption, late 1980s
Notes: Investment is all the spending (as % of GDP) on active labor market policy, childcare, maternal and parental leave, other family benefits in kind, and education. Consumption is all the spending on passive labor market policy, family cash benefits (family allowances and other cash benefits), old-age pension, survivors pension, and incapacity-related benefits. Calculations based on data from Armingeon et al. (2018).

Even though the focus of this dissertation primarily lies on labor market policy, it is important to first look at the nature of overall government spending on the welfare state. In order to do this, I distinguish again between consumption-oriented and investment-oriented spending. Consumption refers to all the spending on passive labor market policy, family cash benefits, old-age and survivors pensions and incapacity-related benefits. Investment refers to all the expenditure on active labor market policy, childcare, maternal and parental leave and education.[1] Figure 5.1 shows on the left side a comparison of total spending on consumption versus investment and on the right side a comparison of total investment and consumption spending versus the share of total social spending allocated to investment in the late 1980s (1986-1990).

In the late-1980s, welfare states in both Continental and Southern Europe were strongly consumption-oriented and they all spent only a small share of total social spending on investment. But there is an important difference between Continental and Southern Europe: whereas in Continental Europe spending on consumption

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[1]This operationalization is similar to Beramendi et al. (2015) and Ronchi (2018). The only difference being that Beramendi et al. (2015) count all family policy as investment and they only count tertiary education as investment, whereas Ronchi (2018) does only count non-tertiary education as investment. I count overall education spending as investment.

is above average, in Southern Europe it is exactly the opposite. The exception being Italy that already had high levels of consumption spending in the mid-1980s. Portugal is somewhat an outlier in Southern Europe. On the right side of Figure 5.1 it looks like Portugal is an investment-oriented welfare state. This, however, is mainly due to the fact that Portugal spent overall only a small share of GDP on consumption and investment spending. Watson (2015) links this to how power struggles during the transition to democracy have unfolded in Portugal and the kind of welfare state institutions that resulted out of it. These institutions, which were built in the late 1970s and early 1980s, initially resembled more strongly the type of a liberal welfare state. In stark contrast to Continental and Southern Europe, Scandinavian countries have already built strong welfare states that combined both strong spending on consumption and investment. Liberal welfare states, on the other hand, are both below average spenders on both consumption and investment.

More specifically for the case of labor market policy, Figure 5.2 shows spending on passive and active labor market policy for all Western European countries in the late 1980s (average of 1986-1990) divided by their respective unemployment rate. It is clearly visible that all four Southern European countries are well below average in terms of both passive and active labor market policy. The variation in Continental Europe is larger. Austria and France are close to the liberal welfare states of the UK and Ireland. They are average spenders on passive labor market policy, but situated clearly below average when it comes to active labor market policy. Netherlands and Belgium are above average spenders on both active and passive labor market policy. Finally, Germany spend less than the average on passive labor market policy but is an average spender on active labor market policy. Overall, we do see clear differences across welfare state regimes. The Southern welfare states are those at the very bottom of both dimensions, followed immediately by the liberal welfare states. The Nordic welfare states are on average the most generous on both dimensions, whereas the Continental welfare states are somewhere in between.[2]

Figure 5.2 shows the regulation of employment protection for regular workers and for temporary workers according to the OECD in the late 1980s. The goal of EPL has been to protect the work force from the vagaries of markets. In this sense, strong EPL should be seen as functionally equivalent to decommodification achieved through strong passive labor market policies(Bonoli, 2003), especially in Southern European countries where passive labor market policies are underdeveloped and fragmented. It therefore does not come as a surprise that the most strongly regulated countries

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[2]Please note that Sweden has been excluded for visualization purposes in Figure 5.2. As a strong outlier, Sweden has a value of 0.8 on the vertical axis and would make country differences not visible anymore.

(a) Labor Market Policy Spending

(b) Labor Market Regulation
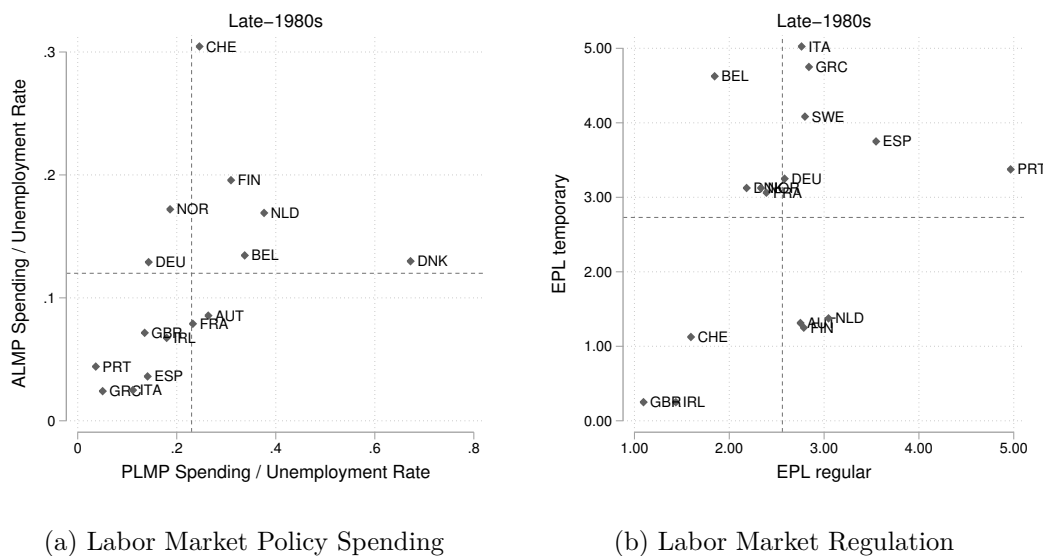
Figure 5.2: Spending on Active and Passive Labor Market Policy (as % of GDP) divided by the Unemployment Rate, late 1980s (1986-1990).
Notes: Vertical and horizontal dashed lines indicate overall average. Data is from Armingeon et al. (2018).

are the four Southern European countries.[3] The trend towards deregulation of non-standard contracts has in most countries not started yet, only with the exception of Spain that already massively liberalized temporary employment in the 1980s (Watson, 2015; Sacchi and Vesan, 2015; Ban, 2016). There is again more variation across Continental European countries, especially with regards to the regulation of temporary work that spreads across the whole dimension. On the other hand, regular employment protection is in all countries (except Belgium) around the overall average. Unsurprisingly, the liberal welfare states are situated at the very bottom of both dimensions.

In sum, the institutional legacies of Continental and Southern European welfare states in the late 1980s were unfavorable for the transition towards are more investment-oriented welfare state. Based on the existing literature, we should expect that institutional legacies in the form of existing welfare state institutions affect to what extent new social demands arise and to what extent discretionary spending can be increased to address such new social risks. The most common claim in the literature is that the level of consumption policies affects the likelihood of introducing new social policies. This is especially the case if financial resources are limited. For example, there is a big risk that pension-heavy welfare states such as

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[3]See Watson (2015) for an extensive discussion about the fact that OECD Index overestimates the strong regulation in Portugal and that Portugal should actually be located close to Spain.

Italy (Hinrichs and Jessoula, 2012) and Greece (Matsaganis, 2005) crowd out other social spending, especially in times of limited resources. Similarly, Bonoli (2007) has argued that timing of post-industrialization and population aging matters. If welfare state institutions are not ready to address new social risks at the moment they arise, the more difficult it will get to introduce new social policies later on or to shift resources towards policies that aim to alleviate new social risks. Given the strong consumption-oriented nature of their welfare states in the late 1980s, welfare state institutions in Continental Europe and, in particular, in in Southern Europe, were particularly unprepared for the new challenges of postindustrial societies. In this sense, looking at how these countries try to cope with these new challenges and how politics tries to recalibrate welfare state institutions can be considered as a hard test.

5.2.2   Economic Context

Labor market reforms are not only constrained by long-term structural changes and institutional legacies but also by short- to mid-term fluctuations of the economy. The time period under investigation goes from 1990 to 2016, which allows to assess different time periods under fairly different economic circumstances. Over the last three decades, Europe's political economy has been substantially transformed due to the creation of the European Monetary Union (EMU) in the early 1990s (Martin, 2015). The four most notable developments have been the (i) convergence criteria set out in the Maastricht Treaty in 1992, (ii) the Stability and Growth Pact (SGP) in 1997 limiting member-state budget deficits to 3 percent and public debt to 60 percent of GDP, (iii) the introduction of a common currency in 1999, (iv) and the Eurogroup's economic crisis governance since the Lisbon Treaty in 2009 (De Grauwe, 2013; Frieden and Walter, 2017; Hall, 2018).

Broadly speaking, we can differentiate between three time periods since the 1990s. In a first, pre-EMU phase from 1990 to roughly 1998, where especially Southern European countries underwent a period of austerity to successfully pass the EMU entrance exam. The second, EMU phase lasted from 1999 until the Great Recession where most countries profited from a more favorable economic context. Especially Southern European countries enjoyed falling inflation rates and easy access to cheap credit due to EMU membership. In this context, Hemerijck (2016) has argued that EMU membership has acted as a "reform tranquilizer" in Southern Europe, where countries failed to update their welfare state institutions to the challenges of a postindustrial economy. According to him, this has been especially the case for the highly indebted Italy and Greece. The third, crisis phase marked the

most notable change in economic context. The financial crisis in the asset market
in the United States in 2007 quickly swept over to Europe. The following advent
of the most severe economic downturn experienced by advanced capitalist countries
since the 1930s marked a historic watershed. The whole economy slipped into a long
and deep recession and an unprecedented number of people lost their jobs. This has
produced in most countries a tense situation both on the public revenue and on the
public expenditure side which finally culminated in the Eurozone crisis. The change
in economic conditions was particularly drastic in Southern Europe.

In general, the economic context affects to what extent resources are available to
pursue expansive social investment reforms alongside maintaining traditional pro-
tection systems. If resources are limited, trade-offs between the three dimensions
become more eminent and a further expansion of labor market policies is less likely
to take place. There are three possible trajectories how such a changing economic
context influences welfare state reforms.[4]

First, governments can respond to an unfavorable economic context of declining
economic growth rates and rising unemployment with *austerity and welfare state
retrenchment.* The state retreats from welfare state interventionism, cuts social
spending expenditure and implements structural reforms of privatization and dereg-
ulation. Retrenchment as the defining feature of welfare state change in recent
decades is famously advanced by Streeck (2011); Schäfer and Streeck (2013). In a
similar vein, Clasen et al. (2012) argue that tight fiscal resources and spiraling public
deficits, combined with a "there is no alternative" narrative, open up a window of
opportunity to justify across the board cuts in social policy, which would be almost
impossible to achieve under normal circumstances. Most of the literature points to
the fact that austerity has been the dominant policy choice during the crisis since
2008 (Blyth, 2013; Frieden and Walter, 2017; Hall, 2018; Steinebach and Knill, 2018)
and that welfare state retrenchment has been particularly pronounced in Southern
Europe (León and Pavolini, 2014; León et al., 2015; Moreira et al., 2015; Petmesidou
and Guillén, 2014; Petmesidou and Glatzer, 2015). Moreover, Streeck and Mertens
(2011) emphasize that social investment polices are more likely to be cut in times
of austerity than social consumption policies due to their discretionary nature and
less entrenched welfare state constituencies (see also Pierson (2001) for a similar
argument on the resilience of social consumption policies).

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[4]There are also other possible reform options such as welfare state chauvinism advanced by the
radical right (Van Der Waal et al., 2013; De Koster et al., 2013) or the idea of predistribution
(Hacker, 2011). As these are very specific and new reform options, I restricted myself to discuss the
three main reform options on the table.

Second, governments can also respond to an unfavorable economic context with *expansion of social consumption policies.* In line with the tradition of Keynesianism (Hall, 1989), counter-cyclical state spending on social benefits can promote economic activity. This is especially the case if the additional money is spent on the poorest and hardest hit. They are the least likely ones to save money and thus could spur economic growth due to their increased consumption. For example, the newly elected Costa government in Portugal has pursued such a strategy of increased consumption spending. At the onset of the crisis, most countries initially responded with such fiscal stimulus packages, which were particularly big in Germany, the UK and the US (Burnham, 2011). This form of emergency Keynesianism, however, did not last very long. Due to the explosion of government debt, most countries ended this brief phase of expansive fiscal policy-making by 2010 and the discourse shifted towards sovereign debt, austerity, and structural reforms (Hall, 2012; Copelovitch et al., 2016).

Finally, governments could also respond to an unfavorable economic context with *recalibration and social investment.* Instead of focusing on the short-term economic gains from increasing consumption policies, governments can implement recalibration and social investment policies that aim to mobilize labor and improve productivity, thereby enhancing the chance of future economic growth. For example, Hemerijck (2013) argues that an economic crisis coupled with (positive) influence of European institutions can open up the possibility to recalibrate the welfare state. Whereas under normal circumstances recalibration reforms are politically almost impossible due to path dependence, institutional inertia, and vested interests, the crisis could potentially break up such a situation of reform deadlock. For example, in an analysis of 13 European countries from 1980 to 2013, Steinebach et al. (2017) found that economic crises open up a window of opportunity to dismantle pension, unemployment, and child benefits. In a similar vein, Ronchi (2018) findings of an analysis of all EU-27 countries from 2000 to 2014 suggest that the crisis led to a clear retrenchment of social consumption while social investment was brought to a halt but did not suffer from actual retrenchment.

In sum, taking this long-term view on the development of labor market reforms allows to assess to what extent the economic context has affected labor market reforms. Given the intense pressure stemming from the Great Recession in the form of declining economic growth and rising unemployment rates, I assume that an unfavorable economic context is most likely leads to welfare state retrenchment on the consumption and the regulation dimension. Pressures to deregulate employment protection legislation have surely increased due to the economic crisis and increased

consumption spending would additionally strain public finances. In contrast, I assume that that the economic context does not directly affect investment spending on active labor market policies. This is based on country-specific literature which indicates that such forms of investment spending were oftentimes excluded from cutbacks in the implicit and explicit agreements with European institutions.

5.3   Welfare State Orientations

5.3.1   Overall Change in Welfare State Orientations

I turn now to the collected data described in the previous chapter in order to assess the development of labor market reforms over time. Figure 5.3 shows the stacked cumulative changes in labor market reforms that took place from 1990 until 2016 by country. It distinguishes between the three dimensions of consumption (passive labor market policy), regulation (employment protection legislation) and investment (active labor market policy). Figure A.6 in the Appendix A.5 shows the changes separately for each dimension and ordered by the extent to which change has occurred in each country.

With regards to the consumption dimension, we see that more expansive reforms took place in Southern Europe than in Continental Europe. The overall change in Continental European countries was either close to zero (Austria, Belgium, France) or even negative in the case of Germany and the Netherlands. On the other hand, reforms in Southern European countries were particularly expansive in Greece and, most notably, in Italy. But also Portugal has witnessed many reforms that expanded passive labor market policy. Overall positive changes have been the smallest in Spain, which already has already established quite strong passive labor market policies in the late 1980s (Cabrero, 2011).

The most comprehensive changes in labor market reforms took place in the field of employment protection legislation. This has been especially the case in Southern European countries which have witnessed a massive deregulation over these 26 years. Most deregulation reforms took place in Greece, but also Italy, Portugal and Spain were strongly negatively affected. In stark contrast to Southern Europe, we do find only a trend towards deregulation in Germany, whereas Austria, Belgium, France and the Netherlands even increased regulation on employment protection.

Figure 5.3 also shows clearly that labor market policies are on the rise in both Continental and Southern Europe, but they also started from an extremely low level in the late 1980s, especially in Southern Europe (see Figure 5.2). There is not as
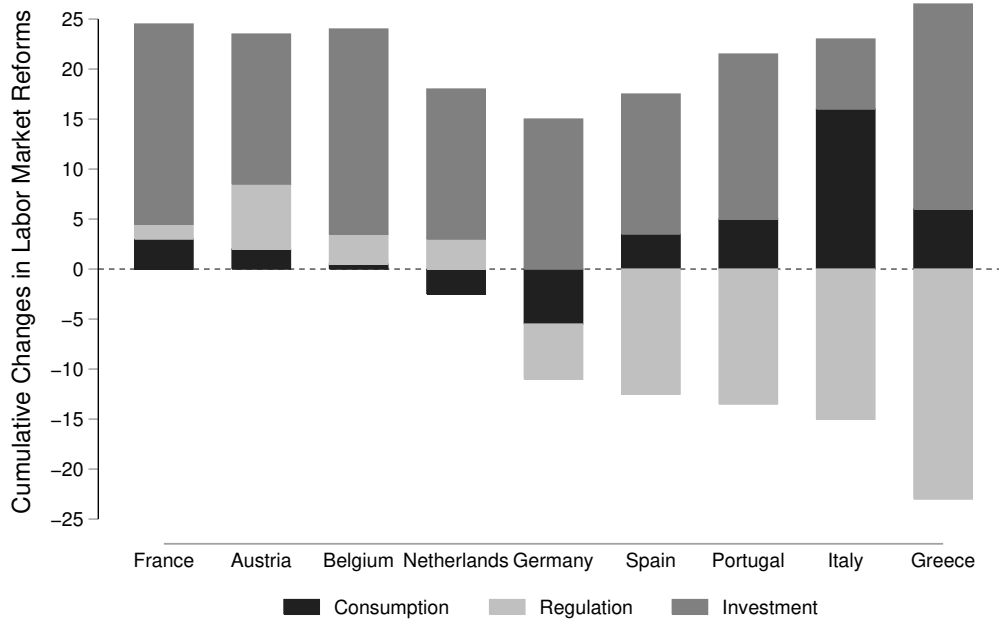
Figure 5.3: Stacked Cumulative Changes in Labor Market Reforms by Country, 1990-2016

much variation across regime or country as for the other two dimensions. As discussed in the previous chapter, however, the highly positive changes in active labor market policies in Greece have to be interpreted with caution. The validation exercise has shown that there might be a strong mismatch between the enacted reforms and the implemented policy output. Due to the low capacity of the Greek state to transform policy output into policy outcomes, the measure most likely overestimates the transition of Greece towards more investment-oriented labor market policies.

In relative terms to the overall changes in labor market reforms, we can detect three broader reform patterns. First, overall changes in all three dimensions of labor market policy have been positive in Austria, Belgium, France, and the Netherlands. These countries put mainly a strong emphasis on the expansion of active labor market policies, but they also improved to some extent the regulation of employment protection and to a minor extent passive labor market policy. Only in the Netherlands there has been some retrenchment in passive labor market policies. Second, all Southern European countries have experienced drastic deregulation of employment protection, but at the same time improved active and passive labor market policies. Finally, Germany somewhat stands out from all the other countries. There has been only a positive cumulative change in active labor market policies, whereas

both passive labor market policies and employment protection underwent episodes of retrenchment.

5.3.2   Change in Welfare State Orientations over Time

A broad focus on overall changes in labor market reforms over 26 years, however, neglects the important factor of time and the changing economic context. Figure 5.4 therefore distinguishes between three periods: a pre-EMU period (1990-1998), an EMU period (1990-2007), and a crisis period (2008-2016). More detailed figures on the monthly changes in labor market reforms by country and welfare state orientation are in the Appendix (see Figure A.8 for consumption, Figure A.9 for regulation, and Figure A.10 for investment).

Overall, Figure 5.4 shows interesting differences over the three periods. During the pre-EMU period (1990-1998), there were little overall changes in all three dimensions compared to the other two periods. Those changes that took place, however, did not result in a big reorientation towards social investment. In most countries, it was a period where the trend towards employment deregulation started, especially in Belgium, Germany, Portugal and Spain. In addition, Germany and Spain also went through a stark retrenchment of passive labor market policies. Due to the difficult economic circumstances in both countries during this period, the focus was on cost containment and retrenchment of passive social programs. With the exception of the early turn to activation in the Netherlands, we see in all other countries only few expansive investment-oriented reforms. Activation was not yet high up on the political agenda. However, the 1997 Treaty of Amsterdam introduced the European Employment Strategy (EES), which put activation firmly onto the agenda of policy-makers.

The EMU-period (1999-2007) can be characterized as a time of expansion of labor market policies during good economic times. Portugal stands out as an exception. The Portuguese economy never witnessed a strong boom phase during the 2000s. Already from the early 2000s, the "Great Slowdown" (Eichenbaum et al., 2016) with rising unemployment rates started and finally culminated in the Great Recession. Whereas the other Southern European countries enjoyed economic growth and enacted expansive reforms, Portugal did not have such a favorable economic context to pursue welfare state expansion. In all the other countries (except Italy), it was a period where active labor market policies were also strongly expanded. However, the trend towards deregulation, especially in Germany, remained even during these favorable economic circumstances.
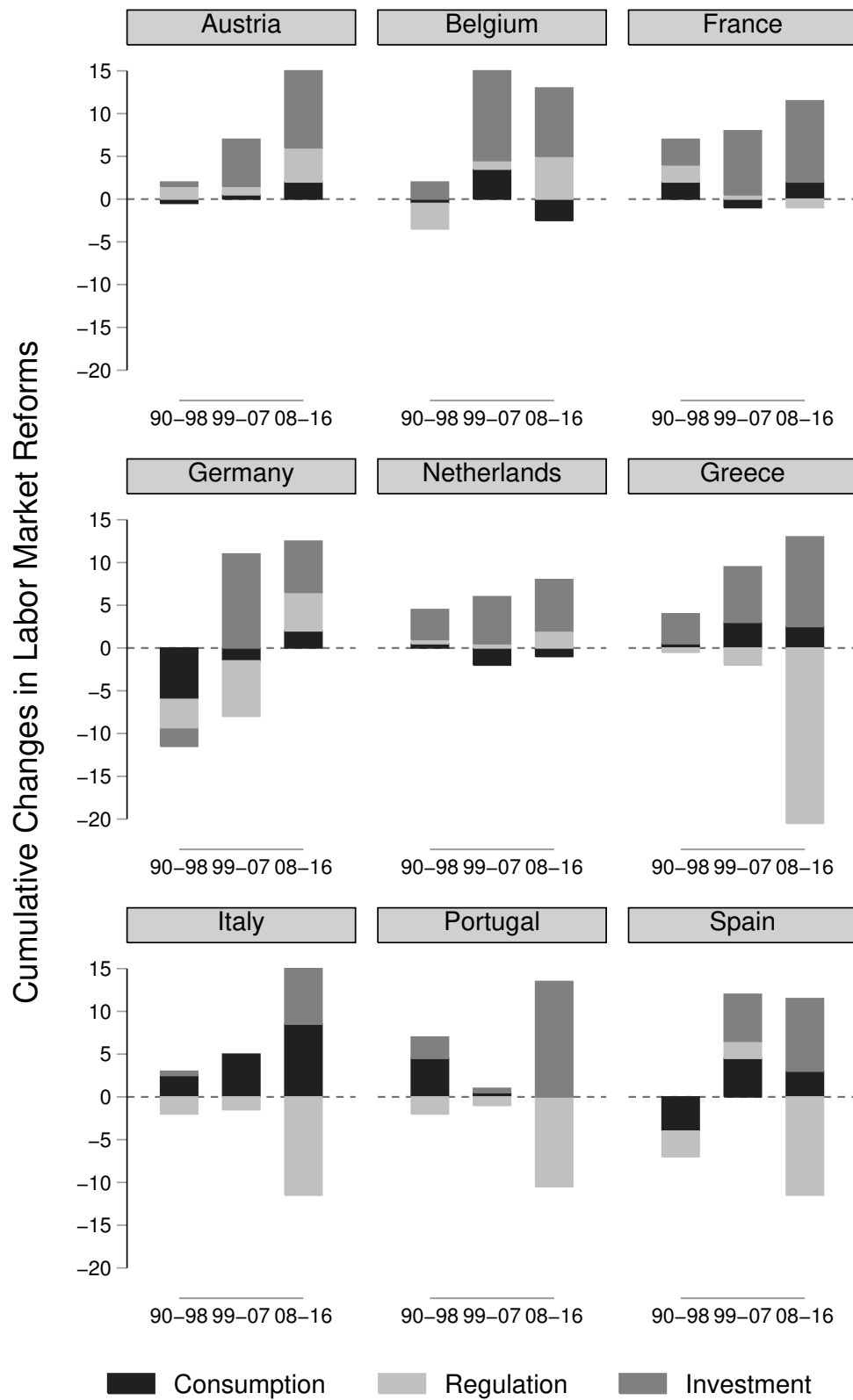
Figure 5.4: Cumulative Changes in Labor Market Reforms by Country and Time Period

Finally, the Great Recession has lead to an increasing divergence between Continental and Southern European social models. Whereas Continental European countries engaged in fairly expansive labor market reforms across all three dimensions, Southern European countries witnessed quite dramatic retrenchment. However, retrenchment did not take place across all three dimensions and was exclusively confined to employment protection legislation. Given the legacy of high employment protection legislation in Southern Europe (see Figure 5.2), one could argue that these countries simply had to adjust to more average levels of protection in other Western European countries. It is true that the strong deregulation in Southern Europe lead to comparable levels of protection enjoyed in Continental European countries. However, a strong deregulation in Southern Europe has particularly negative effects because strong employment protection legislation in Southern Europe could be considered a functional equivalent to strong passive labor market policies. As long as the consumption dimension remains underdeveloped and fragmented in Southern Europe, this is not a strategy of flexicurity like in some Continental European countries but rather flexi*insecurity*. In addition, employment protection legislation in Continental Europe, unlike in Southern Europe, has been re-regulated during the economic crisis. Interestingly, investments in active labor market policies continued to increase in both regions and do not seem to be negatively affected by the economic crisis.

5.4   Types of Activation

5.4.1   Overall Change in Activation

The finding that active labor market policies have been expanded in all countries tells us relatively little about the actual type of investment being pursued. As discussed in the previous chapter, there is a broad variety of activation types, each with a different focus on human capital creation and/or pro-market employment orientation. It therefore is important to look more closely at the *type* of activation being pursued. Figure 5.5 shows a breakdown of all the cumulative changes of ALMP reforms by its type, following the definition proposed by Bonoli (2010). Incentive reinforcement reforms are displayed in the negative because the are counted in the overall measure of social investment as a negative case of social investment. Table A.3 in the Appendix A.5 gives a descriptive overview of the number of policy changes by subtype and by country and Figure A.7 in the Appendix A.5 shows individual plots for each type. While there were little differences across countries with regards
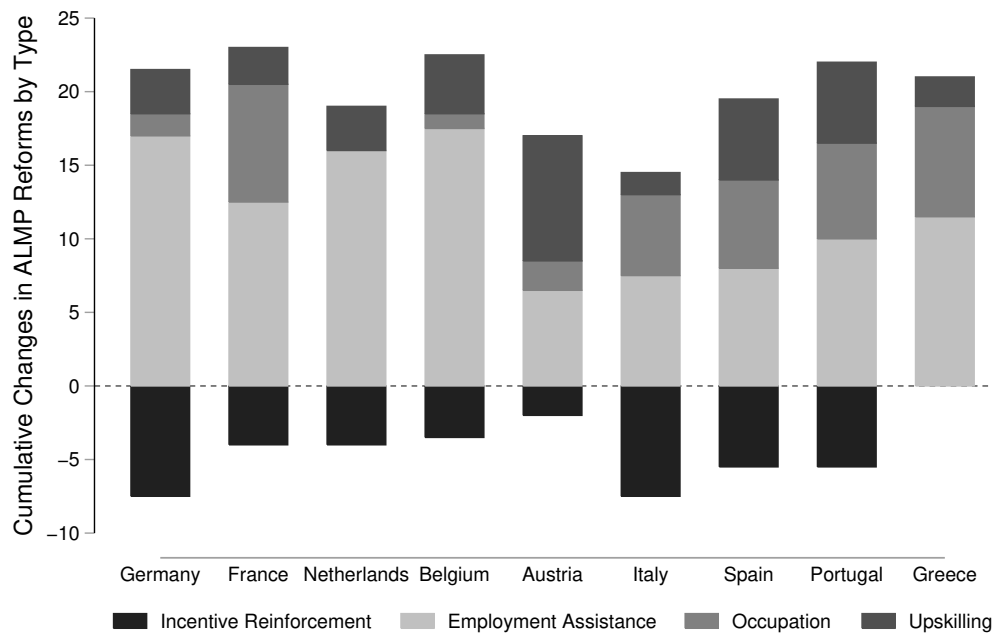
Figure 5.5: Stacked Cumulative Changes in ALMP Reforms by Country, 1990-2016.

to the overall changes in ALMP reforms, there are substantial difference with regards to the specific *types* of ALMP reforms being enacted.

Upskilling is the type of ALMP reform that comes closest to the idea of social investment due to its strong focus on human capital creation. The most positive change in this subdimension took place in Austria, Portugal and Spain. The lowest amount of upskilling reforms were witnessed in Italy, Greece, and France. Finally, Germany, France and the Netherlands are somewhere in between. Overall, most changes in ALMP reforms took place with regards to *employment assistance*, which mainly aims to reduce barriers to labor market participation through job subsidies, job search and job placement programs. Such reforms were particularly popular in Continental Europe, with Belgium, Germany and the Netherlands as front-runners. On the other hand, Austria and Italy rarely implemented such reforms. The were overall very few ALMP reforms that belong to the other two types of activation, namely *occupation* and *incentive reinforcement*. Interestingly, the former was barely used in any Continental European countries but quite popular in Southern European countries plus France. In these countries, the focus lies not directly on the reintegration of the unemployed into the primary labor market, but much more on pushing them into work experience programs in the public and non-profit sector. Finally, the last type of activation, *incentive reinforcement*, is classified as a negative

case of investment as it has no focus on human capital investment. Such a punitive approach to activation seems particularly popular in Germany, Italy, Portugal and Spain, but also the Netherlands, France and Belgium follow suit. There were only few reforms in Austria that increased negative activation.

Overall, three different activation patterns stand out. First, Austria has enacted the most ALMP reforms with a clear social investment idea in mind and a strong focus on upskilling and employment assistance. Second, Belgium, Germany and the Netherlands have moved towards a type of activation that is heavily dominated by employment assistance, some incentive reinforcement and below average changes in upskilling. Finally, Southern European countries plus France follow a mixed pattern of employment assistance and occupation programs, combined with some upskilling and incentive reinforcement. Broadly speaking, Continental European countries have enacted reforms that put a greater emphasis on a pro-market employment orientation, whereas Southern European countries have followed a more mixed approach that also adds activation programs with a weak pro-market employment orientation.

5.4.2   Change in Activation over Time

Figure 5.6 distinguishes activation reforms between the three periods in order to assess the factor of time and the changing economic context. There is a striking variation of activation reforms not only across countries but also over time. During the pre-EMU period (1990-1998), activation was not yet firmly on the political agenda and most countries enacted only few activation reforms. Germany and the Netherlands stands out during this period. The former due to its strong focus on activation reforms that reinforced incentives to take up work and tightened benefit conditionality. The latter due to its early focus on employment assistance reforms that come with a strong pro-market employment orientation. Upskilling and occupation reforms are almost entirely absent during this period.

During the EMU-period (1999-2007), we witness a first shift towards increased activation reforms, especially in Continental Europe. Continental European countries not only slightly increased negative activation in the form of increased incentive reinforcements, but they also started to enact a significant amount of employment assistance reforms. Occupation and upskilling reforms, on the other hand, were used to a limited extent in Continental Europe. Only Austria put some additional focus on upskilling and France enacted some occupation reforms. Overall, Southern European countries enacted less activation reforms during this period. Only
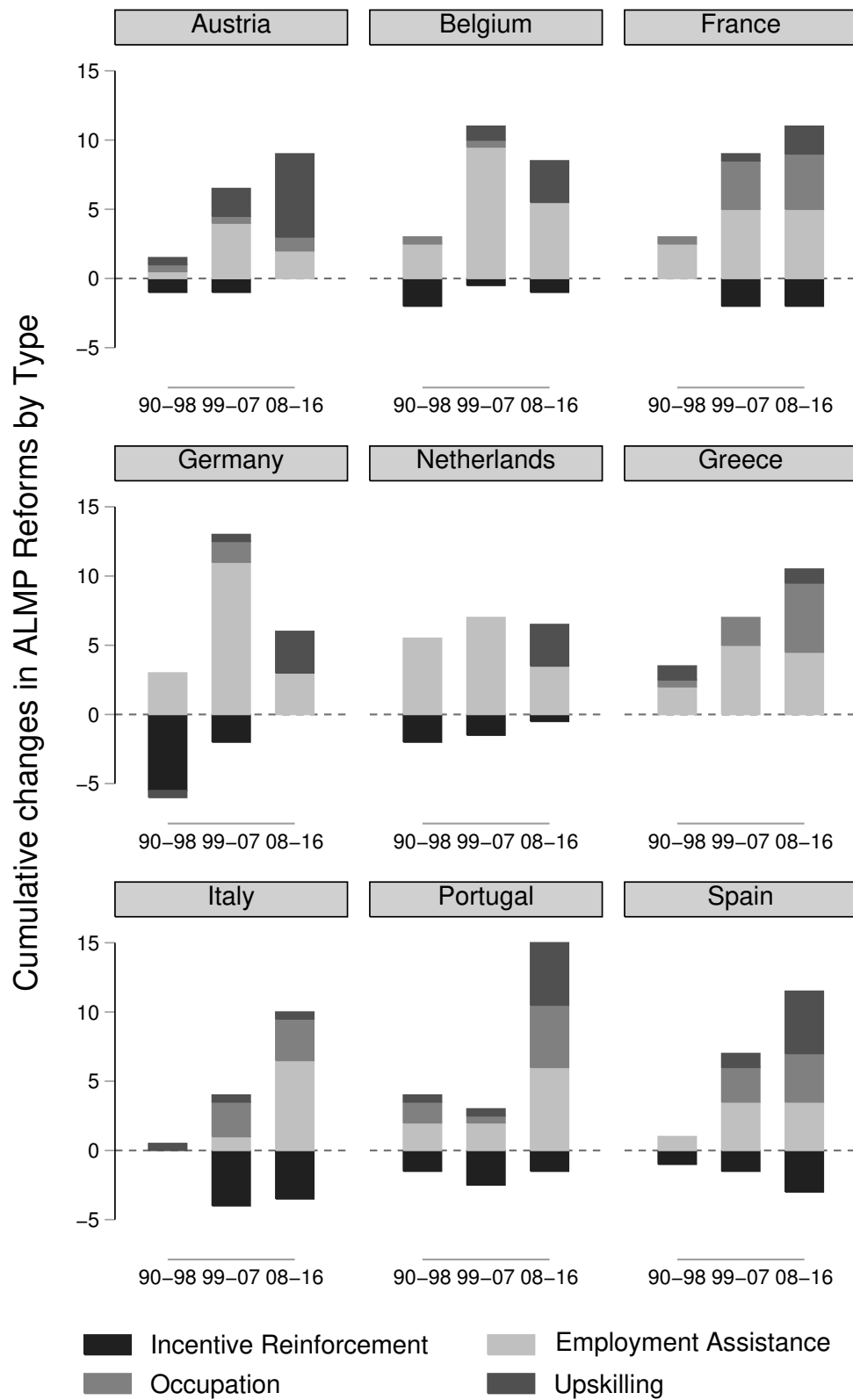
Figure 5.6: Cumulative Changes in Activation Reforms by Country and Time Period

Spain stands out, which witnessed a shift towards activation in the mid-2000s and enacted very balanced reforms composed of all four activation types. With the exception of Greece, Southern European countries increased quite strongly incentive reinforcements and put little emphasis on upskilling reforms.

As has been shown already, the economic crisis did not lead to a retrenchment of activation. On the contrary, expansive activation reforms were most visible in Southern Europe during the economic crisis. Even though Italy, Portugal, and Spain enacted several negative activation reforms aimed to reinforce incentives, they also enacted a broad variety of positive activation reforms composed of employment assistance, occupation and upskilling. Upskilling reforms were most notable in Portugal and Spain during this period. In contrast, Italy and Greece mainly enacted occupation and employment assistance reforms. As Continental European countries have expanded activation already quite substantially in the previous period, they put slightly less emphasis on activation during the economic crisis. Nevertheless, they continued to enact expansive activation reforms in the spirit of employment assistance. In addition, they started to put a much bigger focus on upskilling reforms. With the exception of Austria, upskilling has been neglected for a long time in Continental Europe.

5.5 Testing the Role of Context Conditions

In order to test the role of the context conditions on labor market reforms more systematically, I rely on a pooled time-series cross-section (TSCS) regression analysis. For this purpose, all the reforms in a given country-year affecting the compensation, regulation, or investment dimension have been aggregated together. Thus, the dependent variables measure the sum effect of all policy changes in each of these three dimensions in a given country-year. Following the theoretical assumptions, I am interested in the role of institutional legacies and the economic context. For the former I use the level of government spending allocated to consumption policies, that is all the spending on passive labor market policy, family cash benefits, old-age and survivors pension and incapacity-related benefits. When regulation reforms are dependent variable, I use the OECD index of employment protection legislation. To asses the economic context, I take the unemployment rate and real GDP growth. All the data comes from the CPDS I dataset (Armingeon et al., 2018).

As the use of TSCS data violates several assumptions of ordinary least squares (OLS) regression, I estimate all the models with a lagged dependent variable (LDV), country-clustered standard errors and country-fixed effects (Beck and Katz, 1995).

Prais-Winsten (AR1) regression, instead of LDV, yield very similar results. Also including additionally year-fixed effects to control for common shocks and time heterogeneity do not substantially change the findings. I included country-fixed effects not only to account for unit unit heterogeneity and unobserved country-specific factors that do not vary over time (Beck, 2001), but also because I am mainly interested in analyzing the within-country variation. Thus, a separate intercept for each country with a non-varying slope parameter seems to be the appropriate choice in this context. Table 5.1 presents the result of the TSCS regression analysis.

The findings indicate that the economic context mainly plays a role for consumption and regulation reforms. A growing unemployment rate is negatively associated with consumption and regulation reforms while there is no association with investment reforms. A further analysis reveals that this negative correlation is particularly strong in Southern European countries while it is much weaker in Continental Europe. In addition, real GDP growth is only positively associated with regulation reforms, while it does not seem to be related to consumption or investment reforms. Overall, there is no relationship between the economic context and investment reforms. This is most likely due to the fact that activation reforms were excluded from cutbacks during the Great Recession and that activation in Southern Europe was actively supported by European institutions in the wake of the crisis through implicit and explicit agreements. For example, the detailed list of recommended policy reforms in the Memoranda of Understandings never included cutbacks in active labor market policy. Table A.4 in the Appendix A.5 shows the results of an additional TSCS regression analysis which distinguishes between the type of activation. It shows that a rising unemployment rate is negatively associated with upskilling and occupation reforms but not with employment assistance and incentive reinforcement. The size of the effect, however, is very small and substantially not very relevant.

With regards to the role of institutional legacies, there is only a positive correlation between the level of consumption spending and the level of consumption-oriented labor market reforms. However, the effect size is marginal and it is only statistically significant at the 10 percent level. Also the previous level of employment protection legislation is not significantly correlated with regulation reforms. I have also tested if there is an interaction effect between institutional legacies and the economic context by interacting the level of consumption spending or EPL with the unemployment rate or real GDP growth, but none of the interaction terms reached statistical significance.

Even though other studies have found a negative correlation between institutional legacies (usually measured by the share of GDP going to pensions) and spend-

Table 5.1: Institutional Legacies, Economic Context and Labor Market Reforms

	Consumption	Regulation	Investment
L.Consumption Spending	0.080$^+$		0.072
	(0.03)		(0.05)
L.EPL-Index		-0.137	
		(0.12)	
Unemployment Rate	-0.061*	-0.101*	-0.021
	(0.02)	(0.03)	(0.03)
Real GDP Growth	0.018	0.181$^+$	-0.024
	(0.02)	(0.08)	(0.03)
L.Consumption	0.107**		
	(0.03)		
L.Regulation		-0.074	
		(0.06)	
L.Investment			0.151
			(0.08)
Constant	-1.205$^+$	0.903	-0.750
	(0.60)	(0.51)	(0.81)
Country Fixed Effects	✓	✓	✓
R^2	0.077	0.198	0.081
AIC	691.527	820.274	629.838
BIC	705.499	834.246	643.810
N	243	243	243

Notes: OLS-regression with lagged DV, country fixed effects and country-clustered SEs.
Standard errors in parentheses: $^+$ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

ing on investment policies (see, for example, Bonoli, 2013), I do not find any relevant correlation. This could be due to various reasons. First, it is difficult to find a meaningful measure of institutional legacies and spending on consumption policies is only a very rough proxy for legacies. Second, most studies so far have look at a different time period (usually 1980s-2000s) and have included a broader sample of countries that also includes Nordic and liberal welfare states. Thus, there is usually more variation in the legacy indicators to exploit. As Continental and Southern European countries are most similar in their bias towards consumption-oriented welfare state spending and average to high levels of employment protection legislations, it is likely that legacies play a lesser role compared to broad comparisons of all Western European countries.

5.6   Conclusion

The descriptive assessment of labor market reforms over time has revealed interesting patterns. In line with my first hypothesis, labor market reforms over the last 26 years do not follow a clear pattern of either expansion or retrenchment. Instead, the findings point to the importance of distinguishing between three different dimensions of welfare state change and a further disaggregation into different activation types, which each follow different patterns across country and over time.

The most common trend across all countries and over time is the strong increase in active labor market policies. This trend has started in the late 1990s, approximately at the time the European Employment Strategy was launched, and even the economic crisis did not result in a cutback but a further increase of those policies. Active labor market policies even survived in the crisis-ridden Southern European countries, where they were excluded from cutbacks in the "Memoranda of Understanding" or other more implicit agreements with the European institutions. A closer look at the type of activation being pursued reveals that only Austria is following a path of strong investment in human capital creation coupled with extensive employment assistance. The other Continental European countries have to a lesser extent focused on upskilling and mainly invested in employment assistance programs with a strong pro-market orientation. Southern European countries follow a more mixed strategy of employment assistance and occupation programs with a weak pro-market orientation.

In contrast to the many activation reforms, there were comparatively little overall changes in passive labor market policies in most countries. Only Italy has seen a big improvement in passive labor market policies, whereas Germany and the Netherlands even engaged in overall retrenchment. Moreover, Southern Europe went through a process of massive deregulation which particularly accelerated during the Great Recession, whereas in Continental Europe (with the exception of Germany) there has been little overall change in regulation.

Broadly speaking, the reform patterns in Continental and Southern Europe differ from each other, each region having one exception. Continental European countries have started to invest earlier and more in active labor market policies while maintaining both the current level of employment protection legislation and passive labor market policies. Only Germany stands out where mainly during the first two periods both consumption and regulation has been strongly decreased. Southern European countries, on the other hand, have experienced drastic deregulation of employment protection, especially since the onset of the Great Recession, but at the same time

they have improved also active labor market policies. In Italy, however, active labor market policies have been improved only to a small extent and, instead, most additional resources were devoted to improvements in passive labor market policies.

Finally, the TSCS regressions analyses aimed to test more systematically the role of institutional legacies and the economic context. The findings indicate that there little to no correlation of previous levels of consumption spending and previous levels of employment protection legislation on labor market reforms. Unlike institutional legacies, the economic context does play a strong role for consumption and regulation reforms. A higher unemployment rate is associated with further deregulation of employment protection and less generous consumption policies, while a higher real GDP growth leads to more regulation reforms. Interestingly, the economic context does not seem to play a role for investment-oriented reforms.

Chapter 6

Government Composition and Labor Market Reforms

6.1 Introduction

The previous chapter has described the development of labor market reforms across country and over time and has discussed the role of institutional legacies and the economic context. The initial assumption, according to which welfare state development in Continental and Southern Europe depends strongly on the institutional legacies and the economic context could only be partially supported. Institutional legacies do set the starting point of a country and influence how difficult it is to put new social risks on the political agenda, whereas the economic context should be favorable to pursue expansive reforms. The TSCS regression analyses, however, indicate that the role of institutional legacies and the economic context is complex. While the economic context matters for regulation and consumption reforms, institutional legacies are not strongly correlated with labor market reforms. In addition, the figures on the over time development of labor market reforms have shown that most countries do not follow strongly the expected pattern. Most likely only Spain follows such an expected pattern. The EMU entrance exam had a negative effect on labor market reforms, then the early years of EMU membership were characterized by expansive reforms during an economic boom and, finally, the crisis led to a process of deregulation. But even in the case of Spain, and even more so for all the other Continental and Southern European countries under investigation, ample variation in labor market reforms still remained unexplained.

As the previous chapter has shown, both policy legacies and the economic context do not fully determine the labor market reforms being pursued. In other words,

it is unrealistic to assume that only structural/functional pressures stemming from institutions and the economic context matter. We therefore need to shift the focus from institutional and economic *structure* to political *agency*. Because there always needs to be political actors that are willing to translate societal demands into a specific reform agenda. This chapter therefore explores the possible effect of partisanship differences in the cabinet composition on labor market reforms. Ever since the famous power resources approach (Stephens, 1979; Korpi, 1980) strong left parties in conjunction with strong labor unions are expected to lead to a more generous welfare state. When it comes to the implementation of social investment policies, however, the influence of left parties is less clear. Active social policies and childcare policies "have a distinctive win-win and cross-class coalition flavor" (Bonoli, 2013, p. 64). In contrast to traditional consumption policies, they are both potentially able to attract support from a variety of different groups. Also employers and liberal parties can have an interest in activating the unemployed in order to increase labor force participation and competition for jobs (Häusermann, 2012; Gingrich and Ansell, 2015).

In order to asses the impact of cabinet compositions on labor market reforms, the remainder of this chapter is structured as follows. The first part of this chapter consists of detailed country-by-country discussion of labor market reforms. Each short country case study sets out with a short introduction into the specific configuration and development of the welfare state before the starting point of this analysis and then combines the quantitative reform data with qualitative data from secondary literature. The last part of the chapter then tests more systematically the role of government composition relying on regression analyses.

6.2   The Role of Government Composition

In order to assess the impact of cabinet compositions on the reform outcome, all the individual policy changes are aggregated on the cabinet-level and the cumulative sum of all policy changes under a certain government are calculated for two dimensions, namely the investment and the protection (consumption plus deregulation) dimension. Consumption and regulation have been collapsed into one, because they are both elements of a traditional welfare state and can be considered to some extent as functionally equivalent. In addition, it allows to map the effect of each cabinet in a two-dimensional policy-space. I first discuss all the Continental and then the Southern European countries. Within each region I ordered the countries in how early there was a shift towards activation.

6.2.1   Netherlands

The Dutch welfare state in the post-war years developed into a highly generous passive-oriented system of income replacement along the idea of a typical male breadwinner model (van Kersbergen, 2009). Similar to Austria, post-war welfare state expansion in the Netherlands was the result of a coalition between Christian democratic and social democratic forces, while liberal parties were sidelined (van Kersbergen, 1995). In addition, corporatist structures facilitated cross-class and cross-cleavage consensus in a multi-pillared society with a small open economy (van Kersbergen, 2009). Unlike other countries in Continental Europe, however, the Dutch social security system is a mix between a Bismarckian and a Beveridgean design. On the one hand, it has the classical social insurance elements of a Bismarckian welfare state, but, on the other hand, it also features universal safety nets of a Beveridgean welfare state (Hemerijck and Marx, 2010). In addition, wages and inflation were kept low during the Golden Age due to the export-oriented nature of the Dutch economy.

In the aftermath of the economic crises of the 1970s, the combination of high inflation, rising unemployment and generous benefits resulted in rapidly increasing social expenditures. The 1980s were therefore a period that put welfare state retrenchment on the political agenda. In 1982, an "austerity coalition" (Hemerijck and Marx, 2010, p. 132) of the *Christian Democratic Appeal* (CDA) and the liberal *People's Party for Freedom and Democracy* (VVD) took office. Especially from the mid-1980s onwards, the center-right Lubbers governments reduced replacement rates for and duration of sickness, disability, and unemployment benefits (Bonoli, 2013, p. 83).

The starting point of this analysis in 1990 is right after the start of third Lubbers government in 1989, which brought the social democratic *Labor Party* (PvdA) as a coalition partner into the cabinet. Figure 6.1 shows the overall direction of labor market reforms that took place under each government since 1990. Detailed information on each cabinet can be found in Table A.9 in the Appendix. While the third Lubbers government (1989-1994) did only enact little changes to labor market policy, it did shift the discourse towards increasing labor force participation. As Hemerijck and Marx (2010) convincingly show, "policy-makers became to realize that the low level of labor market participation was the Achilles heel of the extensive but passive welfare system of the Netherlands" (p. 133). The 1994 elections resulted in a new coalition government of the PvdA together with the liberal VVD and the *Democrats 66* (D66). For the first time, Christian democratic parties were excluded from government participation. The new coalition led by Kok
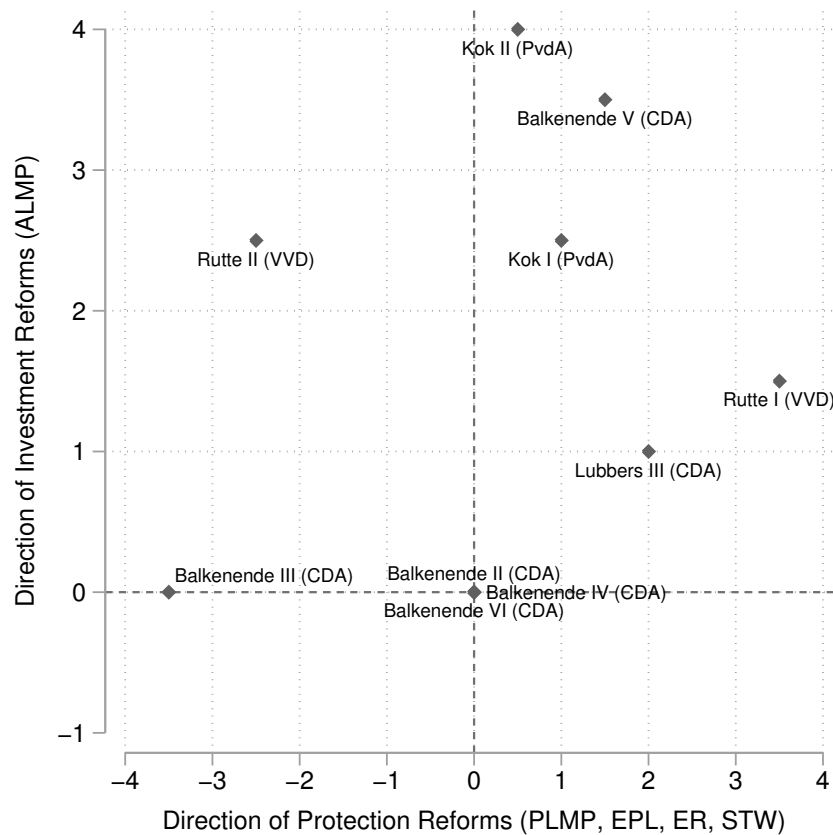
Figure 6.1: Changes in Labor Market Reforms in the Netherlands by Cabinet

(PvdA) put a strong emphasis on activation while maintaining the current level of passive protection. This reorientation is also clearly visible in Figure 6.1. Job creation and job placement programs were created with a strong focus on increasing the pro-market employment orientation. The second Kok government (1998-2002) continued the process towards more investment-oriented labor market policies and made participation in activation programs compulsory for most unemployed. In addition, employment services were reformed and modernized. Overall, unemployment decreased substantially during this period.

In 2002, the Christian democratic CDA under the leadership of Balkenende was back in power. First together with the right populist *List Pim Fortuyn* (LPF) and the liberal VVD. The first two Balkenende governments were short-lived due to disagreements within the LPF. In 2003, the liberal D66 substituted LPF in the third Balkenende government. The most distinguishing feature during his third term has been the neglect of real improvements in activation policies and cutbacks in passive

labor market policies. After five years in opposition, the social democratic PvdA returned to office in 2007, this time governing with the Christian democratic CDA yet again. This fifth Balkenende government (2007-2010) improved activation policies and introduced a series of short-time work schemes during the Great Recession. Finally, the two Rutte (VVD) governments, the first in coalition with the CDA and the second in coalition with the PvdA, further improved activation policies, though to a limited extent. The second term of Rutte also lead some retrenchment in passive labor market policies and a slight deregulation of employment protection.

In sum, the big reorientation towards a more investment-oriented welfare state took place much earlier in the Netherlands than in any other Continental or Southern European countries. There are also some clear partisanship differences visible. The social democratic PvdA in coalition with two liberal parties fully embraced the activation paradigm already in the mid-1990s and restructured the Dutch welfare state. Especially the Christian democratic CDA showed little interest in activation, both in the early 1990s and during most of the 2000s. Instead, most of the retrenchment on the protection dimension occured during times of center-right governments in power, whereas center-left governments aimed to maintain the current levels of passive benefits and employment protection legislation.

6.2.2   Belgium

The "Social Pact" in 1944 marked the starting point of the welfare state expansion in Belgium. Unlike other Continental European countries, Belgium fully implemented Bismarckian insurance principles relatively late. Unemployment insurance was for a long time not conditional on previous contributions, but followed more a flat-rate logic (Hemerijck and Marx, 2010). Like the Netherlands, Belgium was a highly multi-pillared society divided into the three different camps of Christian democrats, social democrats, and liberals. Unlike the Netherlands, however, Belgium is also characterized by strong federalism and, especially, by a strong linguistic cleavage (Clegg, 2007). Later has, according to Hemerijck and Marx (2010), "decisively constrained the scope of government intervention not only in wage bargaining but also in a host of other social and economic policy areas" (p. 129). Nevertheless, this did not prevent Belgium from developing one of the most generous, passive-oriented welfare states in the post-war years. The development of the Belgium welfare state went so far that, in the 1980s, it was the most decommodified country, even before Sweden, the Netherlands, Germany, and France (van Kersbergen, 1995, p. 98).

The economic crises of the 1970s and 1980s hit Belgium especially hard. The strategy of labor shedding through generous early retirement schemes and the increasing demand for unemployment benefits put strain on public finances (Clegg, 2007). In the wake of the crisis, the unemployment insurance was gradually transformed into a needs-based system. While contributions were still in relation to the respective wage level, the benefits were based on actual need (Hemerijck and Marx, 2010). However, public debt in Belgium remained out of control and put fiscal consolidation on the political agenda by the end of the 1980s.

The starting point of this analysis in 1990 marked also the end of 10 years of governments under the leadership of Martens. Figure 6.2 shows the overall direction of labor market reforms that took place under each government since 1990. Detailed information on each cabinet can be found in Table A.6 in the Appendix. The eight and ninth government of Martens (1989-1991) did not enact any relevant reforms. In 1992, the Christian democratic CVP and the social democratic PS and SP continued their coalition, but this time under the leadership of Dehaene. The minimum age for early retirement was increased, eligibility for unemployment benefits were tightened, and employment protection legislation was deregulated at the margins. The second Dehaene government (1995-1999) continued to tighten entitlement conditions to receive unemployment benefits and further deregulated employment protection at the margins. Latter was achieved with the introduction of multiple new work contracts and the removals of restrictions on temporary work. But there have also been some first expansive reforms in the field of active labor market policies, mainly aimed at creating sheltered jobs for long-term unemployed in the public sector.

1999 marked a turning point not only in the history of Belgian politics but also in the development of the welfare state. The new coalition government of the liberal VLD and the social democratic PS and SP under the leadership of Verhofstadt ended forty years of Christian democratic domination of politics. While employment protection and passive labor market policies were both improved during the first term of Verhofstadt (1999-2003), the main focus was put on activation. Inspired by the *Third Way*, the coalition government created multiple new job placement programs, decreased social security contributions of employers, and introduced new job subsidies. As benefit levels remained unlimited in time, the activation turn in Belgium did not create the employment growth as in other countries. Benefit dependency remained an issue and there was little political interest to change this. Also the second Verhofstadt government (2003-2007) did not significantly alter this. Instead it just continued to further increase activation policies, most notably with a strong pro-market employment orientation. Even though Belgium has witnessed a signifi-
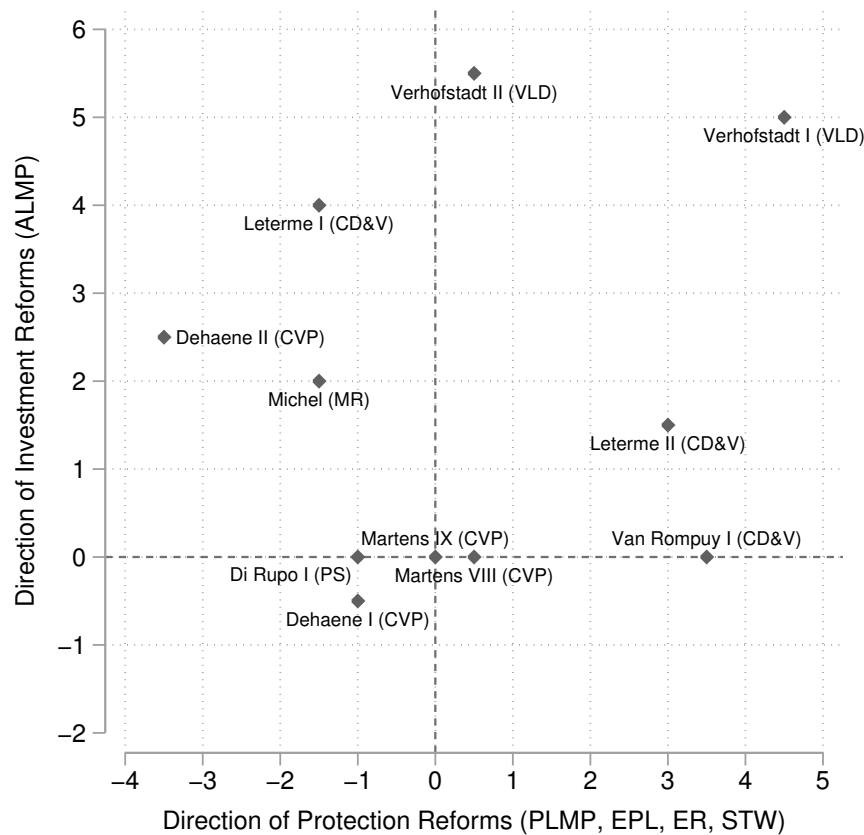
Figure 6.2: Changes in Labor Market Reforms in Belgium by Cabinet

cant turn towards activation during these years, efforts "to boost work willingness has relied on carrot than stick type of measures" (Hemerijck and Marx, 2010, p. 143). As a result, Belgium did not find the "right" recipe to deal with the "welfare without work" problem of generous consumption-oriented welfare states.

In 2008, the Christian democrats under the leadership of Leterme were back in power. The coalition government with the social democratic PS and the liberal *Reformist Movement* (MR) finally managed to push through a significant reform of the early retirement scheme with substantially tighter conditions to access it. In addition, Leterme further expanded active labor market policies. Once the economic crisis arrived in Belgium, Leterme responded with expansive short-time work reforms. The short-lived Van Rompuy government (2009) continued to expand short-time work schemes and also increased the levels of unemployment benefits. At the end of 2009, Leterme took office once again. He re-regulated certain aspects of employ-

ment protection, expanded active and passive labor market policies, and gradually increased early retirement age.

In 2011, the new government under the social democrat Di Rupo took office in coalition with the liberal MR and the Christian democratic CD&V. Right at the beginning, he significantly reformed the unemployment benefits system, in which the duration and benefit levels were substantially reduced. At the same time, employment protection legislation was re-regulated. In a next step, eligibility criteria to receive unemployment benefits and early retirement benefits were also tightened. Finally, the center-right Michel government (2014-onwards) slightly deregulated employment protection legislation, but also implemented some expansive activation reforms with a focus on job subsidies and job placement programs.

In sum, the Belgium welfare state remains rather consumption-oriented and the shift towards activation was implemented only in a half-hearted way. Unlike in the Netherlands and in Germany, the expansion of active labor market policies did not go hand in hand with lower levels of consumption and regulation policies. Only towards the very end under Di Rupo some measures have been introduced to lower benefit dependency. Partisanship effects in Belgium are less pronounced than in other Continental European countries. The social democratic parties, and in particular the unions, did never fully embrace the ideas of the *Third Way* and always put a strong emphasis on passive transfers. Only in conjunction with the liberal leadership of Verhofstadt, labor market policies became more investment-oriented in Belgium.

6.2.3   Germany

Germany's welfare state development since the end of the Second World War has been remarkably similar to that of Austria. The post-war economic miracle and a historic compromise between the Christian democratic CDU/CSU, the social democratic SPD and the liberal FDP based on the principle of the social market economy (*Soziale Marktwirtschaft*) allowed for an unprecedented expansion of the welfare state until the early 1970s (Leibfried and Obinger, 2003). Policy-making was based on the corporatist involvement of social partners (Streeck and Hassel, 2003; Manow, 2004) and the male breadwinner, insurance-based welfare system strongly follows the idea of status preservation and subsidiarity. Given these characteristics, Esping-Andersen (1990) has classified Germany as the archetypical conservative, Christian democratic welfare state. Unlike Austria, however, Germany never fully followed the Keynesian approach but always maintained a strong focus on sound fiscal policies,

ultimately rooted in its commitment to ordoliberalism (Goldschmidt and Wohlge-
muth, 2008).

Since the economic crises of the 1970s, however, the welfare state has been con-
fronted with a series of new challenges: declining economic growth, mounting public
debt, and rising unemployment. Already in the mid-1970s under the social demo-
cratic government of Helmut Schmidt, the first austerity reforms were implemented.
Once the Christian democratic and liberal coalition government of Helmut Kohl
took office in 1982, austerity was more intensively pursued and ultimately led to a
decline in aggregate social expenditures during the 1980s (Leibfried and Obinger,
2003). But attempts to deregulate employment protection legislation were not suc-
cessful in parliament and failed. Instead, Kohl expanded generous early retirement
schemes, a classical strategy of labor shedding used in most Continental European
countries during the 1970s and 1980s. Just when the path to fiscal consolidation was
somewhat successfully established, the process of German unification put new social
demands on the agenda, but the external constraints imposed by the Maastricht
Treaty made it more difficult to address such needs.

The starting point of this analysis in 1990 sits right at the start of German
unification. Figure 6.3 shows the overall direction of labor market reforms that took
place under each government since 1990. Detailed information on each cabinet can
be found in Table A.8 in the Appendix. The third Kohl government lasted only until
the end of 1990 and during this period no reforms were enacted. The fourth and fifth
Kohl governments (1991-1998) were characterized by austerity. Replacement rates
of unemployment benefits were lowered quite substantially and there were some first
successful attempts to deregulate employment protection legislation. In addition,
both Kohl governments introduced workfare reforms with increased conditionality
to receive unemployment benefits.

According to Leibfried and Obinger (2003), all these retrenchment measures en-
acted mainly since the mid-1990s contributed to a big extent to the success of the
SPD in the 1998 general election. During the election campaign, Gerhard Schröder,
the candidate of the SPD, promised to reverse some of the retrenchment measures
implemented under the Kohl government. During the first term (1998-2002) of the
Red-Green coalition under Schröder, some of those retrenchment measures were
actually reversed. Passive labor market policies were expanded and some new acti-
vation measures were introduced. The latter focused primarily on job subsidies and
better job placement programs.

The second term of the Schröder government (2002-2005) marked not only a
turning point in labor market policy but also for the electoral fate of the German
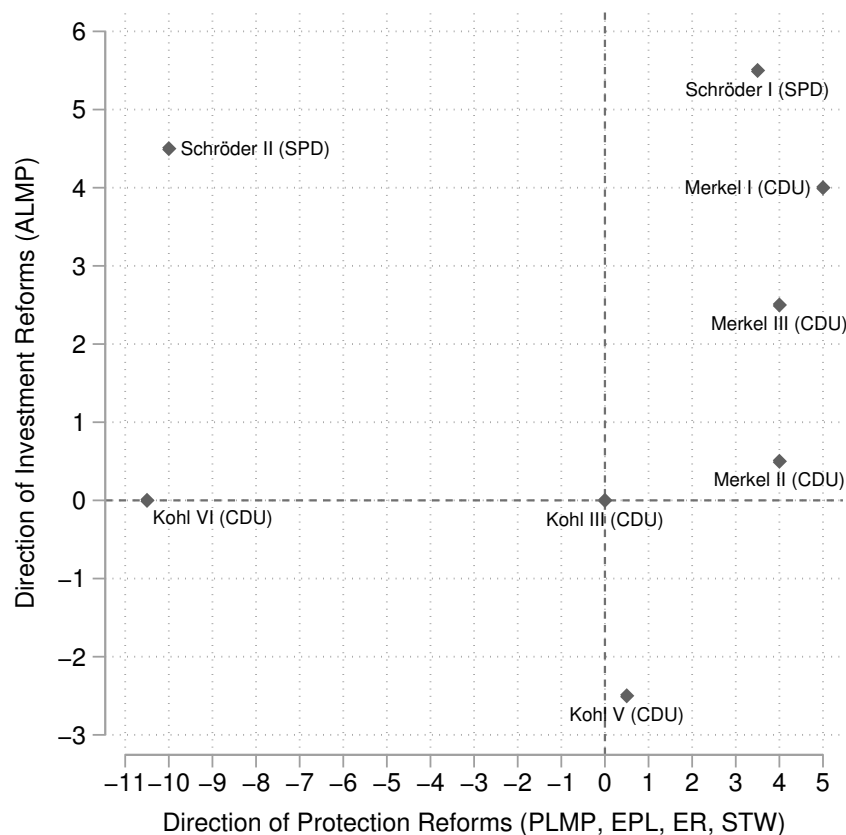
Figure 6.3: Changes in Labor Market Reforms in Germany by Cabinet

SPD. The Red-Green coalition quickly adopted the reform proposals of the Hartz commission. As the Hartz reforms have already been discussed elsewhere in great detail (Kemmerling and Bruttel, 2006; Eichhorst and Marx, 2011; Fleckenstein, 2012; Schwander and Manow, 2017), the focus here lies just on the main changes that were part of this so-called *Agenda 2010*. The first two Hartz reforms significantly increased activation measures with a focus on job placement and job subsidy programs. So-called "mini-jobs" in secondary employment were introduced. In addition, it made unemployment benefits conditional on participation in job placement programs and forced the unemployed to accept job offers regardless of their skills. The third Hartz reform reorganized the public employment service. Finally, the most controversial changes were included in the fourth Hartz reform. It reduced substantially the duration of unemployment benefits and merged unemployment and social assistance into a means-tested benefit called *Arbeitslosengeld II*. Shortly after, employment protection legislation was also substantially deregulated. Overall, the second term of Schröder marked a strong break with the past. Even though active

labor market policies were expanded, the protection side of the welfare state was severely dismantled.

As a result of Agenda 2010, disillusioned supporters of the SPD and unionists went on to support the newly-founded Left Party (Weishaupt, 2010), which changed coalition dynamics in the German party system for the years to come (Schwander and Manow, 2017). In 2005, the government of Angela Merkel (CDU/CSU) took office and relegated the SPD into the status of a junior coalition partner. Apart from a few expansive activation reforms aimed at improving the job prospects of long-term unemployed (*JobPerspektive*) and older workers (*Perspektive 50-plus*), little change took place. With the onset of the economic crisis in 2008, the first Merkel government responded with a series of short-time work schemes to shelter the work force. In the 2009 general elections, the SPD could not profit electorally from the economic crisis and reached a new low with just over 20 percent of the electorate voting for them. This allowed Merkel to form a coalition government with the liberal FDP. Apart from a few expansive passive reforms, the government did not enact any relevant labor market reforms. Finally, the third third of Merkel (2013-2017) was again a coalition government with the SPD as a junior partner. It improved slightly employment protection legislation and continued with some improvements in active labor market policies. Yet, the changes implemented under the second and third Merkel government were quite limited.

Overall, there are strong differences in how government reformed labor markets in Germany. As has been shown already in the previous chapter, the development of labor market reforms in Germany stands out from the other Continental European countries. The early years of German unification was a period of intense austerity, followed by a period of social democratic governments under the leadership of Schröder that was strongly inspired by the ideas of the *Third Way* (Huo, 2009). The recalibration towards more investment-oriented labor market policy is clearly visible. While left governments had negative effect on the protection dimension, they are positively associated with the investment dimension. The extraordinary development of labor force participation rates, though at the cost of a rising low-wage sector, and the only short-lived economic crisis during the Great Recession put little pressure on Merkel to further enact structural labor market reforms.

6.2.4   Austria

Post-war Austria has been characterized for most of the time by considerable political stability, where the two main parties, the Christian democratic *Austrian People's*

Party (ÖVP) and the *Social Democratic Party of Austria* (SPÖ) have controlled the government, either alone or in a coalition. According to Obinger et al. (2010), Austria has been dominated by a "duopoly of parties during the four decades following the Second World War" (p. 24) despite having a system of proportional representation. The consociational nature of democracy coupled with strong corporatism in the realm of industrial relations resulted in an extraordinary phase of welfare state expansion during the Golden Age of the post-war years. Austria has been described as a typical corporatist-conservative welfare state by Esping-Andersen (1990), where social insurance is the dominant principle of welfare state institutions. The economic crises of the 1970s brought welfare state expansion to a halt and the social democratic governments under Kreisky shifted its focus towards maintaining full employment, which often has been called a phase of Austro-Keynesianism (Obinger et al., 2010). Austro-Keynsianism, however, came at the price of mounting public debt in the 1980s. The first coalition government between the SPÖ and the liberal *Freedom Party* (FPÖ) in the mid-1980s broke with Austro-Keynsianism and introduced the first cutbacks in social policy programs, especially focused on labor market policy due to the rising number of unemployed. The elections 1986 gave rise to the FPÖ and the newly established Green Party and forced the two main parties to govern in a coalition yet again. In stark contrast to the Kreisky governments, the newly formed coalition government under Vranitzky (SPÖ) initiated a process aimed at breaking fully with Austro-Keynesianism (Obinger et al., 2010). This was to large part also due to the ideological shift of the ÖVP towards a more neoliberal position, focusing on fiscal discipline, supply-side reforms and privatization (Seeleib-Kaiser, 2008).

The starting point of this analysis in 1990, therefore also a marked broader transition in the development of the Austrian welfare state and the political economy more generally. Figure 6.4 shows the overall direction of labor market reforms that took place under each government since 1990. Detailed information on each cabinet can be found in Table A.5 in the Appendix. In line with the findings from Obinger et al. (2010), several positive and negative changes in passive and active labor market policies that occurred during the first five years balanced each other out. Despite the broader changes in economic policy-making in Austria during the late 1980s and the early 1990s, little change took place in relation to labor market policy until 1995.

As the economy started to slow down and new external constraints by the Maastricht Treaty were put on public debt, the fourth and fifth Vranitzky government adopted some austerity measures. In the field of labor market policy, these measures were mainly aimed at containing the costs of passive labor market policies and early
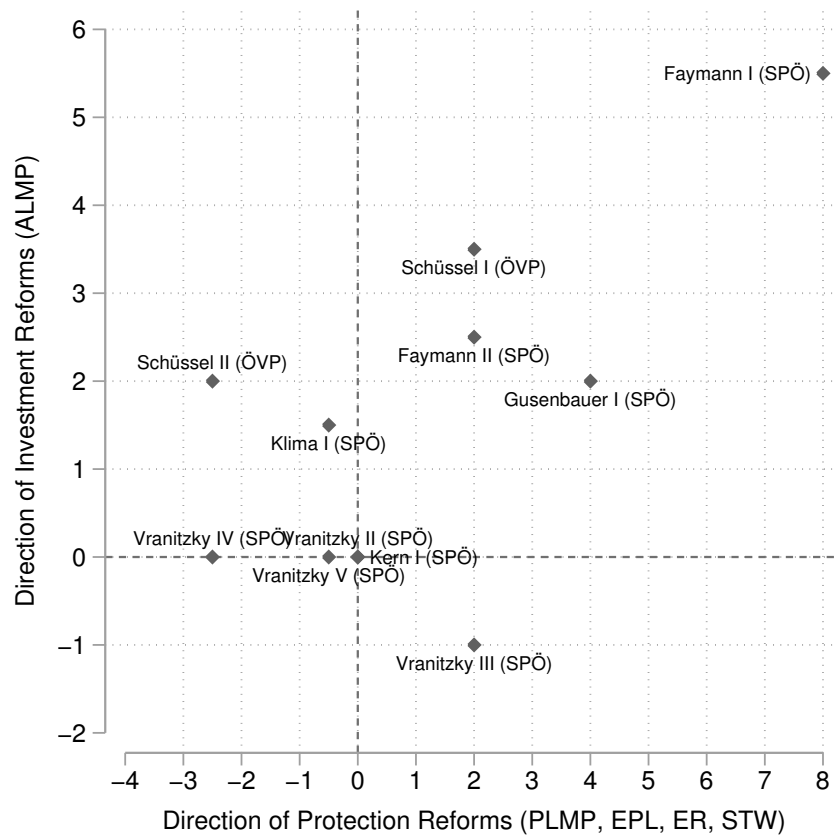
Figure 6.4: Changes in Labor Market Reforms in Austria by Cabinet

retirement schemes. In 1997, the coalition government under Klima (SPÖ) took office and the most notable changes during this time occurred in the field of active labor market policy. Whereas previous government only hesitantly put a focus on activation, Klima enacted reforms that substantially extended activation spending, particularly on programs aimed at upskilling the unemployed.

The general election in 1999 marked yet another turning point in Austria's political history, where the ÖVP under Schüssel used the opportunity to form a center-right government in coalition with the Freedom Party (FPÖ) for the first time. The focus of the new government was strongly put on a balanced budget, exemplified by the slogan of the new finance minister Gasser: 'a good day begins with a balanced budget' (Obinger et al., 2010). Whereas changes in the fields of health and pension were far-reaching, little changes took place in the realm of labor market policy. The second Schüssel government decreased the coverage of the unemployment insurance and implemented small deregulation reforms of employment protection legislation.

In addition, both Schüssel government enacted new active labor market policies, in particular with a strong focus on employment assistance. Increasing job subsidies and job placement programs were seen in accordance with a liberal approach of a strong pro-market employment orientation and in line with the goals of the European Employment Strategy. Overall, labor market policies were exempted from retrenchment.

In 2007, the grand coalition of the SPÖ and ÖVP was revived yet again. The Gusenbauer government and then the two Faymann governments revised the system of unemployment insurance and introduced a new minimum income scheme. In addition, the first Faymann government strongly improved employment protection legislation for atypical work (see also Rathgeb, 2018, regarding the role of trade unions in this process). It was also a period where both governments put a strong focus on establishing a better system of active labor market policies. Especially the first Faymann government introduced far-reaching reforms aimed at upskilling and qualifying the unemployed instead of just keeping them busy in a secondary labor market. Due to the economic crisis, a series of short-time work schemes were introduced to shelter the workforce from massive layoffs.

Overall, there are clear partisanship differences visible in Austria. Even though the Christian democratic ÖVP and SPÖ were governing most of the time in a coalition, one can clearly see the stronger focus of the left on investment reforms aimed at upskilling. In addition, the early 2000s have shown that a center-right government in power leads to a period of liberalization (see also Fill, 2019), where the focus is on welfare state consolidation and a stronger pro-market employment orientation of activation policies with job subsidies and incentive reinforcements. In addition, it were always governments under the leadership of the SPÖ who improved coverage of unemployment benefit insurance and job protection of atypical workers.

6.2.5   France

Like the other Continental European countries, post-war France went through a phase of strong welfare state expansion until the 1970s. The Keynesian compromise during the *Trente Glorieuses* established the core institutions of the French welfare state and significantly expanded the already existing ones. France has often been classified into the family of conservative welfare states (Esping-Andersen, 1990) as the main institutions strongly reflect the Bismarckian tradition of social insurance (Palier, 2010).[1] With regards to the broader organization of the political economy,

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[1]Others, however, see the French welfare state more closely related to the Southern European model of welfare due to the strong focus on pensions (Leibfried, 1993).

however, France has often been classified in an ambiguous way. According to the varieties of capitalism literature (Hall and Soskice, 2001; Hall and Gingerich, 2009), France does neither really fit the characteristics of *coordinated market economies* nor that of *liberal market economies*. Instead, France has been portrayed as a mixed market economy together with Italy, Spain, South Korea and Taiwan. Among others, Schmidt (2009) has argued that these are all countries where the state plays an important role in the organization of the economy. France can be considered an ideal-type of such *state-influenced market economies*. Hancké (2001), however, contends that the *dirigiste* tradition of France has declined since the 1980s, especially with regards to industrial adjustment strategies.

A second feature distinguishes France from the other Continental European countries. The post-war electoral system of proportional representation was only short-lived and was abolished already in 1958, in favor of the old two-round/two-ballot system in combination with a more presidential political system. In line with the outcome of a PR system, a two-round/two-ballot system results in a high number of parties, but ultimately all these parties form two political camps (left and right) due to the second round and the direct presidential elections (Manow and Palier, 2009). As has been convincingly shown by Carey and Shugart (1995), such an electoral system leads to a strong focus on candidates and rather weak parties.

The *Trente Glorieuses* ended with the economic crises of the 1970s. France was, like its neighbors, confronted with declining economic growth, increasing public deficits and rising unemployment rates. The 1970s and 1980s were a long period of crisis and resistance to reforms (Palier, 2010) where only little changes took place. Different governments during this time tried unsuccessfully to cut government expenditure on welfare state programs. As a consequence, aggregate social spending continued to increase substantially until the mid-1980s. The continuing rise in social spending was also due to the strategy of labor shedding with generous early retirement schemes. During the mid-1980s, France implemented some first activation policies, but these were almost exclusively occupation policies not aimed labor market re-entry (Bonoli, 2013, p. 94).

The strategy of labor reduction through generous early retirement schemes, however, became increasingly difficult to pursue in the 1990s due to the new public deficit rules of the Maastricht Treaty. The starting point of this analysis in 1990 is therefore a period where France was forced to embark on a new path of progressive reforms to adapt to the new European environment. Figure 6.5 shows the overall direction of labor market reforms that took place under each government since 1990. Detailed information on each cabinet can be found in Table A.7 in
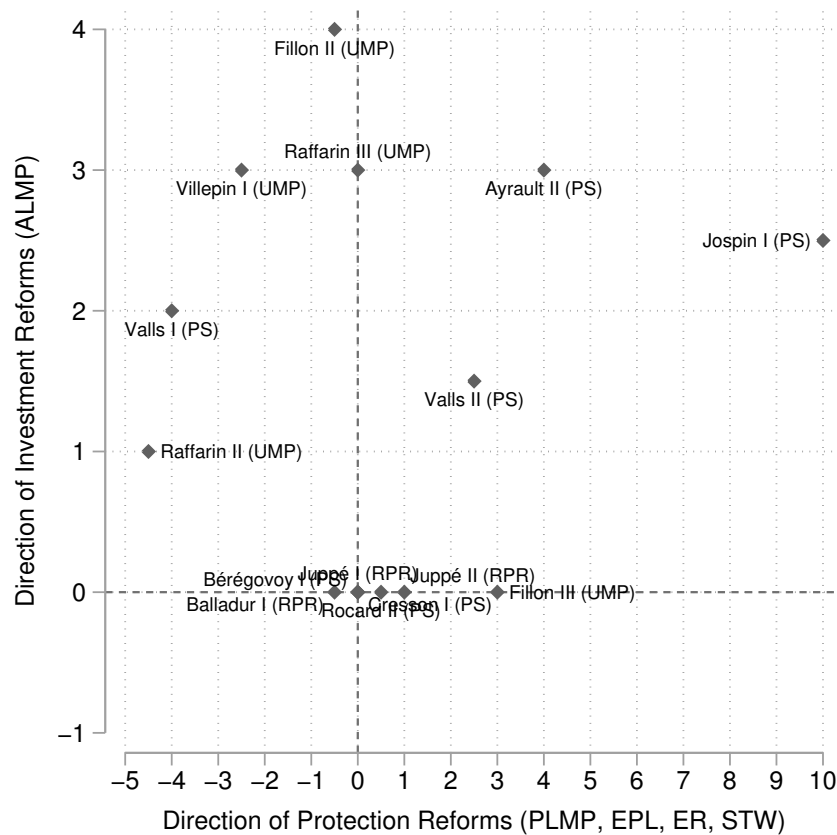
Figure 6.5: Changes in Labor Market Reforms in France by Cabinet

the Appendix. Whereas the first two social democratic governments of Roccard and Cresson did not enact any labor market reforms, the Bérégovoy government (1992-1993) reformed the unemployment insurance in 1992. Benefits levels and duration to receive unemployment benefits were slightly reduced. The following three center-right governments (Balladur and Juppé) did lead to little changes in labor market policy. Back in power, the left-wing Jospin government (1997-2002) changed the course of welfare state development from the previous conservative governments (1993-1997). The Jospin government pursued a strong expansion of job creation schemes, expanded passive labor market policies and introduced tighter regulation of employment protection legislation. Whereas previous government almost entirely neglected activation policies, Jospin also put more emphasis on programs of employment assistance and occupation. Due to a "lack of enthusiasm for activation among the French socialists" (Bonoli, 2013, p. 97), most of these reforms were only half-hearted and a real turn towards activation did not happened until the mid-2000s.

Unlike other social democratic parties in Continental Europe, the French socialists were never convinced by the idea of a *Third Way*.

The real turn towards activation in France did occur during center-right governments under the leadership of the *Union for a Popular Movement* (UMP). In a first step, the second Raffarin government (2002-2004) did retrench passive labor market policies, whereas the third Raffarin (2004-2005) and the Villepin goverments (2005-2007) focused more extensively on active labor market policies. In line with a center-right, liberal ideology, most of the active labor market policies introduced did improve job placement and job subsidy programs and had a strong pro-market employment orientation. There was little to almost no focus at all on programs aimed at upskilling the unemployed. In addition, Villepin also significantly deregulated employment protection at the margins.

In 2007, Nicolas Sarkozy got elected as the new French president and together with Fillon he embarked on a path of substantial labor market restructuring. Reforms on the consumption dimension have developed very differently from reforms affecting the regulation dimension. As these two dimensions are merged into one in Figure 6.5, this development is not visible. But multiple reforms substantially lowered employment protection legislation at the margins before the economic crisis. With the onset of the Great Recession in 2008, numerous short-time work schemes were introduced to avoid further increasing unemployment rates. Passive labor market protection, on the other hand, were barely expanded to cope with the crisis. The two Fillon governments (2007-2012) continued to expand activation policies. Unlike the two previous governments, he also introduced tighter benefit conditionalities and introduced workfare elements into the system of activation. Towards the end of his second term, Fillon reversed some of deregulation reforms introduced in his first term.

From 2012 until 2017, the French socialists were again back in office with the President François Hollande. The Ayrault government first focused on improving passive labor market policies and re-regulating certain aspects of employment protection legislation. In addition, activation policies were significantly expanded under all three governments (Ayrault, Valls I-II). Whether this is just a result of the ongoing difficulties of the French economy to generate strong economic growth and employment, or whether this marks the embrace of the activation paradigm among the French socialists remains to be seen. More importantly, however, Valls significantly reduced employment protection legislation towards the end of his first term, causing outrage among his rank and file and the labor unions.

In sum, government composition has had different effects on labor market reforms in France than in most other Continental European countries. Whereas in most other countries, the center-left first embraced the activation paradigm and paved the way for investment-oriented labor market reforms, in France it was the opposite. Until the early 2000s, the French socialists were more focused on traditional social policies and put little emphasis on activation, something they regarded as neoliberal and not fitting to their political ideology. It therefore needed center-right governments in the mid-2000s to restructure French labor market policies. As result, most activation policies during this time had a strong pro-market employment orientation and upskilling was not a priority. Recent activation reforms under left governments in the mid-2010s, however, might show that also the French socialists started to embrace activation. Overall, left leaning governments in France therefore lead to more expansive reforms on the protection dimensions, whereas right leaning government put investment on the agenda.

6.2.6   Portugal

Shortly after the transition to democracy in 1974, Portugal formally established a modern system of unemployment insurance in 1975. In stark contrast to Spain, however, unemployment coverage remained very limited. According to Watson (2015), only about 10 percent of all the registered unemployed had access to unemployment benefits in 1980 and the this low number only increased to about 21 percent in 1985. In 1989, there has been an expansive reform of the unemployment benefit system that improved coverage and benefit levels. In comparative terms, the generosity and access to unemployment benefits remained limited. Interestingly, Spain and Portugal also differed strongly in their policies dealing with their poorer, rural labor markets in their Southern regions. Whereas Spain has followed a strategy to provide rural workers with subsidies and generous unemployment benefits (75 percent of the minimum wage for nine months of the year), Portugal followed a liberal strategy of limited social protection. As a result, Portugal witnessed a migration wave of rural workers into the cities to find jobs. On the other hand, rural workers in Spain remained in the countryside due to the generous incentives of the welfare system. Inequality and unemployment rates are inversely related to each other in the two countries. Spain witnessed an increase in unemployment, but redistributive social policies (mainly unemployment and pension benefits) compressed the income distribution and sheltered the unemployed from poverty. Portugal increased labor force participation rates in the late 1980s, but poverty and inequality increased due to low wages and precarious employment (Watson, 2015).
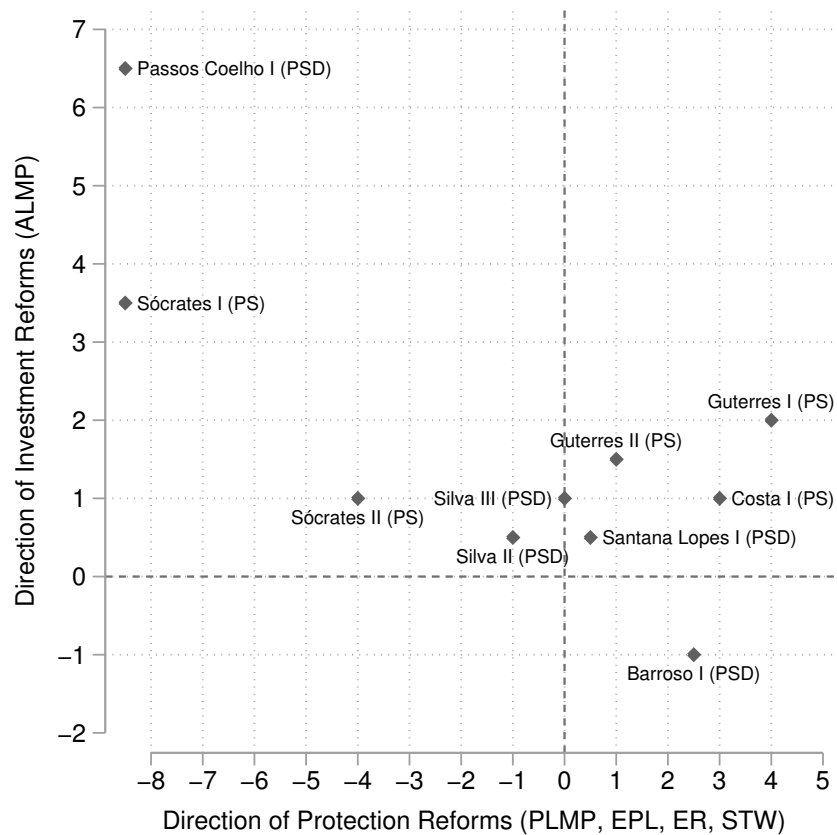
Figure 6.6: Changes in Labor Market Reforms in Portugal by Cabinet

Moving to the starting point of this analysis in 1990, Portugal was therefore not so much confronted with an unemployment crisis but much more with a problem of rising poverty and inequality. Figure 6.6 shows the direction of labor market reforms that took place under each government since 1990. Detailed information on each cabinet can be found in Table A.12 in the Appendix.

The second and third Silva government, belonging to the center-right *Social Democratic Party* (PSD), lasted until 1995 and barely enacted any labor market reforms. In 1995, the center-left *Socialist Party* (PS) took office until 2002. These two governments led by Guterres profited from strong economic growth and enabled the PS to implement additional passive labor market policies in order to improve the coverage and benefit levels of the existing unemployment benefit system. In addition, the Guterres government put a big emphasis on activation, mainly aimed at increasing employment assistance.

In contrast to the other Southern European countries, Portugal experienced an economic slump already in the early 2000s. This "Great Slowdown" (Eichenbaum et al., 2016) of the economy combined rising unemployment rates put pressure on politics to reform labor markets. The center-right Barroso government (2002-2004) followed a more liberal approach of employment protection deregulation and work-fare activation policies, but still coupled with some improvements of passive labor market policies. The following, short-lived government of Santana Lopes (2004-2005) did not enact any remarkable labor market reforms.

In stark contrast to the two Guterres governments, the first Socrates government (2005-2009) had to cope with negative growth rates and rising unemployment. This led not only to a deregulation of employment protection at the margins, but also to a much less generous protection of passive labor market policies (including early retirement). Most part of the second Socrates government (2009-2011) happened under the auspices of the Troika, which ultimately also was the reason for his early resignation in 2011. The Memorandum of Understanding (MoU) only allowed Socrates to improve active labor market policies, whereas passive spending on pensions and unemployment benefits, and employment protection was demanded to be cut (Theodoropoulou, 2014). Like the previous government, Passos Coelho (2011-2015) followed down a similar path. He most strongly deregulated employment protection legislation, enacted further cuts to the unemployment benefits system, and expanded active labor market policies. Yet, there is one important difference between the two governments: whereas the investment reforms under Socrates aimed to a big extent at human capital creation through upskilling programs, Passos Coelho focused almost exclusively on job subsidy programs in order to increase the pro-market employment orientation.

The deep and unpopular austerity measures implemented by Passos Coelho (Balbona and Begega, 2015) led to the demise of the PSD at the next general election in 2015 and to the rise of the first left government in the history of Portugal that is supported by far left parties (Fernandes et al., 2018). Even though it is too early to fully assess the effect of the Costa government on labor market reforms, the focus right at the beginning of his tenure was on the reversal of the cuts in passive labor market policy (and also in pensions). In strong disagreement with the Troika, he officially declared that his goal was to increase the consumption power of the citizens in the hope to spur economic growth. The currently good economic projections seems to support his assumptions.

Overall, the Portuguese case shows the difficulty of assessing partisanship effects. The social democratic PS has been five times in government and each time under

very different economic circumstances. When the center-left PS is in power during good economic times, they improve both passive and active labor market policies. But when they are faced with an economic crisis, they tend to decrease consumption policies. With regards to activation, the center-left governments were more favorable towards an expansion overall. In particular, it was mainly PS governments who put a strong activation emphasis on upskilling, whereas center-right governments tend to increase workfare and employment assistance programs.

6.2.7   Spain

According to Cabrero (2011), the development of the Spanish welfare state before 1990 can be divided in two periods. The first period from 1975 until 1985 was characterized by the expansion of social policy programs, whereas the second period from 1986 until 1995 was phase of welfare state consolidation. The starting point of this analysis in 1990, therefore, falls in the middle of this second period. Figure 6.7 shows again the direction of labor market reforms that took place under each government since 1990. Detailed information on each cabinet can be found in Table A.13 in the Appendix. Spanish politics is characterized by the continuing government alternation between the center-left *Spanish Socialist Workers' Party* (PSOE) and the center-right *People's Party* (PP).

The third and fourth Gonzalez governments (1989-1996) were confronted with an acute economic crisis from 1992 to 1994. The third Gonzalez government had slightly more fiscal leeway and still managed to implement active labor market policies. The fourth Gonzalez government, however, was confronted with massive budgetary pressures (Cabrero, 2011) and scaled back passive labor market policies and deregulated employment protection legislation. This period of welfare consolidation was all the more surprising since the first and second Gonzalez governments (1982-1989) marked the high point of welfare state expansion in Spain (Cabrero, 2011). It is therefore unlikely that the political ideology of the third and fourth Gonzalez governments has suddenly changed so dramatically. Rather, it shows that the interaction between the economic context and party politics plays a crucial role. Faced with a severe economic crisis, Gonzalez decided to act, in the sense of Mair (2013), in a "responsible" way at the cost of not being "responsive" to his voters - and this even though he was confronted with multiple general strikes during this period (Cabrero, 2011). We can see that the crisis years (and the upcoming EMU entrance exam) during the first two PSOE governments led to quite strong retrenchment of protection policies.
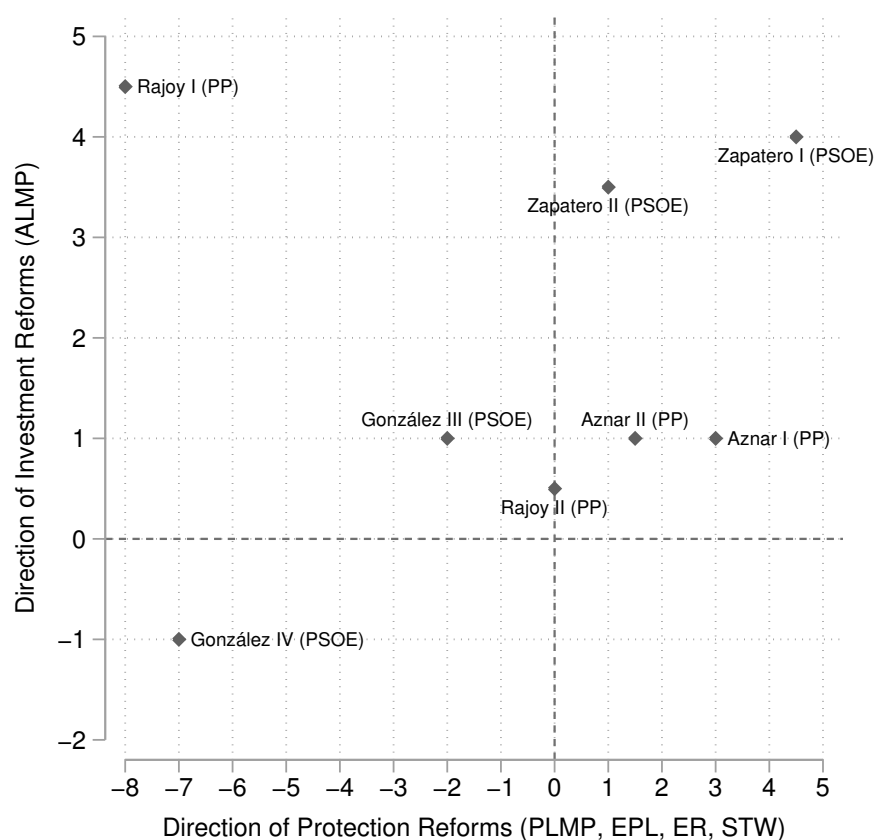
Figure 6.7: Changes in Labor Market Reforms in Spain by Cabinet

Partially due to the controversial labor market reforms enacted under Gonzalez, PSOE lost the elections in 1996 to PP. The following eight years under the center-right governments of Aznar (1996-2004) led to labor market reforms with little changes in the overall design. Both employment protection legislation and passive labor market policies were slightly increased, latter especially towards the end of his second tenure. Given the overall good development of the Spanish economy, it is somewhat surprising that there have not been more expansive reforms in active labor market policy. The fiscal space would certainly have allowed for it. However, a strong approach towards activation has never been central to the platform of the Spanish People's Party.

Spain is also an interesting case because the center-left PSOE has been in office four times from 1989 onwards and had to cope with very different economic circumstances. In contrast to the two Gonzalez governements, Zapatero was first governing during an economic boom from 2004 onwards and later on confronted

wit the onset of the Great Recession in 2008. Governing during the high economic boom allowed the first Zapatero government (2004-2008) to expand both passive and active labor market policies, but the emphasis has clearly been more on the latter. Not covered in this data, but the Zapatero government also put more emphasis on work-family reconciliation policies and introduced a number of social investment policies (León, 2011; Salido, 2011). Zapatero was the first to put active labor market policies properly on the agenda and introduced several new measures aimed at upskilling the unemployed and introducing job subsidies. This period under Zapatero set the starting point of a potential recalibration of the Spanish welfare state towards more investment-oriented social policies.

At the beginning of the second Zapatero government (2008-2011), Spain was still thriving thanks to low interest rates and the housing boom. In the late 2008, however, the economic crisis has reached Spain. The crisis did not immediately lead to a wholesale retrenchment but to a short period of "emergency Keynesianism". That is why the second Zapatero government is, perhaps counterintuitively, located in the top right quadrant. However, towards the end of his tenure Zapatero enacted also a controversial labor market reform in 2010 that deregulated employment protection legislation.

Rajoy took office at the height of the Eurozone crisis in 2011 and immediately embarked on a path of strong deregulation of employment protection. The two reforms in 2012 (Royal Decree 3/12 and 20/12) have been the most severe cuts in job protection in Spanish history. Unlike most of the previous reforms, these two reforms did not only deregulate "at the margins". Instead, the reforms aimed at a full-scale liberalization of employment protection for both labor market insiders and outsiders. In addition, there also have been cutbacks in passive labor market policies, though they were reversed later on. Like in most other countries as well, active labor market policies were exempted from cutbacks and continued to be improved. Yet, Rajoy also introduced more workfare elements into the activation system in Spain.

Overall, we see that center-right governments in Spain had little interest in investment reforms. Whether the first Rajoy government is an exemption to the rule or the beginning of a reorientation of the center-right PP remains to be seen. Looking back at the last 26 years, however, it has been especially the two Zaptero governments that have introduced more investment-oriented reforms. At least for the case of Spain, the left does show to have an interest in social investment, even in dualized labor markets and contrary to what Gingrich and Ansell (2015) would expect. On the other hand, partisanship differences between PSOE and PP seems to be less pronounced on the protection dimension. But this mainly relates to the

field of passive labor market policy, whereas the center-right deregulates employment protection legislation more strongly.

6.2.8   Greece

Unlike in Continental European countries, the strong economic growth in the 1950s and 1960s did not translate into the expansion of the Greek welfare state and social insurance coverage remained fragmented and unequal. Also the period of authoritarian rule (1967-1974) did not lead to any significant changes in this regard. After the transition to democracy, and especially with PASOK taking office in 1981, social expenditure was substantially increased (Matsaganis, 2011; Featherstone and Papadimitriou, 2015). The phase of welfare state expansion in the 1980s, however, also allowed political actors to use social policies as an instrument to establish clientelistic exchanges (Petmesidou, 2017). At the starting point of this analysis in 1990, the Greek welfare state was characterized by the main features Ferrera (1996) described as the Southern European welfare regime: highly fragmented social insurance, almost universal health care, heavy bias towards pension spending, underdeveloped social safety nets, labor market segmentation, high prevalence of clientelism and inefficient public bureaucracies.

Figure 6.8 shows the direction of labor market reforms that took place under each government since 1990. Detailed information on each cabinet can be found in Table A.10 in the Appendix. At first sight, there are barely any partisanship differences visible between the two main parties - the *Panhellenic Socialist Movement* (PASOK) and *New Democracy* (ND). However, two other patterns are visible. First, independent of the party in government, increasingly more active labor market policies have been introduced over time. It might be surprising to see that the though austerity measures implemented in Greece in the wake of the Eurozone crisis did not negatively affect the investment dimension of labor market policy. As in the case of Portugal, active labor market policies were excluded from retrenchment in the multiple "Memoranda of Understanding" between the Greek governments and the Troika (European Comission, European Central Bank, and the International Monetary Fund). In most of these explicit and implicit agreements between Southern European governments and the European institutions, active labor market policies were even mentioned as a possible cure to high (structural) unemployment rates, especially among the young. The second pattern relates to the protection dimension. The stronger economic growth, the more expansive have been the reforms relating to the protection dimension. Active labor market policy does not follow this pat-
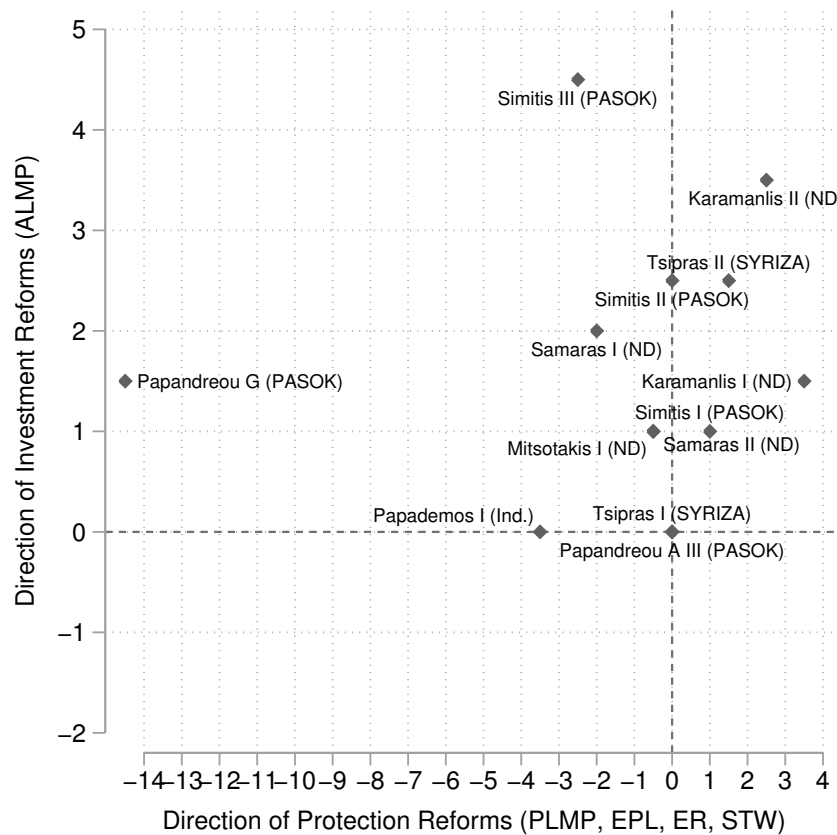
Figure 6.8: Changes in Labor Market Reforms in Greece by Cabinet

tern, which is most likely due to their popularity by international actors that have strongly influenced Greek reforms in recent years (Theodoropoulou, 2014).

Apart from these two patterns, what stands out is the massive retrenchment of the protection dimension that occurred under the government of Papandreou G at the height of the Greek crisis between 2009 and 2011. Given the sheer intensity of retrenchment, which has also occurred in other dimensions of the welfare state (Petmesidou and Glatzer, 2015; Perez and Matsaganis, 2018) at the same time, the almost complete annihilation of PASOK in the following elections is also not surprising. Due to mounting popular protest, both PASOK and ND agreed to delegate further austerity measures to a caretaker government. The short-lived caretaker government of Papademos continued down the same path and enacted further austerity reforms. The following two governments of Samaras (2012-2015) were still under strict conditionality of the Troika, but welfare state retrenchment did not take place anymore in the dimension of labor market policy (Perez and Matsaganis, 2018). It

even allowed the second Samaras government and the incoming Tsipras government to slightly increase the protection again, yet to a very small degree.

Overall, it is difficult to explain the variation of reform outcomes in Greece by the composition of its government. Even during the good economic times of the early 2000s, there are barely any differences in the reform profiles of PASOK and ND. According to Matsaganis (2005), Greece is even among the family of Southern European welfare states a "deviant case". The welfare state is characterized by a "clientelistic mediation of access to resources", where certain social groups had access to special welfare privileges coupled with an ineffective public administration (Sotiropoulos, 2004). This can be seen to a big extent as the result of the Greek party system that "was built to ensure the distribution of political rents" (Pappas, 2013, p. 33), where clientelistic linkages have a more prominent role than in Portugal (Afonso et al., 2015) and other Southern European countries. Possibly only Italy shares some similarities (Featherstone and Papadimitriou, 2015, p. 17). Consequently, programmatic competition between the two main parties (PASOK and ND) has played a less important role and politics has been dominated by a small number of political families (Featherstone and Papadimitriou, 2015). Given these features, it is perhaps less surprising that there are little partisanship differences to be found. In addition, it is difficult to assess the actual reform outcomes in Greece given the multiple accounts arguing that Greek politics is characterized by reform activism on paper (the policy output measured here) but little actual implementation (Featherstone and Papadimitriou, 2015; Petmesidou, 2017). To fully assess welfare state change in Greece, a policy output approach is most likely not sufficient.

6.2.9   Italy

Politically, the most distinguishing feature of Italy in comparison to the three other Southern European countries, is the fact that center-left has been in power only for a short period of time during the last 26 years. In addition, the starting point of this analysis in the early 1990s, was also a period of party system restructuring. The executive dominance of the Christian democratic *Democrazia Cristiana* for most of the post-war years has left a strong mark on the Italian political and economic system. For a long time, *Democrazia Cristiana* managed successfully to hold together a diverse set of constituencies in their coalition. This was achieved by combining an agenda of welfare state expansion and better working conditions for the Northern workers with subsidies, public sector employment and benefits for Southern state-dependents, and all of this without increasing taxation and with even less tax enforcement – which would have been against the interests of their

traditional support base of small businesses (De Cecco, 2007; Trigilia and Burroni, 2009; Rangone and Solari, 2012). As a result, the growth of public expenditure was not accompanied by a parallel growth in tax revenues. Even though public deficits and public debt spiraled out of control in the 1970s and 1980s, deep reforms were inhibited by the fragmented interests of coalition governments (partially due to the highly proportional electoral system). Taken together, there was no systematic project of institutional reform in Italy. In 1992, the massive corruption scandals of *Mani Pulite* and *Tangentopoli* resulted in the total breakdown of the party system and the demise of the First Republic. Since then, Italy is characterized by an inherent political instability.

Figure 6.9 shows the direction of labor market reforms that took place under each government. Detailed information on each cabinet can be found in Table A.11 in the Appendix. Given the crisis years in the early 1990s, it is therefore not surprising that there have been only very few labor market reforms. The technocratic governments of Ciampi (1993) and Dini (1995) had an exclusive focus on reforming the electoral system combined with some fiscal reforms that did not affect the field of labor market policy. In between the two technocratic government, the short-lived first Berlusconi government introduced a series of expansive passive labor market policy reforms. Early center-right governments in Italy were quite sympathetic to passive labor market policy – most likely still a relict of the Christian democratic DC past that effectively used passive spending as a clientelistic tool to satisfy state dependents from the South, which were the electoral backbone of the DC (Amable et al., 2011).

From 1995 until 2001, the center-left governments in power (Prodi, D'Alema I-II, Amato II) tried some first attempts to modernize labor markets, but they also started to dismantle some fundamental institutions of state intervention and employment protection in the typical Southern European mixed economy (Rangone and Solari, 2012). Most notably, the 1997 Treu Reform under the first Prodi government significantly deregulated employment protection legislation. There have been also some first attempts to improve active labor market policies with a focus on human capital investment (upskilling), but they remained limited. Overall, it has been argued that these reforms could only have taken place thanks to the incentives of joining the EMU. Most prominently, Ferrera and Gualmini (2004) have advanced such an argument of a *vincolo esterno* (external constraint), where Italy being "rescued" by the process of European integration.

Once Italy has joined the EMU, the low interest rates meant a massive relief on the debt service and much less pressure for structural reforms. The second and third Berlusconi governments (2001-2006) were therefore governing during a time
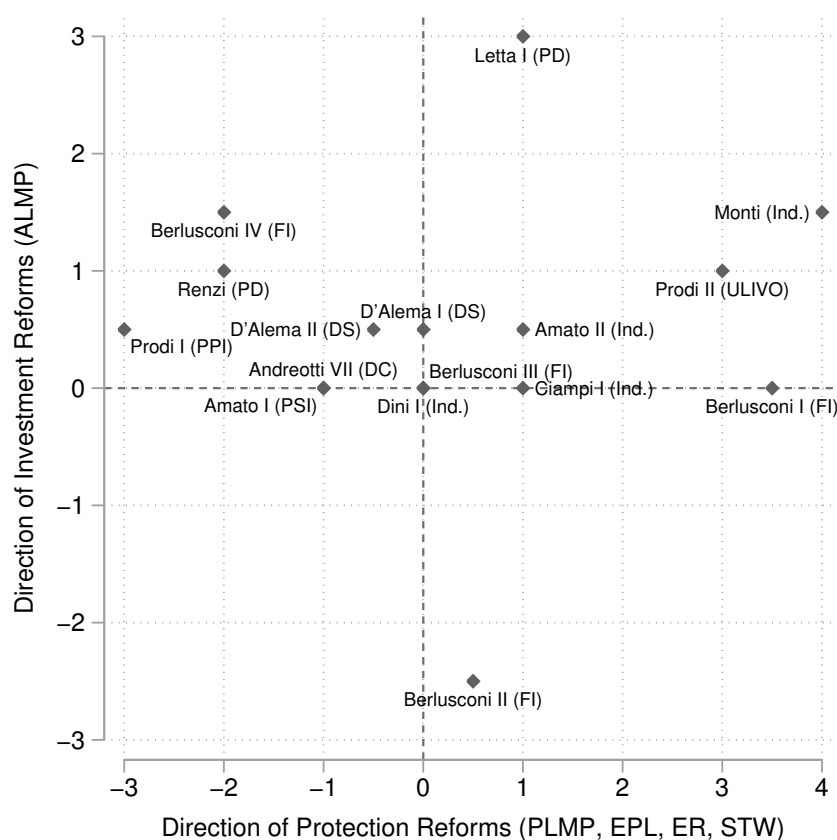
Figure 6.9: Changes in Labor Market Reforms in Italy by Cabinet

of an overall favorable economic context to implement reforms. However, Berlusconi started to enact a series of changes in active labor market policies, almost all aimed at increasing incentive reinforcements. Overall, there were little attempts to no attempts of recalibration. Instead, the 2003 Biaggi reform further deregulated employment protection legislation. The following, though short-lived, second Prodi government (2006-2008) aimed to re-regulate temporary job protection and enacted expansive reforms in the field of passive labor market policy. Again, Prodi put a higher priority on active labor market policies and enacted several expansive policy changes.

With the onset of the Great Recession, followed by the Eurozone crisis, the fourth Berlusconi government (2008-2011) enacted some short-time work schemes and some improvements in active labor market policy as immediate crisis measures. Other than that, Berlusconi further deregulated employment protection. Due to mounting pressure, Berlusconi stepped down and the technocratic Monti government

took office in November 2011 with an ambitious reform program. Given that Monti ended the indexation of pensions, increased minimum retirement age and liberalized protected product markets (Culpepper, 2014), it might come as a surprise to see the Monti government located in the upper right quadrant. However, Monti has enacted expansive reforms in active and passive labor market policy. He has started a process which was later on pursued as well by Letta and Renzi. It is a combination of deregulation of employment protection combined with widening the access to unemployment benefits for previously excluded groups and some improvements in active labor market policy. The Monti-Fornero Reform and Renzi's Jobs Act being the archetypes of such a reform strategy (Sacchi, 2018).

Overall, center-left governments in Italy have had a positive effect on the investment dimension. Apart from the fourth Berlusconi government's immediate crisis measures, the center-right has shown little interest in activation policies. On the consumption dimension, the partisanship differences are less clear. There seems to be only a slightly stronger, if any, tendency of center-left governments to increase consumption policies. But also center-right governments have expanded passive labor market policies, partially as an electoral strategy to garner votes in the South - nowadays the electoral strategy of the *Movimento 5 Stelle*. Since center-right parties dominated politics for most of the time in Italy, it does not come as a surprise that passive measures still dominate labor market policies and active measures remain underdeveloped (see also Bonoli, 2013).

6.3 Testing the Role of Government Composition

In order to test the role of government composition on labor market reforms, I conclude this chapter with a TSCS regression analysis. Unlike in the previous chapter, all the reforms in a given country-cabinet affecting the investment or the protection dimension have been aggregated together. Like in the two-dimensional graphs before, the two dependent variable measure the sum effect of all policy changes in each of these two dimension in a given country-cabinet. As the country-by-country discussion has revealed, the relationship between cabinet composition and labor market reforms is complex and does not seem to be same in every country. In addition, the previous chapter has also shown that the economic context matters as well in how different cabinets enact labor market reforms. It is therefore likely that there is an interaction between government partisanship and the economic context.[2]

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[2]I have tested as well interactions between government partisanship and institutional legacies (the level of consumption spending or the level of employment protection legislation), but none of the interactions were significant. I therefore discuss here only the relevant interactions between the

The economic context is again operationalized by using the unemployment rate and the real GDP growth. To assess government partisanship, I distinguish between the strength of left-wing parties and strength of center- and right-wing parties. Strength is measured by the share of cabinet seats held by these parties in percentage of total cabinet posts. All the data comes from the CPDS I dataset (Armingeon et al., 2018). I have transformed the country-year data into country-cabinets using the average value of the variables during a cabinet has been in office. As cabinet duration varies greatly, I include a control variable measuring the number of days a cabinet has been in office.

Tabe 6.1 shows the results of TSCS regression analyses using a lagged dependent variable, country-clustered standard errors and country-fixed effects (Beck and Katz, 1995). Prais-Winsten (AR1) regression, instead of LDV, yield very similar results. Model 1, 3, 5, and 7 show the baseline model without interactions. Like the short country case studies suggested, there is no significant relationship between the strength of center-right or left governments on the two reform dimensions. Using this time country-cabinet instead of country-year observations, we find again a strong positive relationship between the economic context and protection reforms but not with investment reforms.

Model 2 and 6 test the interaction between left governments and the economic context and Model 4 and 8 test the interaction between center-right governments and the economic context. All four interaction terms are statistically significant, but they go in opposite directions. There is a positive interaction of real GDP growth with left governments but a negative interaction with center-right governments. Figure 6.10 visualizes these four interaction terms. First of all, the interaction effects do not only go the opposite directions but they are also stronger for left than center-right governments. In other words, the left governments seem to adjust more strongly their reform strategies depending on the economic context than do center-right governments. Second, in times of economic downturns, left governments are negatively and center-right governments positively related to both investment and protection reforms. However, these somewhat surprising effects are only statistically significants during *extreme* economic downturns when GDP contracts substantially. As is clearly visible in Figure 6.10, such extreme cases are only very few. Third, the relationships between government partisanship and the economic context reversed in better economic times. In a context of strong economic growth, left governments use the additional resources to expand both investment and protection reforms while center-right governments seize this as an opportunity to do the opposite.

real GDP growth and government partisanship. Interaction with the unemployment rate were also not relevant.

Table 6.1: Cabinet Composition, Economic Context and Labor Market Reforms

	Investment Reforms				Protection Reforms			
	M1	M2	M3	M4	M5	M6	M7	M8
L.Investment	0.226^{+}	0.224^{+}	0.222^{+}	0.218^{+}				
	(0.10)	(0.10)	(0.10)	(0.10)				
L.Protection					-0.129^{+}	-0.173^{*}	-0.129^{+}	-0.212^{*}
					(0.06)	(0.07)	(0.06)	(0.08)
Real GDP-Growth	-0.059	-0.337^{*}	-0.058	0.113	0.575^{*}	-0.110	0.576^{*}	1.005^{**}
	(0.08)	(0.12)	(0.08)	(0.08)	(0.24)	(0.30)	(0.23)	(0.26)
Unemployment Rate	0.047	0.029	0.043	0.022	-0.100	-0.155	-0.101	-0.173
	(0.03)	(0.04)	(0.03)	(0.04)	(0.24)	(0.21)	(0.24)	(0.23)
LeftGov	0.009	0.002			0.002	-0.014		
	(0.01)	(0.01)			(0.02)	(0.01)		
LeftGov X GDP		0.006^{**}				0.014^{*}		
		(0.00)				(0.00)		
CenterRightGov			-0.008	-0.003			-0.002	0.011
			(0.01)	(0.01)			(0.01)	(0.01)
CenterRightGov X GDP				-0.004^{*}				-0.011^{*}
				(0.00)				(0.00)
Days in Office	0.002^{**}	0.002^{*}	0.002^{**}	0.002^{**}	-0.000	-0.001	-0.000	-0.000
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Constant	-0.928^{+}	-0.284	-0.076	0.008	0.904	2.502	1.100	1.390
	(0.45)	(0.48)	(0.77)	(0.78)	(1.69)	(1.54)	(2.02)	(1.71)
Country Fixed Effects	✓	✓	✓	✓	✓	✓	✓	✓
R^2	0.354	0.407	0.351	0.391	0.179	0.253	0.180	0.233
AIC	346.193	340.183	346.646	342.672	505.629	498.855	505.627	501.256
BIC	358.909	355.443	359.362	357.932	518.346	514.115	518.343	516.516
N	94	94	94	94	94	94	94	94

Notes: Pooled OLS-regression with lagged dependent variable, country fixed effects and country-clustered SEs.
Standard errors in parentheses: $^{+}$ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

(a) Investment: LeftGov X GDP   (b) Investment: CenterRightGov X GDP

(c) Protection: LeftGov X GDP   (d) Protection: CenterRightGov X GDP
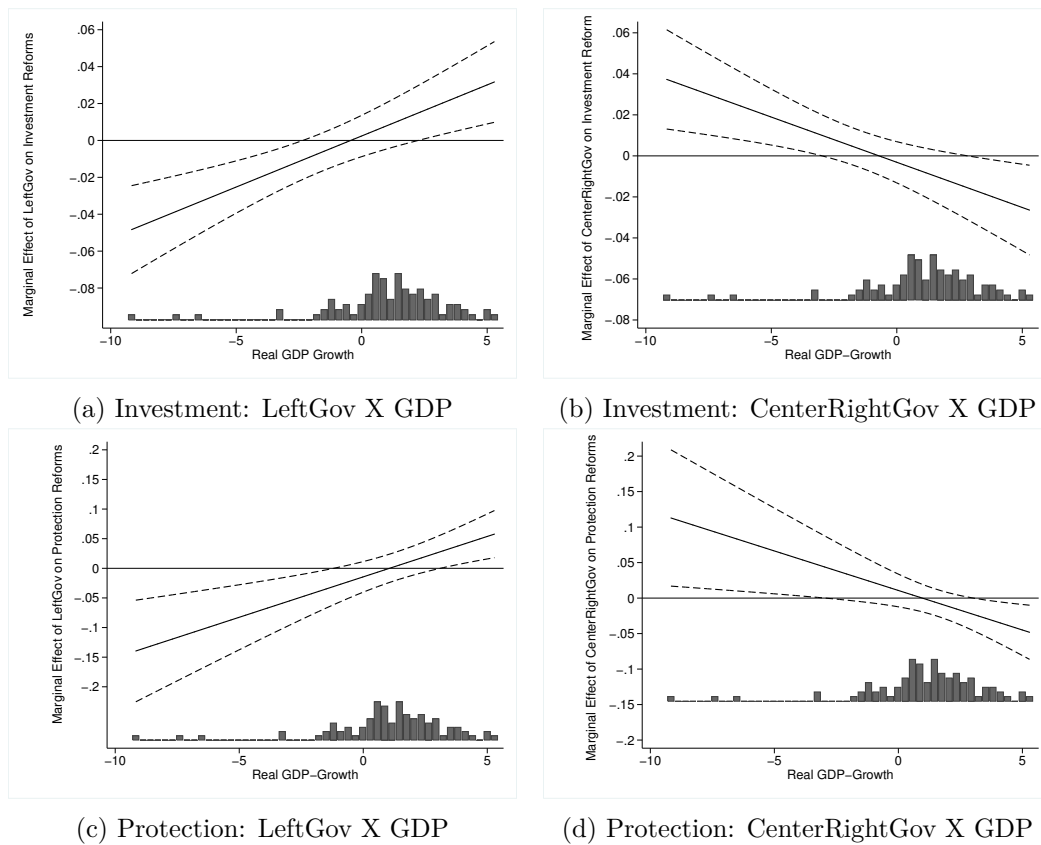
Figure 6.10: Interaction Cabinet Composition with Real GDP Growth

6.4 Conclusion

The detailed country-by-country discussion has shown that similar government compositions do not everywhere lead to similar reform outcomes. But there are some patterns that are common im most countries during the last 26 years under investigation. First of all, center-left governments in Continental Europe have increasingly enacted investment-oriented labor market reforms. This shift towards activation started in the Netherlands in the mid-1990s, in Germany and Belgium in the early 2000s, and in Austria in the mid-2000s. Only in France, the social democratic party never embraced the activation paradigm and the shift towards activation occurred in the mid-2000s under a center-right government. In Southern Europe, Spain and Italy follow most closely a Continental European pattern where investment-oriented reforms took place mainly under center-left governments, though the overall shift towards activation remained more limited. Zaptero introduced significant investment-oriented reforms during his tenure in Spain. Given the short amount of time the

center-left in Italy was in power, there has not been such a big shift towards activation, but when they had a chance, they clearly improved the investment dimension. Due to the strong external influence into policy-making in Greece and Portugal, it is more difficult to discern partisanship difference and the effect of center-left governments on investment-oriented reforms is more ambiguous.

Second, there is more variation in how center-left governments have reformed traditional policies of unemployment benefits, early retirement, short-time work and employment protection legislation. Thus, the shift towards more investment-oriented reforms does not necessarily mean that center-left governments do not also continue to improve the traditional dimension of the welfare state. In Austria, Belgium, France, Italy and Portugal we still see a relatively strong emphasis of center-left governments on improving the protection dimension. In the Netherlands, Greece, and Spain the role of center-left governments is more ambiguous and effects have varied over time. Overall, however, center-left parties in these countries did not push for retrenchment of the protection dimension. Finally, the German SPD most likely had the most negative effect on the protection dimension among all center-left parties studied here.

Third, the final TSCS analyses have confirmed the finding from the country-by-country discussion in that there is no clear relationship between government composition and labor market reforms. Neither the strength of left nor center-right governments is statistically associated with the direction of investment or protection reforms. However, there is a significant interaction between government composition and the economic context. Left governments enact expansive reforms in good economic times while they engage in retrenchment in tough times. For center-right governments it is exactly vice versa.

In sum, the findings of this chapter lead directly to the question why certain center-left parties have embraced the activation paradigm, whereas others have either been more hesitant or even fully reluctant to do so. The next two chapters therefore aim to explain this variation of social democratic labor market strategies. In order to explain this, the focus will be placed on the role of two important divisions within the social democratic electorate. Chapter 7 will look at how the divide between the middle and the working class shapes the way center-left governments enact labor market reform along the two dimensions already discussed extensively in this and the previous chapter. Finally, Chapter 8 will focus on the distributive effects of labor market reforms and studies how the increasing electoral relevance of labor market outsiders affects social democratic labor market policy-making.

Chapter 7

Intra-Party Class Heterogeneity and Labor Market Reforms

7.1 Introduction

The traditional view on the party politics of the welfare state held that left parties defend pro-welfare stances favoring their lower-class constituency and parties from the right aim to limit welfare spending in the interest of their better-off supporters. However, more contemporary perspectives emphasize that welfare politics have become more complex and more multifaceted in post-industrial societies (for an overview see Chapter 2 and Häusermann et al., 2013). One crucial factor adding complexity to the debate is the fact that the composition of political parties' support coalitions have undergone substantial transformation since the end of the industrial age. The literature agrees that the electorate of the social democratic party, the most important supporter of the welfare state in the traditional view, has been reshuffled particularly strongly (Rennwald and Evans, 2014; Gingrich and Häusermann, 2015; Evans and Tilley, 2017; Oesch and Rennwald, 2018). Clearly, a fundamentally altered support coalition calls for programmatic renewal and raises the question of which factors shape contemporary social democratic policy-making.

Programmatic re-orientation involves tough decisions since realigned voter segments provide parties with less clear, often heterogeneous and even conflicting signals with respect to their policy preferences (see Chapter 3). This is particularly true in the domain of welfare states and labor market policy, where social democratic parties face challenging trade-offs as a result of voter realignment. The programmatic dilemmas social democratic parties face in post-industrial societies have been described in different flavors but are always rooted in the vanishing of a homogeneous,

unitary block of working class voters. Based on the evolution of post-Fordist societies and a two-dimensional policy space, Kitschelt (1994) described the trade-off between catering to the traditional blue-collar electorate and appealing to the growing white-collar constituency. In a similar vein, Gingrich and Häusermann (2015) showed that the Left has successfully substituted the decline in working class support with attracting votes among specific part of the educated middle class, leading to a "middle-class shift" in the welfare support coalition. Relying on a grouping of voters based on working conditions rather than class, Lindvall and Rueda (2014) emphasized the dilemma European social democratic parties are caught in due to the division of their traditional support coalition into insiders holding secure jobs and outsiders in atypical or precarious employment. Both groups belong to the traditional support coalition of Social Democratic parties but they have been shown to clearly differ in terms of their social policy preferences (see Chapter 3 or Burgoon and Dekker, 2010; Häusermann et al., 2016; Marx, 2016, among others).

Consequently, the question is no longer *whether* left parties represent their electorate but rather *which* part of their (potential) electorate they should side with. And this decision has crucial implications regarding the content and priorities of social-democratic policymaking. The existing literature has not provided unequivocal answers to this question. In the light of the declining number of jobs in manufacturing, Kitschelt (1994) expects "electorally rational" social democratic parties to increasingly focus on white-collar constituencies. The dominating interpretation of the dualization literature, in contrast, is that social democratic parties will and do consider insiders their core constituency (Rueda, 2005, 2006, 2007). In a more recent account, Hübscher (2017) has argued that leftist governments privilege insiders if they are facing high political constraints. However, the "industrial blueprint" (Häusermann et al., 2016) of stable, protected full-time insider employment is often found exactly in those shrinking sectors Kitschelt identifies as less and less profitable to mobilize. Post-industrialization and occupational change thus considerably complicate partisan politics of the welfare state and electoral shifts demand re-thinking our assumptions of whose interests social democratic parties represent (Häusermann et al., 2013). Increasingly fragmented voter groups with distinct policy priorities provide ambivalent or even conflicting signals and parties have to balance and prioritize these demands.

Therefore, the *electoral relevance* of distinct voter segments among a party's support coalition is an obvious but all-to-often neglected determinant of policy-making in the face of increasingly heterogeneous electorates. Based on the concept of dynamic representation (Stimson et al., 1995), social democratic labor market policy

is directed by politically powerful subgroups among their diverse support coalition. "Rational anticipation", that is, the calculation of future electoral implications of dominating views among the electorate, affects policy priorities and hence shapes policy outcomes. Widespread private and public opinion polling allows for increasingly precise detection of such dominant attitudes (see also Chapter 3).

The goal of this and the following chapter is therefore to explicitly study the varying composition of the social democratic voter coalition across time and space. Building on the concept of the "contribution to a coalition" (Axelrod, 1972), an empirical measure of relative political weight of different constituencies is created that can assess their implication on actual labor market reforms under left government. This chapter focuses on the relevance of the divide between the working class and the middle class to explain labor market reforms broadly along the two dimensions of investment and protection (see also Chapter 6). The following Chapter 8 then studies how the divide between insiders and outsiders within the social democratic coalition affects more specifically the *distributive effects* of labor market reforms.

The chapter proceeds first with a discussion of the determinants of social democratic labor market policy and introduces the core hypothesis of this chapter. Afterwards, my measure of electoral relevance and the methodological approach is being discussed. The results section will first briefly elaborate on descriptive findings of the measure of electoral relevance and then link the relative electoral weight of the working class and the middle class to the reform data. The last section concludes with the main findings.

7.2 Determinants of Social Democratic Labor Market Policy

Political parties are important intermediary organizations that are expected to transmit preferences among the population — and particularly among their electorate — into policy outcomes (Hibbs, 1977). Broadly speaking, the vast literature on the determinants of political parties' position and/or issue emphasis[1] can be divided into two camps. The first promotes a distinctive top-down perspective on policy making by emphasizing parties' strategic considerations to steer public debate towards issues they "own". Selectively highlighting their own policy issues turns elections

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[1]Given that large shifts in positions are relatively rare, most of the literature is concerned with positional shifts within a political block or with varying salience of distinct policies, i.e. differential emphasis of one or the other issue, for example in party manifestos (see Bremer, 2018, for a more detailed discussion).

into a contest on favorable home turf, which is generally expected to yield electoral gains (Petrocik, 1996; Bélanger and Meguid, 2008; Klüver, 2018).

The large literature dealing with representation and responsiveness, by contrast, posits quite a different view on the determinants of policy outcomes. In its most general formulation, the core idea behind "dynamic representation" is that vote-seeking parties need to follow the mood of the public in order to secure electoral gains (Stimson et al., 1995). In such a bottom-up process, parties are expected to take cues from voters and adjust their policy platform (e.g. Adams et al., 2004) or their issue emphasis (e.g. Klüver and Spoon, 2016) in a way that signals responsiveness and increases the chances of electoral support.

I do not attempt to settle this debate since the two perspectives are difficult to clearly disentangle due to obvious endogeneity concerns. Presumably, both apply to some extent (see Steenbergen et al., 2007). Parties certainly have strategic leeway in framing, issue emphasis and agenda setting. However, I contend that elite decisions on policy platforms do not occur in a vaccuum and political parties' room for maneuver is thus most likely constrained by the distribution of preferences in the population. Consequently, I argue that parties' labor market policy positions are at least partly directed by the demands of politically powerful voter segments. "Rational anticipation" (Stimson et al., 1995), i.e. the calculation of future electoral implications of currently dominating views among the social democratic electorate, is expected to significantly impinge on social democratic parties' policy priorities and hence to shape policy outcomes under left government. While generally in line with traditional welfare state literature emphasizing bottom-up influence of powerful voter segments (Korpi, 1983), my more contemporaneous take on social policy reforms acknowledges that welfare politics have turned from a positive-sum into a zero-sum game (Häusermann, 2010). Put differently, social democrats — and any other party, for that matter — have to prioritize some policy domains over others and cannot equally satisfy distinct (expansionary) demands from among their electorate.

The concept of rational anticipation explicitly posits an image of well-informed politicians/parties seeking re-election and thus strategically adjusting their political programs to the dominating voice in their — perhaps quite heterogeneous — support coalition. Abou-Chadi and Wagner (2018) indeed show that mainstream left parties gain votes by taking up investment-oriented positions, which have become increasingly popular among the social democratic electorate (Gingrich and Häusermann, 2015). In a similar vein, we would expect social democratic parties to adjust their policy priorities to the balance of power *within* their core electorate. Instead of

focusing on party manifestos, as most of the existing literature, I aim to go one step further and look at a more consequential outcome. I study the relationship between the composition of the electorate and actually enacted policy reforms once parties win elections and form the government.

More specifically, I hypothesize that the country-specific electoral relevance of working classes relative to middle classes affects the broader design of labor market reforms social democratic parties implement when they are in government. My argument has three observable implications. (1) Mere group size of different subgroups of the population *per se* should not affect policy outcomes since electoral relevance also depends on participation rates and vote choice. (2) The electoral relevance of working classes and middle classes should not generally affect policy outcomes. Both groups are considered part of the left core electorate and non-left governments' policy decisions should not be affected by their relative political clout. (3) In contrast, the relative electoral relevance of working classes vis-a-vis middle classes should impact on labor market reforms under governments with a significantly large share of left seats. Due to the findings from Chapter 3, I assume that social democratic governments implement more consumption-oriented labor market reforms in cases where the electoral relevance of the working classes is high. Vice versa, social democratic governments should implement more investment-oriented labor market reforms in cases where the electoral relevance of the middle classes is high. However, the latter assumption rests on less firmer empirical footing as the preference divide between the working class and the middle class regarding active labor market policy is less clear-cut.

7.3 Measurement, Data and Method

In accordance with my elaborations in this and the theoretical Chapter 2, I build on the following formula originally proposed by Axelrod (1972) to empirically examine the relative electoral relevance of working classes and middle classes for social democratic parties:

$$\text{Electoral relevance} = \frac{(\text{group size}_{it}) \text{ x } (\text{group turnout}_{it}) \text{ x } (\text{group vote share}_{it})}{(\text{national turnout}_t) \text{ x } (\text{national vote share}_t)}$$

The formula specifies how the three parameters size, turnout and vote share are combined to assess the total contribution of a given group i at time t. Most importantly, it also provides a straightforward handle to empirically compare the electoral relevance of one group i at time t.

To be sure, not all of the constituent parameters of the above formula are entirely exogenous to the specific supply-side context or electoral rules. Axelrod (1972) himself discussed some "strategic considerations" for parties in the light of his conceptualization. While group size is difficult to manipulate, turnout and vote choice are to some extent "elastic" to parties' appeals. Whether citizens turn out to vote depends not only on socio-economic background but also on electoral rules and the party system (Blais and Dobrzynska, 1998). Furthermore, Jusko (2017) showed that electoral geography and the distribution of voters from different social strata provide parties with specific incentives in terms of mobilization. While both aspects certainly affect the estimates of relative electoral relevance to some extent, I do not expect systematic biases since I am primarily interested in the difference between two groups in the same country. Issues of endogeneity are more obvious with respect to the propensity to vote for social democrats. Elite-mass linkages are known to be of a reciprocal nature (Steenbergen et al., 2007), meaning that it is not only the electoral relevance of a group that affects parties' policy stances but also, simultaneously, the other way round. The particular policy proposals put forward will affect the inclination of specific subgroups of the electorate, e.g. working classes or middle classes, to vote for the party. I attempt to mitigate the effects of varying party strategies within countries by using data over more than 26 years. This way, the impact of short-term changes in party strategy on the estimates of electoral relevance should be more limited. However, long-term differences in party strategies remain a thorny issue, which should be kept in mind when interpreting the numbers presented below.

I largely follow the operationalization of occupational classes by Gingrich and Häusermann (2015) based on respondents' occupation and education level and distinguish between four groups: working class, middle class, employer, and routine worker. Retired voters and those out of the work force (unemployed, disabled, homemakers, retired) are excluded. The detailed operationalization can be found in the Appendix A.7. In order to calculate the electoral relevance of those four groups, I need three parameters: group size, turnout, and vote share. I rely for all three parameters on annual data from 1975 until 2002 provided by the Eurobarometer and on biannual data from 2002 until 2016 provided by the European Social Survey. First, I estimate the relative shares of each occupational class by country-year. Then, I run two unconditional logistic regression models to calculate predicted probability of effect of occupational class on turnout and main left vote choice.[2] As the

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[2]The reason behind using unconditional logistic regressions instead of simply calculating the relative shares is pragmatic. It is simpler with this approach to adjust survey weights to the population margins and it allows to do the robustness checks with conditional models in one step. Most importantly, the results do not differ between the the two approaches.

theory assumes an interaction between social democratic parties in government and the relative electoral relevance of occupational groups, the predicted probability are calculated only for the main social democratic party in each country.[3] The models are unconditional (i.e. models without control variables) because I want to capture the inherent group effect instead of partial correlations under control of covariates such as age, gender or income. This is in line with most research on class voting (see Knutsen, 2006, for an extensive discussion), which assumes that occupation is only a proxy for social class and that these classes differ in their education levels, income, and so on. Therefore I do not want to "control away" what is seen as constitutive elements of occupational classes. It is also this unconditional effect of occupational groups that should matter for party strategies. If we control for compositional effects, however, the results would be even a bit stronger. Thus, this can be considered a more conservative estimation.

In the second empirical part, I test the hypotheses regarding the bottom-up impact of occupational groups on labor market reforms with a pooled time-series cross-section (TSCS) analysis. I again rely on the same two measure of labor market reforms along the two main dimensions as in the previous chapter: investment and protection (consumption plus regulation). For this purpose, all the reforms in a given country-year affecting the investment or the protection dimension have been aggregated together. It measures therefore the sum effect of all policy changes in each of these two dimensions in a given country-year. Unlike in the previous chapter, I return to country-years as the unit of analysis. Using country-years instead of country-cabinets is not only a way to increase statistical power, but it also allows a more fine-grained assessment of the economic context and the electoral relevance. The drawback of averaging values into country-cabinets results in a loss of variation. This is especially harmful if cabinet duration is long (e.g. four to five years) and then having one average value is at times not very telling. As robustness check, however, I have estimated all the models using country-cabinets and they yield similar results.

Following the theoretical assumptions, I am mainly interested in two explanatory variables and their interaction: the electoral relevance of occupational groups and the strength of social democratic governments.[4] For the former I use the measure of

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[3]Classification is based on Armingeon et al. (2018): the following parties are the main social democratic party: SPÖ (Austria), SP.A and PS (Belgium), (PS) France, SPD (Germany), PASOK (Greece), PSI/PS or PDS or PD (Italy), PvdA (Netherlands), PS (Portugal), PSOE (Spain).

[4]As a robustness check, I have also estimated all the models with controlling for institutional legacies. But as Chapter 5 has already shown, they do not seem to matter much. I have also included the significant interactions from the previous chapter between the economic context and real GDP growth, but also this interaction is not significant anymore. In addition, I have estimated a three-way interaction between left government, electoral relevance, and real GDP growth. But also this three-way interaction is not significant.

electoral relevance developed above.[5] For the latter I take the cabinet posts of social democratic parties in percentage of total cabinet posts (weighted by the number of days in office in a given year). The data comes from the CPDS I dataset (Armingeon et al., 2018). I further include control variables for the unemployment rate, real GDP growth and union density (all data again from Armingeon et al., 2018).

In order to test the main idea, I include an interaction term between the two main explanatory variables - the strength of social democratic parties and the electoral relevance of occupational groups. It has been pointed out recently that most current research assumes a linear interaction effect when it is in fact non-linear and that estimates often lack common support of the moderator, i.e. excessive extrapolation (Hainmueller et al., 2018). I therefore follow the three recommendations by Hainmueller et al. (2018): First, I use a binning estimator that breaks the continuous moderator (Z) into three bins (dummy variables) and interact these with the other explanatory variable (X). Second, I use a kernel estimator that allows to flexibly estimate the functional form of the marginal effect of Z on Y across values of X. Third, I always plot the interaction effects together with a histogram showing the distribution of the moderator variable in order to prevent severe extrapolation. The diagnostics reveal that two interaction terms are non-linear and will be presented as such in the results section.

The use of TSCS data violates several assumptions of ordinary least squares (OLS) regression. To take the problems of autocorrelation and heteroskedasticity into account, I estimate all the models with a lagged dependent variable (LDV) and country-clustered standard errors (Beck and Katz, 1995). Prais-Winsten (AR1) regression, instead of LDV, result in very similar findings. I include year-fixed effects to control for common shocks and time heterogeneity. I also include country-fixed effects to account for unit heterogeneity and unobserved country-specific factors that do not vary over time (Beck, 2001). This approach attributes a separate intercept to each country while the slope parameter does not vary by country. The inclusion of country-fixed is only problematic if crucial variables in the model are sluggish or even constant over time (Plümper et al., 2005), but this is not the case here. Country-fixed effects are also appropriate in this case, because I am interested in analyzing the within-country variation.

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[5]I can only calculate turnout and vote choice biannually for the years 2002 until 2016 due to data availability of the ESS. Since these are slow-moving averages, I linearly impute the missing years, but only if there are observations one year before and one year after. I also estimated all the models without the imputation and it does not change the substantive findings.

7.4   Results

7.4.1   Group Size

As discussed above, my measure of electoral relevance is composed of three parameters: group size, turnout and vote choice. Even though the regression analysis later on is only based on the years from 1990 until 2016 due to my reform data, the micro-level data allows to look at the trends in electoral relevance over the last 40 years for most countries. In order to better understand the final measure of electoral relevance, I will first briefly discuss the trends and country differences for the three parameters separately. Figure 7.1 shows the development of the group size of the working class and middle class by country in percentage of the total labor force. The same graph for the group size of all occupational classes is available in Figure A.11 in the Appendix A.7.

Figure 7.1 demonstrates the profound changes in group sizes that took place over the last 40 years in all the nine countries. In line with the overall structural changes in the economiy and the shift towards a post-industrial society, the size of the working class has declined continuously over time. At the same time, we see in almost all the countries a stark increase in the size of the middle class. Whereas the working class was initially bigger in size compared to the middle class, the middle class overtook the working class in most countries already by the mid-1980s. Nowadays, the middle class is in all countries much bigger in size than the working class. Overall, group size differences between the working class and the middle class are much more profound in Continental than in Southern Europe. This is largely in line with findings on the timing of key post-industrial developments. Using Sweden in 1970 as a benchmark, Southern European economies, most notably Spain and Greece, have reached Swedish levels of service sector employment much later than any other OECD countries (Bonoli, 2007). The late transition towards a post-industrial economy is very well visible. With the exception of Portugal, however, the middle class is by now also bigger than the working class in Southern Europe. In Portugal, the difference between the two groups remain small and only started to diverge with the onset of the Great Recession. Overall, the findings show that the middle class has become much more relevant relative to the working class in terms of their size.

There is another important difference between Continental and Southern Europe. Figure A.11 in the Appendix A.7 shows that employers are a relatively small group in all Continental European countries. In most Southern European countries, however, the group of employers is much bigger. This is mainly related to the fact that self-

Figure 7.1: Group size of middle and working class, by country.
Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.

employed professionals are also coded into the group of employers and the share of self-employment is much higher in Southern Europe compared to Continental Europe. In addition, the structure of the economy in Southern Europe is more heavily based on small- and medium-sized enterprises. This group is especially dominant in Greece and Italy, where small businesses have a long tradition and are the backbone of their economies (Rangone and Solari, 2012; Capussela, 2018; Featherstone and Papadimitriou, 2015).

7.4.2 Turnout

For a group to be considered electorally relevant, sheer group size does not suffice. The second crucial parameter to assess the electoral relevance is whether these groups turn out to vote when it actually matters.[6] Figure 7.2 shows the difference in the probability to vote compared to the average national turnout for the working class and the middle class. Figure A.12 in the Appendix A.7 shows the turnout levels of

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[6]It is true that turnout is generally overestimated in survey data. However, I am not interested in the general level of turnout or vote choice but in the differences between groups. The within-country differences in the level of turnout or vote choice of different groups are still meaningful as the most obvious sources of bias cancel out by the virtue of subtraction.
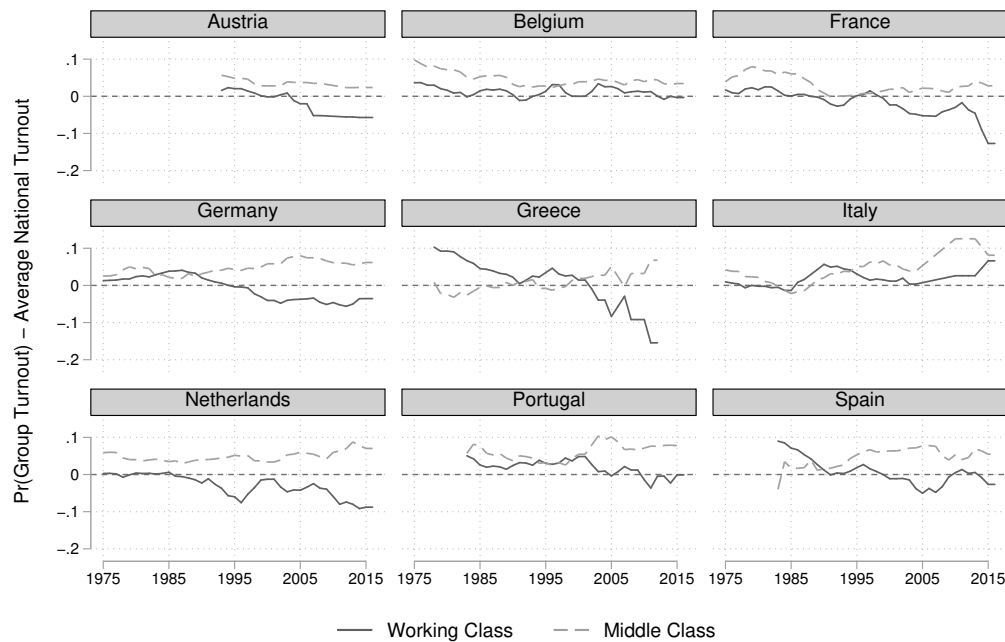
Figure 7.2: Turnout differences of middle and working class, by country.
Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.

employers and routine workers. In most countries, we see that the probability to vote has decreased over time for the working class. Initially, turnout levels of the working class were above the average national turnout in most countries and then started to decline over time. In almost all countries, the working class is now less likely to participate in elections than the national average. By contrast, we do not see such a clear development over time for the middle class. The middle class has had always a higher probability to participate in elections compared to the national average.

From my theoretical perspective, I am mainly interested in the electoral relevance of the working class relative to the middle class. If we calculate the probability to turnout among the working class minus the middle class, we see even clearer trends over time (see Figure A.13 in the Appendix A.7). In most countries, turnout differences have substantially increased and the working class has become much less likely to vote relative to the middle class over time. In Italy and Belgium, however, there is no clear time trend visible. Overall, the findings show that the middle class has become more relevant relative to the working class also in terms of their actual turnout levels.

7.4.3   Vote Choice: Dealignment or Realignment?

Finally, group size and turnout differences between the working class and the middle class do only matter if these groups actually do vote for a certain political party. The last parameter therefore looks at the group probabilities to vote for the main social democratic party. In order to make such differences more visible, I show in Figure 7.3 the probability to vote for the main left party minus the national average main left vote. The advantage of comparing group differences in such a way is that it allows to discern whether the difference between the working class and the middle class is decreasing or increasing due to the former being less likely to vote left and/or the latter being more likely to do so. If we just calculate the difference in their probability to vote, we are not able to answer such a question (see Figure A.15 for such an measure in the Appendix A.7).

The descriptive trends clearly show that electoral behavior has become less aligned in most countries. Group differences in vote choice have declined over time and have moved closer to the national average vote share of social democratic parties. The three countries where the trend towards dealignment has been the strongest are Belgium, Germany and the Netherlands. Once all countries where the working class had a much higher and the middle class a much lower probability to vote for social democrats, now these differences have either completely vanished (Germany, Netherlands) or at least almost (Belgium). Austria most likely would follow a same trend like Belgium, but data for Austria unfortunately only dates back to 1995. France is an exception in Continental Europe. The working class has never been more likely to vote for the French *Socialist Party* compared to the middle class and voting differences between the two groups have always been quite small. Since the early 2000s, the middle class is even more likely than the working class to vote for the *Socialist Party.* Finally, two patterns stand out in Southern Europe. On the one hand, there is little change in class voting in Portugal and Spain, where the working class is always more likely than the middle class to vote for the main social democratic party. On the other hand, patterns of class voting are less clear-cut in Greece and Italy. In both cases, the group differences in the probability to vote for the main social democratic parties do constantly change.

It is important to point out that the share of working class votes going to the main social democratic party is also a function of the supply side of the party system. The reason why the working class in France but also in all the Southern European countries has never been as strongly encapsulated by the main social democratic parties is largely due to the fact that these countries are all characterized by a split left (Manow, 2015; Watson, 2015). Historically, the main social democratic party
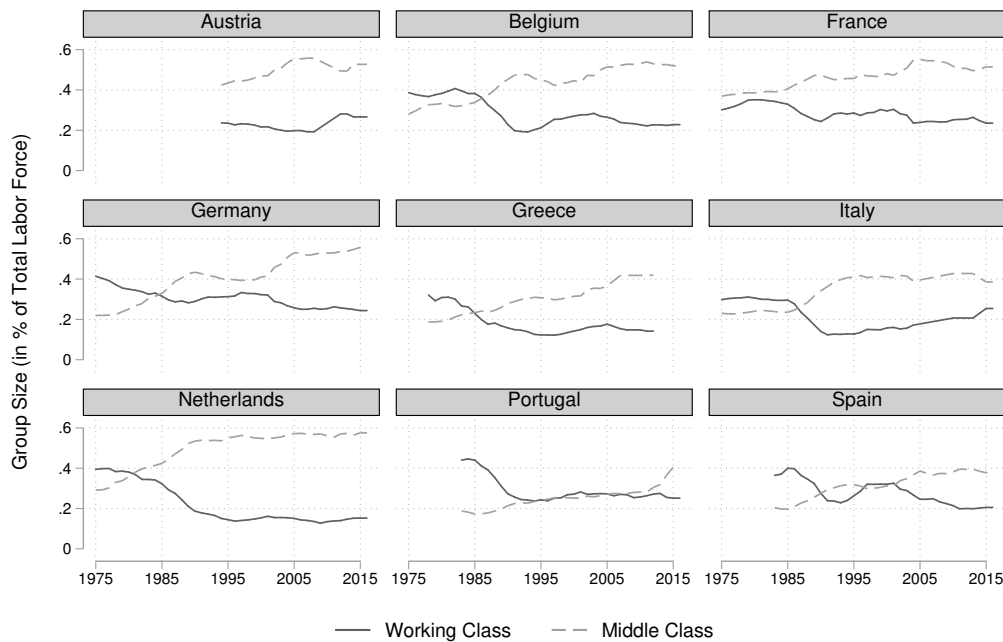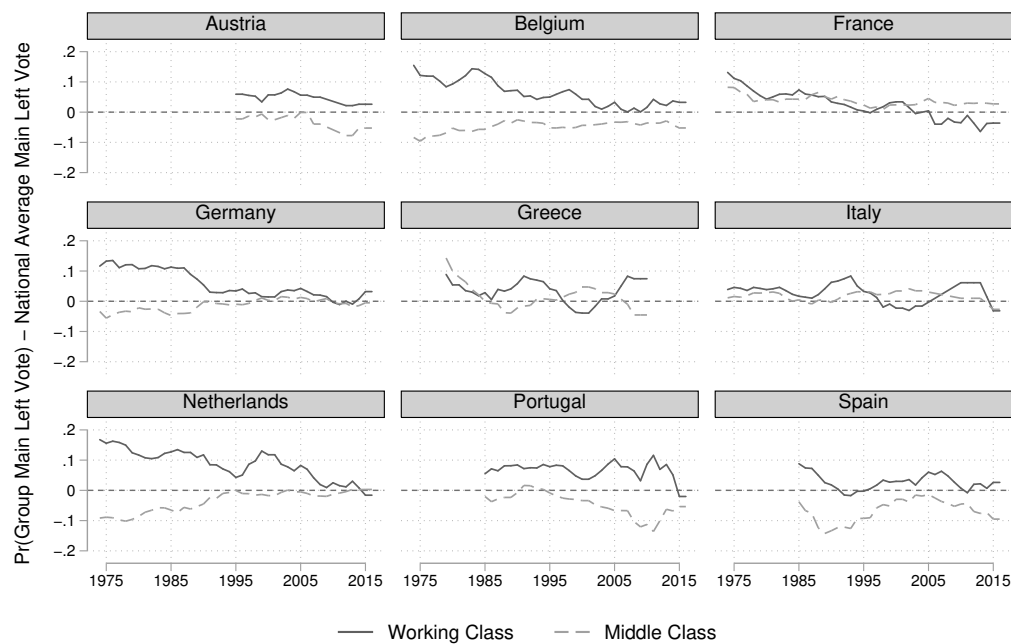
Figure 7.3: Probability to vote for the main social democratic party for middle and working class by country.
Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.

faced strong competition for the working class vote from more radical communist and socialists parties. Figure A.1 in the Appendix A.1 shows a detailed overview of the party systems in all countries. While historically strong communist parties have collapsed in Italy almost completely, social democratic parties still face competition from communist parties nowadays in France, Greece, Portugal, and (to a lesser extent) in Spain. Also Germany has witnessed the emergence of a new far left party since the 1990s first with the post-communist PDS, which later merged into Die Linke. More recently, new, socialist parties have emerged in the Netherlands (Socialistische Partij), Greece (SYRIZA), Portugal (Bloco de Esquerda), and in Spain (Podemos). Even though the main focus of this analysis is not on the supply side of the party system, it is captured in probabilities to vote for social democratic parties indirectly and thus also taken into account in the overall measure of electoral relevance.

In addition, Figure A.14 in the Appendix A.7 shows the differences in voting probabilities for employers and routine workers. On the one hand, routine workers have in most countries a slightly higher probability to vote for social democratic parties than the national average. On the other hand, employers are much less likely

to vote for social democratic parties than the national average. These differences are much less pronounced in Southern Europe than in Continental Europe. Similar to the finding for the working class and the middle class, voting behavior of employers and routine workers is not clearly structured in Italy and Greece. The overall small differences in class voting in Italy and Greece might be an indication of party systems where competition for votes is less programmatic and more based on clientelistic linkages (Afonso et al., 2015; Featherstone and Papadimitriou, 2015). In addition, studies on Italy and Greece have also revealed the highest levels of party patronage and corruption (Müller, 2007; Kitschelt and Wilkinson, 2007), though these levels have decreased in Italy over time.

In sum, looking at the broad patterns of class voting we see an overall trend towards dealignment. This finding does not necessarily contradict the literature on realignment. Most of these studies use a more fine-grained occupational class scheme and do still find substantial differences in voting behavior across more detailed occupational classes. For example, it has been show in multiple studies that the socio-cultural professionals have become one of the most supportive groups of the social democrats (Häusermann and Kriesi, 2015; Oesch and Rennwald, 2018). Nevertheless, my findings should caution against a more sweeping generalization which claims that the middle class is generally more likely to vote for social democrats than the working class. Based on this long-term assessment, this is certainly not the case. In most countries, class voting broadly conceptualized has decreased due to the fact that the middle class is now more likely and the working class less likely to vote for the social democrats. Both groups, however, move around the national average vote share of social democratic parties.

7.4.4 Electoral Relevance of Occupational Classes

After having discussed differences in group size, turnout and vote choice, I now move to the overall measure of how electorally relevant different occupational classes are for social democratic parties. This measure is the product of the three parameters for each group divided by the product of the two national parameters. Figure 7.4 shows this composite measure by country and indicates strong trends over time and differences across countries in the electoral relevance of the middle class and the working class for social democratic parties. For a reading example, take the case of the Netherlands in 1975. According to the data, around 60% of the vote for the Dutch Labor Party (PvdA) came from the working class and only about 20% from the middle class. By implication, the working class is about three times more electorally relevant for the PvdA and therefore I would expect the PvdA to
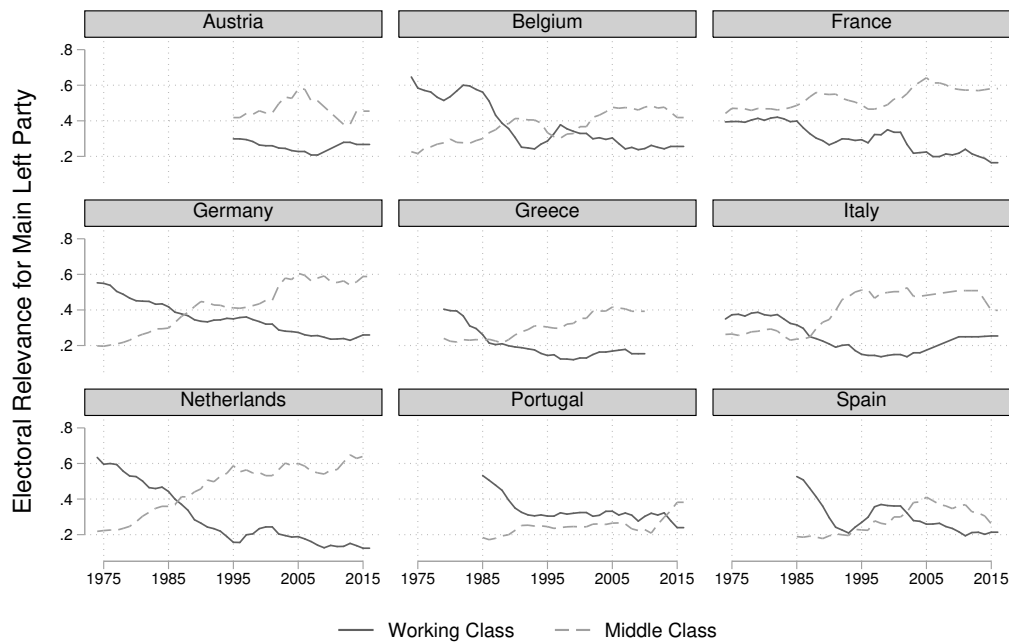
Figure 7.4: Electoral relevance of middle class and working class for social democratic parties by country.
Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.

implement strongly consumption-oriented labor market reforms in the Netherlands during this time.

The result show the profound transformation of social democratic electorates over the last 40 years. Germany and the Netherlands are prime examples of such a radical change in social democratic electorates. Whereas in the 1970s around 55% of the vote for the German SPD came from the working class, nowadays this has dropped to about only 25% of the vote in the mid-2010s. Even more dramatically, around 60% of the vote for the Dutch PvdA came from the working class in the mid-1970s, this has declined to a mere 15% in the mid-2010s. By contrast, the relevance of the middle class has increased greatly. While only about 20% of the vote for the German SPD and the Dutch PvdA came from the middle class in the mid-1970s, this has increased to about 60% in the mid-2010s. In both countries, the trends mirror each other almost perfectly and the middle class is already since the mid-1980s more electorally relevant than the working class. Austria most likely would tell a similar story like Germany and the Netherlands, but the data only goes back until 1995.

In Belgium, we see a similar trend like in Germany and the Netherlands. While the decline in electoral relevance of the working class is similar in Belgium, the electoral relevance of the middle class has not increased to such an extent like it did in the other two countries. In addition, there is a longer period from the 1990s until the early 2000s where the two groups are equally relevant for the two main social democratic parties in Belgium. The smaller difference in electoral relevance between the two groups stems from the fact that the group difference in participation is less pronounced and that the working class is still more likely to vote for the social democrats than the middle class. In spite of these differences, the middle class is about twice as relevant than the working class by the mid-2010s.

France is the only country in the sample where the working class has never been more electorally relevant than the middle class for the French PS. The two groups were equally relevant in the mid-1970s, contributing each around 40% to the total vote of the PS. Since the mid-1980s, however, trends started to diverge and the difference in electoral relevance between the two groups is now equal to that in Germany. As a result, the middle class is three times more electorally relevant for the PS than the working class.

With regards to Southern Europe, three patterns stand out. First, Greece and Italy follow a similar trend like most Continental European countries. In the 1980s, the working class was still more relevant for the main social democratic party than the working class. Since the late 1980s, however, this has reversed and the middle class is now about twice as relevant as the working class. Second, there is no strong reversal in the electoral relevance of the two groups. Like in all the other countries, the electoral relevance of the working class has declined over time, but this decline has never been compensated for by an equal increase in the electoral relevance of the middle class. This non-reversal in the electoral relevance is due to the smaller increase in group size of the middle class and the still lower probability of the middle class to vote for the social democrats in these two countries. Third, the combined electoral relevance of the working class and the middle class is much smaller in Southern Europe than in Continental Europe, most notably in Portugal and Spain.

The last finding points to the possibility that in some countries also the other two groups might be electorally relevant for the social democrats. Figure A.16 therefore also shows the electoral relevance of employers and routine workers. In Continental Europe, both employers and routine workers are less electorally relevant for social democrats than the working class or the middle class. In Southern Europe, however, the electoral relevance of routine workers and employers is higher. Routine workers are slightly more relevant in all countries except Greece. More importantly,

employers are of high electoral relevance for social democratic parties in Greece and Italy. This has less to do with the voting behavior or the turnout levels of these two groups, but much more with the group size. As already discussed, the economic structure in these two countries leads to much higher levels of self-employment and small business owners than in any other country in the sample.

In sum, the measure of electoral relevance gives a more complete picture than just looking at class voting in isolation of changing levels of turnout and group size. For example, many studies still rely on the Alford index of class voting, which measures the difference between the probability of workers voting for the left versus all the other employed voters. Due to the exclusive focus on voting behavior, the Alford index fails to capture structural changes and changing participation rates and therefore risks to under- or overestimate the actual relevance of different social groups. Figure A.17 in the Appendix A.7 shows that the Alford index severely underestimates the transformations of social democratic electorates.

7.5 Electoral Relevance and Labor Market Reforms

I now turn to the question how the relative electoral relevance of the working class and the middle class affects the actual labor market reforms implemented under social democratic governments. The assumption is that the relative composition of the social democratic electorate affects to what extent social democratic parties pursue protection- over investment-oriented labor market reforms.

7.5.1 Protection Reforms

Table 7.1 presents the regression results from the models looking at the influence of occupational classes on protection-oriented labor market reforms. Model 1 indicates that group size of the working class and the middle class is in itself not directly related to the intensity of protection reforms enacted. Thus, there is no direct correlation between the size of occupational classes and protection reforms. The absence of such a functional relationship between mere group size and policy outcomes lends support to my operationalization of electoral relevance that takes political mobilization into account by also including participation rates and vote choice.

In a next step, Model 2 estimates whether the strength of social democratic governments or the electoral relevance of the working class and the middle class are associated with intensity of protection reforms. The results indicate that there is

Table 7.1: Left government, electoral relevance and protection reforms

| | Protection Reforms | | | |
	M1	M2	M3	M4
Lagged DV	-0.029	-0.028	-0.041	-0.043
	(0.05)	(0.05)	(0.05)	(0.07)
LeftGov	-0.003	-0.003	-0.028*	0.004
	(0.00)	(0.00)	(0.01)	(0.01)
Size Working Class	2.104			
	(3.86)			
Size Middle Class	0.074			
	(6.11)			
ElRel Working Class		1.639	-3.061	2.218
		(1.88)	(3.44)	(2.51)
ElRel Middle Class		0.338	0.409	0.371
		(2.31)	(2.26)	(2.07)
LeftGov X ElRel WC			0.103*	
			(0.04)	
ElRel Employer				5.455
				(6.08)
LeftGov X ElRel Employer				-0.041[+]
				(0.02)
Unemployment Rate	-0.197***	-0.195***	-0.199***	-0.184***
	(0.03)	(0.03)	(0.03)	(0.03)
Real GDP-Growth	0.424*	0.425*	0.431*	0.452*
	(0.13)	(0.13)	(0.15)	(0.14)
Union Density	-0.041	-0.043	-0.031	-0.050
	(0.03)	(0.03)	(0.03)	(0.03)
Constant	1.112	1.067	1.779	0.186
	(3.32)	(1.62)	(1.82)	(2.25)
Country Fixed Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
R^2	0.288	0.288	0.307	0.302
AIC	854.461	854.374	848.062	849.750
BIC	882.035	881.947	875.635	877.324
N	232	232	232	232

Notes: OLS-regression with lagged DV, country-year fixed effects and country-clustered SEs.
Standard errors in parentheses: $^+$ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

hardly any direct correlation between the strength of social democratic governments and the intensity of protection reforms. This unclear direct effect of social democratic governments has already been discussed in the previous Chapter 6. It has shown that social democratic parties in government have enacted very different protection-oriented labor market reforms over time and across countries. It is therefore also not surprising that there is no direct positive or negative effect visible for all countries together. Moreover, the results also show that the electoral relevance of the working class and the middle class is not directly related to the protection reforms. This is also an expected result given my theoretical reasoning. Social democratic parties are expected to implement protection-oriented labor market reform only if the working class forms a substantial part of their electorate. As this is clearly not the case across most country-year observations in the sample (see Figure 7.4), the pooled result should yield only weak correlation. Finally, the two control variables for the economic context go in the expected direction. A growing unemployment rate is associated with a stronger retrenchment of protection-oriented policies, whereas real GDP growth is positively related to protection-oriented reforms.

Finally, Model 3 test the core hypothesis of this chapter and provides strong evidence in line with my expectations. The interaction between the strength of social democratic governments and the electoral relevance of the working class is positive and statistically significant. This means that the stronger social democratic governments are, the more they enact expansive protection-oriented labor market reforms if and only if the electoral relevance of the working class is sufficiently high. As assumed theoretically, the impact of social democratic governments on protection reforms is not direct but depends upon the electoral relevance of the working class. Figure 7.5 visualizes the interaction effect of the two variables with marginal effects. It shows that when the electoral relevance of the working class is low, the marginal effect of social democratic government strengths' on protection reforms is negative and statistically significant. When the working class has been more electorally relevant for social democratic parties, then we see a reversal of the effect. Thus, as long as the working class has reached sufficiently high levels of electoral relevance (around 0.35), the marginal effect of social democratic government strengths' on protection reforms has been even positive.

Moving on to the substantive interpretation of this finding. For a working class value of 0.1 and 0.4 on the electoral relevance measure, I find a negative marginal effect of about -0.02 and a positive marginal effect of about +0.02, respectively, for a one-point change in the social democratic government strength. This may sound like a small effect, but the strength of social democratic governments varies much
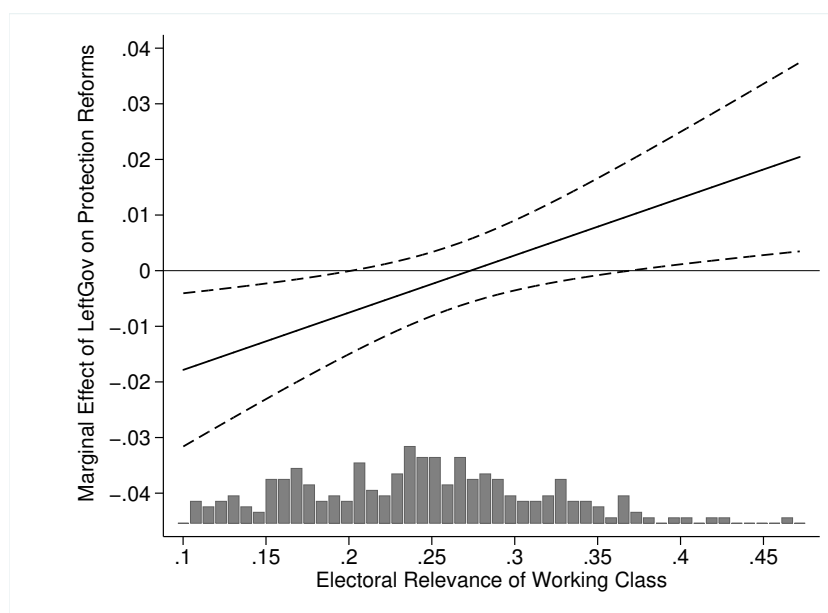
Figure 7.5: Interaction LeftGov with electoral relevance of working class on protection reforms (95% confidence intervals)

more from one election to another than a simple one-point change. Average change in cabinet shares of social democratic parties in my sample is around 50 to 100 percentage points is in France, Greece, Italy, Portugal, and Spain. In Austria, Belgium, Germany and the Netherlands 25 to 50 percentage point changes are the norm. A fifty-point change in the strength of social democratic governments leads to an one-point decrease in protection reforms if the working class is electorally not relevant. By contrast, if the working class is electoral relevant for social democratic parties, then a fifty-point change in their cabinet strength leads to an one-point increase in protection reforms. In other words, a one-point change in protection reforms corresponds to one additional comprehensive policy change in a given country-year. These are substantively relevant effects given that the standard deviation of the protection reform measure is about 1.75. Moreover, Figure A.18 in the Appendix A.7 shows all the labor market reforms that took place in a country over time and clearly indicates that in many country-years changes in labor market reforms are of similar or even smaller magnitude.

In a last step, Model 4 tests to what extent the electoral relevance of employers might affect the way social democrats reform the labor market. As the previous section has shown, employers are an important constituency of social democratic parties in some countries, most notably in Southern Europe. This poses the question to what extent employers influence social democratic policy-making. The interaction between the electoral relevance of employers and the strength of social

Figure 7.6: Non-linear interaction of social democratic government strengths' with electoral relevance of employers on protection reforms (95% confidence intervals) Note: Non-linear interaction effect has been calculated using a Kernel estimator.

democratic governments is negative and statistically significant, though only at the 90% confidence level. Figure 7.6 shows the non-linear interaction effect of the two variables. If employers are electorally not relevant, then the marginal effect of social democratic government strengths' on protection reforms is either not significant or even slightly positive. At higher levels of employers' electoral relevance, however, the marginal effect of social democratic government strengths' on protection reforms is negative and statistically significant. As Figure A.16 in the Appendix A.7 shows, these results are mainly driven by Italy and Greece, where employers are of much higher electoral relevance to social democratic parties than in any other country. I also tested for the possibility of the reverse effect, namely an interaction between the strength of social democratic governments and the electoral relevance of the middle class. The interaction effect between the two variables is negligible and does not reach statistical significance.

7.5.2   Investment Reforms

While the findings for protection reforms support my theoretical assumptions, studying similar dynamics for investment reforms leads to less conclusive evidence. Unlike before, I assume that it is the electoral relevance of the middle class that should mainly affect the investment-oriented reform strategy of social democratic parties.

Table 7.2 presents the regression results looking at the influence of occupational classes on investment-oriented labor market reforms. Model 1 indicates that the group size of the working class and the middle class as well as the strength of social democratic governments is not directly associated with the intensity of investment reforms. Model 2 shows further that there is also no direct correlation between the electoral relevance of the middle class or the working class with investment-oriented reforms. Model 3 tests again the main theoretical idea of this chapter. In contrast to the previous finding, I do not find a statistically significant interaction effect between the electoral relevance of the middle class and the strength of social democratic governments on investment reforms.

On a closer inspection, however, the Kernel estimator reveals that the interaction effect between the two variables is highly non-linear. Figure 7.7 visualizes this non-linear interaction effect. The results indicate that as long as the middle class is not of high electoral relevance, the marginal effect of social democratic government strength' on investment reforms is negative and statistically significant. In other words, as long as the middle class is not a relevant constituency for social democratic parties, a one-point increase in social democratic cabinet strength has a negative effect on investment reforms. This negative effect starts to level off once the middle class becomes more electorally relevant for social democratic parties and, at least for a brief period, could even have a positive effect on investment reforms. However, the marginal effect is very unclear once the middle class has a high electoral relevance for social democratic parties.

Finally, Model 4 tests again the possible relevance of employers for social democratic policy making. The results show that there is no significant interaction effects between the electoral relevance of employers and the strength of social democratic governments. Figure A.19 in the Appendix A.7 visualizes this interaction effect and shows that the interaction effect is negligible in size and not statistically significant over the whole range of the electoral relevance measure.

The results from all the regression analyses presented hold across several robustness checks. First, I ran all the models also without year-fixed effect. Second, I used a cumulative sum measure of protection reforms instead of yearly changes. Third, I used a Prais-Winsten regression which models an AR1 autoregressive process instead of a lagged dependent variable. Fourth, I also further disaggregated the protection reform measure into its two main components (consumption and regulation) and ran the models separately. Firth, I also dropped Italy and Greece from the analysis due to possible concerns over less programmatic party competition. In all cases, the results presented above do not change substantially. The only difference relates to

Table 7.2: Left government, electoral relevance and investment reforms

	Investment Reforms			
	M1	M2	M3	M4
Lagged DV	-0.012	-0.005	-0.004	-0.004
	(0.12)	(0.12)	(0.12)	(0.12)
LeftGov	0.003	0.003	0.000	0.004
	(0.00)	(0.00)	(0.01)	(0.00)
Size Working Class	-1.879			
	(1.59)			
Size Middle Class	1.848			
	(1.90)			
Unemployment Rate	0.030	0.033	0.032	0.034
	(0.04)	(0.04)	(0.04)	(0.04)
Real GDP-Growth	-0.026	-0.021	-0.018	-0.018
	(0.04)	(0.04)	(0.04)	(0.03)
Union Density	0.034	0.028	0.027	0.027
	(0.03)	(0.02)	(0.02)	(0.02)
ElRel Middle Class		-0.174	-0.544	-0.210
		(1.28)	(1.64)	(1.25)
ElRel Working Class		-0.597	-0.759	-0.626
		(1.17)	(1.20)	(1.21)
LeftGov X ElRel MC			0.007	
			(0.02)	
ElRel Employer				0.440
				(1.07)
LeftGov X El Rel Employer				-0.005
				(0.01)
Constant	-1.657	-0.823	-0.590	-0.874
	(2.09)	(1.24)	(1.48)	(1.29)
Country Fixed Effects	✓	✓	✓	✓
Year Fixed Effects	✓	✓	✓	✓
R^2	0.291	0.282	0.283	0.283
AIC	551.425	554.368	554.065	554.145
BIC	578.999	581.942	581.639	581.719
N	232	232	232	232

Notes: OLS-regression with lagged DV, country-year fixed effects and country-clustered SEs.
Standard errors in parentheses: [+] $p < 0.1$, [*] $p < 0.05$, [**] $p < 0.01$, [***] $p < 0.001$.
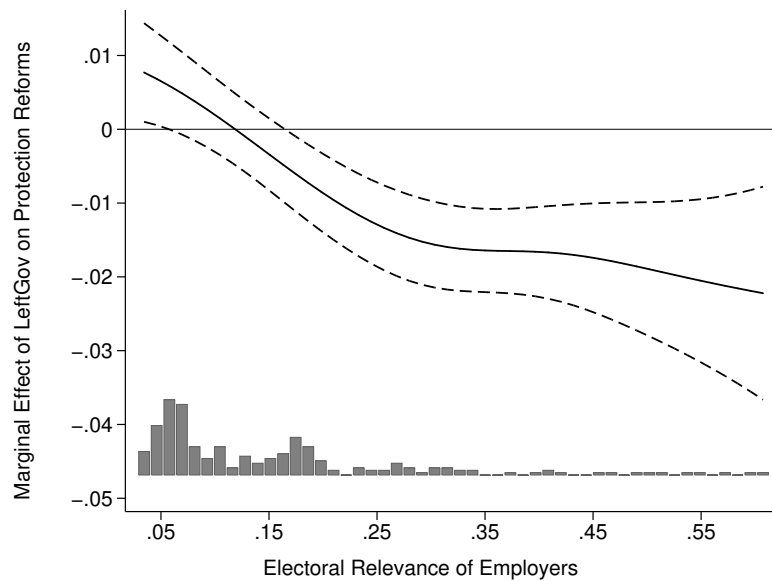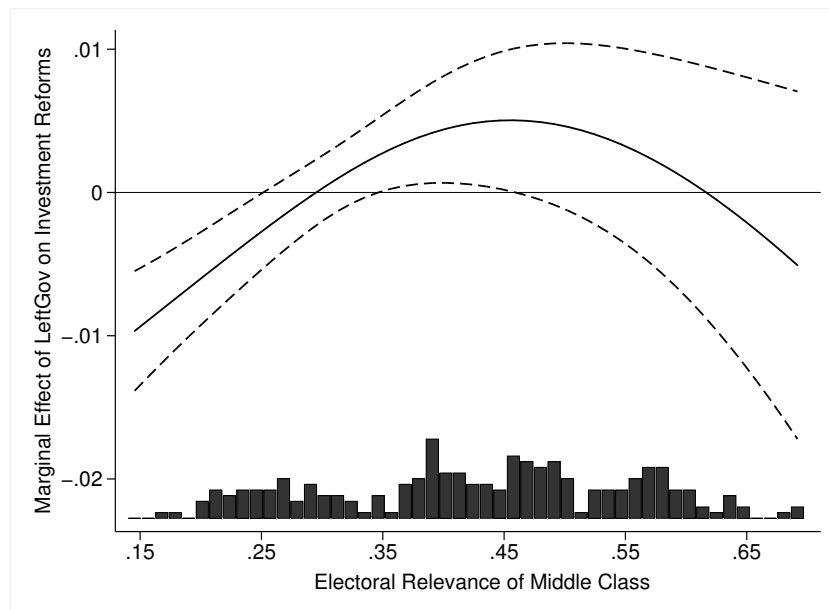
Figure 7.7: Non-linear interaction of social democratic government strengths' with electoral relevance of middle class on investment reforms (95% confidence intervals) Note: Non-linear interaction effect has been calculated using a Kernel estimator.

the role of employers. If we exclude Greece and Italy from the analysis, then the interaction effect of the electoral relevance of employers with the strength of social democratic governments is less clear. Obviously, this is mainly due to the low variance of the measure of employers' electoral relevance once we exclude Greece and Italy.

7.6   Conclusion

This chapters has provided empirical evidence on the influence of distinct occupational classes within the social democratic electorate on the kind of labor market reforms they enact. My measure of electoral relevance gives a more complete picture on the transformation of social democratic electorates than other studies who mainly look at class voting (i.e. Alford index) without taking into account changing levels of turnout and, more importantly, changing group size due to structural change. The descriptive assessment has revealed important differences to what extent different occupational classes are relevant for social democratic parties over time across countries.

More importantly, the changing nature of electoral relevance affects social democratic policy-making. A higher electoral relevance of the working class leads social

democratic parties to implement more protection-oriented labor market reforms. Once the electoral relevance of the working class declines, the effect reverses and social democratic parties are even less likely to implement protection-oriented labor market reforms. In addition, also the electoral relevance of employers does play a role in countries where they form an important part of the social democratic electorate. In such cases, a high electoral relevance of employers is negatively associated with protection-oriented labor market reforms under social democratic governments.

Furthermore, the evidence regarding a possible interaction between the electoral relevance of the middle class and social democratic government strength' on investment reforms is less conclusive. As long as the middle class has been electorally irrelevant, social democratic government are negatively related to investment-oriented labor market reforms. With the increasing electoral relevance of the middle class over time, however, the negative effects has vanished and perhaps even turned into a positive one. But the evidence is overall less clear than the findings regarding protection-oriented reforms.

This inconclusive finding regarding the role of the middle class for investment-oriented reforms could be due to two reasons. On the one hand, it is possible that the divide between the middle class and the working class is less relevant when it comes to investment-oriented labor market reforms. Chapter 3 has shown, for example, that the two classes differ less in their preferences regarding active labor market policies than with regards to passive labor market policies. Furthermore, most evidence regarding the strong pro-investment orientation of the middle class relies on their strong preferences for education and family policies, not so much on activation. On the other hand, active labor market policies have a clear *distributive* profile targeting labor market outsiders. This is not the case for the protection dimension studied here, where both passive labor market policies and especially employment protection legislation can have more diverse distributive effects on both labor market insiders and outsiders. It is therefore likely that the divide between the working class and the middle class is less relevant for active labor market policies and that we need to look at another important divide within the social democratic electorate, namely the one between insiders and outsiders. This is the question the last chapter turns to.

Chapter 8

Social Democracy and Labor Market Dualization

8.1 Introduction

This chapter continues the analysis on the varying composition of the social democratic voter coalition. Instead of studying the implications of the divide between the working class and the middle class, this chapter follows the influential dualization literature (Rueda, 2005; Emmenegger et al., 2012) and focuses on labor market insiders and outsiders. I build again on the concept of the "contribution to a coalition" (Axelrod, 1972) to create empirical measures of insiders' and outsiders' relative political weight and assess their implication on actual labor market policy implementation under left government. To this end, I leverage again large-scale individual-level data to operationalize those groups' contribution to the social democratic coalition and combine it the original, hand-coded data on labor market reforms to capture policy outcomes. The empirical analysis demonstrates (a) considerable cross-national and temporal variance in the relative electoral weight of insiders and outsiders and, more importantly, (b) the explanatory power of relative electoral relevance when it comes to actual policy outcomes. The larger the share of atypically employed voters in the social democratic support coalition, the more favorable are the implemented labor market reforms to the demands of labor market outsiders, and vice versa.

This chapters proceeds first with a discussion on the puzzling finding of increasing pro-outsider labor market reforms. In the second part, the changing electoral relevance of labor market insiders and outsiders is being discussed. Then, the method and the data are being described. The results section will first show the electoral

relevance of the two groups and then link it to the *distributive effects* of labor market reforms. The last section concludes with the main findings.

8.2   The Puzzle: Pro-Outsider Labor Market Reforms

I focus on labor market insiders and outsiders because these groups are both considered part of the social democratic core electorate but have been shown to have conflicting interests when it comes to labor market policy (see Chapter 3 or Burgoon and Dekker, 2010; Marx, 2014; Häusermann et al., 2015). The dominant interpretation of the literature is that social democratic parties will and do consider insiders their core constituency (Rueda, 2005, 2006, 2007), in particular when they face a high level of political constraints (Hübscher, 2017). The theoretical justification of social democrats' decision to side with insiders is substantially based on the crucial assumption of outsiders being disenchanted with politics. In Rueda's words, there is "the important fact that [...] outsiders tend to be less politically active and electorally relevant (as well as economically independent) than insiders" (2006, p. 388). Ten years later, the premise of politically alienated labor market outsiders appears to have become an unquestioned standard assumption in political economy. In an influential recent edited volume, labor market outsiders are plainly dismissed as "not a powerful electoral group in contemporary capitalist democracies" (Beramendi et al., 2015, p. 23).

As a consequence, one would expect social democratic parties to cater primarily or solely to their well-protected core voters and implement labor market policies that are distinctly in favor of insiders. However, a closer look at the more recent history of labor market reforms does not support this one-sided perspective. Figure 8.1 shows a descriptive overview of the *distributive effects* on insiders and outsiders of all enacted reforms in the fields of active labor market policy (ALMP) and employment protection legislation (EPL) (Figure A.20 in the appendix provides a breakdown by country). Positive values on the Y-axis describe expansionary reforms, negative values indicate cut-backs. Various aspects of this figure are noteworthy. First of all, there is no general trend of across-the-board retrenchment, despite the austerity pressure created by the Great Recession. Rather, governments have cut back social security in specific domains, primarily regarding employment protection (EPL) for both insiders and outsiders. Much in contrast, many governments enacted expansionary reforms in the field of active labor market policy over the course of the last two decades. This is largely in line with the existing literature describing the expansion of activation and social investment policies more broadly (Morel et al., 2012b;
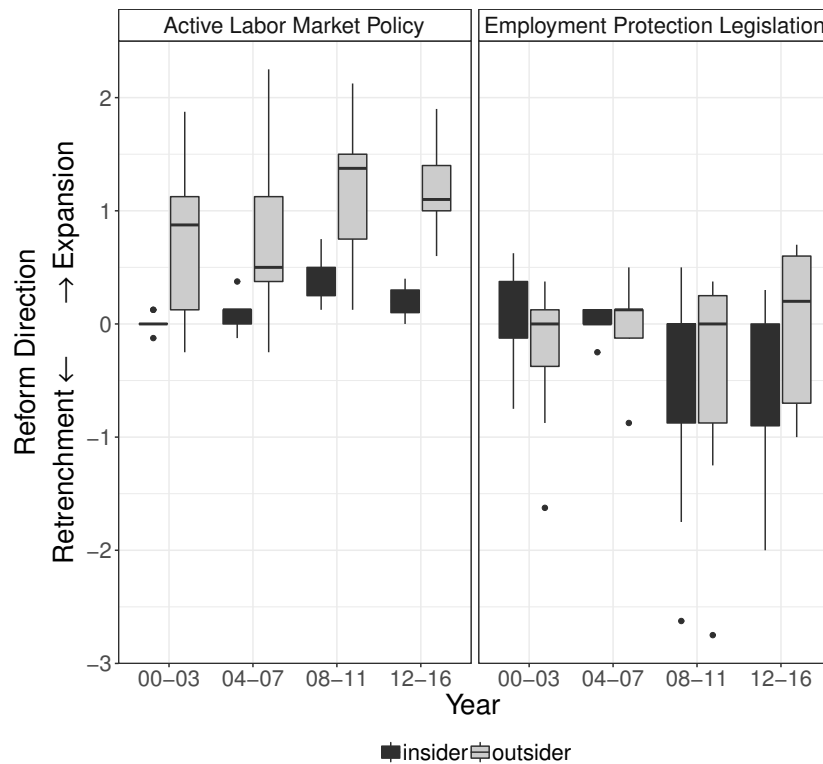
Figure 8.1: Effects of ALMP and EPL Reforms on Insiders and Outsiders, Continental and Southern Europe, 2000-2016

Bonoli, 2013; Garritzmann et al., 2016). Even though the extent to which countries have implemented pro-outsider and social investment policies varies a lot (Hemerijck, 2015), the overall focus on ALMP at the cost of EPL provides clear evidence against pronounced pro-insider policies since it is mainly outsiders who demand and benefit from activation policies (Rueda, 2005).

This reading is reaffirmed by the reform data. The strong focus of expansionary reforms on ALMP in conjunction with the fact that this kind of policy specifically aims at integrating and activating outsiders results in a surprisingly large share of policy reforms that mainly benefit labor market outsiders in vulnerable employment situations. On the other hand, standard employment protection for insiders has been increasingly deregulated, especially since the onset of the Great Recession. To be clear, Figure 8.1 shows policy changes rather than levels. I do not mean to claim that outsiders are better protected in the labor market than insiders. The literature on insider/outsider divides and labor market flexibilization (Rueda, 2005; Palier and Thelen, 2010; Emmenegger et al., 2012) is unequivocal on the fact that insiders enjoy higher employment protection than outsiders, have better access to unemployment benefits, and that active labor market policies remain underdevel-

oped in most countries. This is especially true in the early 2000s. But since I am interested in explaining *policy change over time within a country*, my focus on labor market reforms rather than levels of protection stands to reason.

The considerable skew of labor market reforms in favor of outsiders in recent years is difficult to explain when neglecting how party constituencies have changed over time. From a vote-seeking perspective, a specific electorate is only worth rallying if it is sufficiently large and, in addition, likely to take part in politics. I argue that the existing literature has neglected and/or underestimated both the size of and the turnout rate among labor market outsiders, leading to a widespread but misleading image of an electorally irrelevant group. The first part of this chapter thus aims to correct this allegedly commonsensical view on inert and insignificant outsiders. I demonstrate that the electoral relevance of labor market outsiders varies strongly across countries and regions. While in some countries the well-protected core of labor market insiders still accounts for the largest share of labor, in others, non-standard employment has in fact become the new standard. In Spain, for example, the recovery after the Great Recession is associated with a continued increase of already widespread atypical work as temporary contracts account for the "large majority" of new hires (OECD, 2016). The rapid spread of atypical employment in many post-industrial democracies provides temporal variation in the relative size of labor market outsiders, which I exploit in a second step in order to assess the impact on labor market policy under left government. This differential development attributes varying electoral weight to the two groups, resulting in either an accentuated or weakened political dilemma for social democratic parties.

My point of departure ties in with a burgeoning literature on the changing social democratic electorate in post-industrial societies (Best, 2011; Karreth et al., 2013; Gingrich and Häusermann, 2015; Abou-Chadi and Wagner, 2018). Gingrich and Häusermann (2015), for example, study the social democratic support coalition by distinguishing between different classes based on respondents' occupation and education level like in the previous chapter. This approach shares some obvious similarities but also has some important differences. The main overlap concerns the fact that outsiders cluster in certain occupational groups. However, since this clustering is far from perfect, the outsider category to some extent cross-cuts occupational groups.[1] Whereas the previous chapter and the work by Gingrich and Häusermann (2015)

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[1]Table A.14 in the Appendix shows the share of labor market outsiders among occupational classes used in the previous chapter. As expected, most manual blue-collar workers can be considered archetypical labor market insiders: only few are affected by atypical employment. The middle classes are slightly more affected by such atypical labor market contracts, especially in Continental and Southern Europe (see also Häusermann et al., 2015). Finally, outsiders cluster in all the countries in the broadly operationalized group of routine workers.

focused exclusively on the differences between manual workers and the middle class, I expand the analysis by focusing on the entire group of workers. Most importantly, I thereby also include the significantly large group that Gingrich and Häusermann call routine workers[2], which faces by far the highest prevalence of labor market vulnerability.

8.3 The Changing Electoral Relevance of Insiders and Outsiders

In the assessment of electoral relevance, I build again on Axelrod's (1972) approach to study what he called the "contribution to a coalition". The three parameters needed to estimate the contribution of a group to a party's total vote share are size, turnout and party choice ("loyalty" in Axelrod's terminology). In the following, I briefly discuss how the relative electoral relevance of outsiders as opposed to outsiders has evolved over the course of the past two or three decades.

An obvious starting point for studying the electoral relevance of different constituencies is relative group size. Focusing on insiders and outsiders, occupational change in recent decades has led to remarkable changes in this regard. Until the 1970s, the model of full-time wage employment dominated the world of work. The bigger part of workers consisted of archetypical insiders, most of them employed in the second sector. This pattern steadily changed in the course of continuous deindustrialization and the concomitant growth of the service-sector. The rise of novel forms of atypical employment, most importantly temporary and (involuntary) part-time work, has become an important issue in all advanced post-industrial democracies (De Grip et al., 1997). Figure 8.2 displays the remarkable spread of atypical employment in Europe since the 1980s. While unemployment seems to be dominated by cyclical trends, temporary employment has constantly been on the rise since the early 1980s. The most recent economic crisis has further reinforced the spread of labor market vulnerability as the hardest hit sectors have, again, been those dominated by insiders: manufacturing and construction (Autor, 2010).

Critical mass is a necessary but not a sufficient condition for achieving electoral relevance. Based on the assumption of low political activity, Rueda maintained that social democrats will cater to insiders even if outsiders are "numerous" (2005, p. 86).

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[2]Note that Gingrich and Häusermann categorize low-skilled service and office workers into this group. Routineness is understood differently in the task-based literature in labor economics, which defines routine work as "carrying out a limited and well-defined set of cognitive and manual activities, those that can be accomplished by following explicit rules" (Autor et al., 2003), meaning primarily semi-skilled blue- and white-collar jobs.
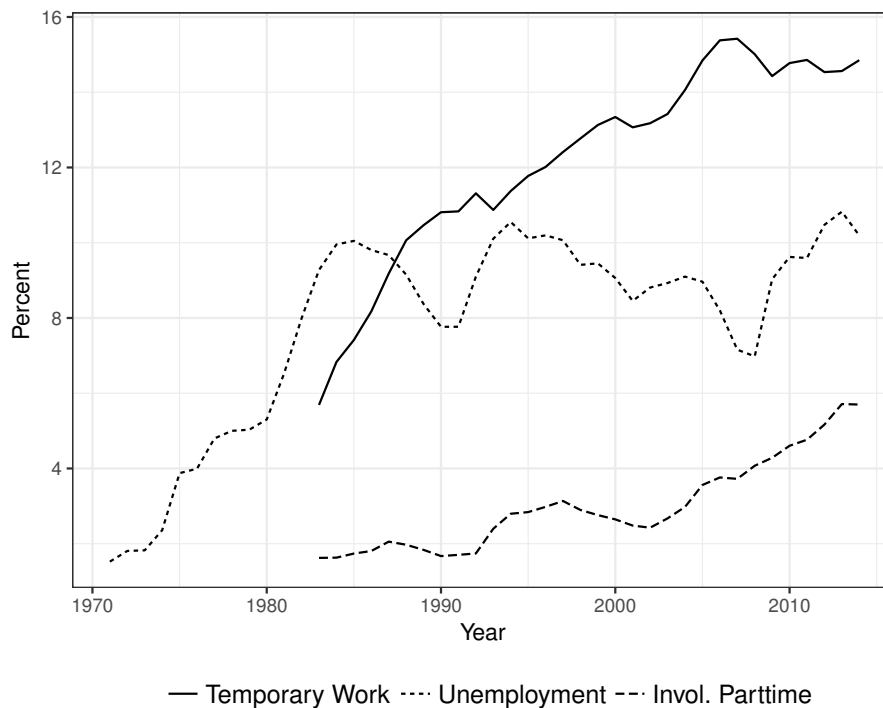
Figure 8.2: Share of atypical employment in Europe, in % of working-age population (Source: OECD Employment Database; data weighted by population).

Therefore, the second important aspect of electoral relevance is turnout. If policy makers assume every second individual of a specific subgroup of society to go to the ballot, the electoral relevance of this subgroup is only half of what it could be. What do we know about turnout among outsiders? Although existing research provides some evidence for lower political activity (Häusermann and Schwander, 2012; Rovny and Rovny, 2017), the actual magnitude of the participation gap between insiders and outsiders deserves some more attention. As labor market risks have "spread well into the more highly educated segments of the population" (Häusermann et al., 2015, p. 235; see also Table A.14), the rise of outsiderness goes hand in hand with a steady shift in its composition. Contemporary labor market vulnerability is by no means restricted to the poor and low skilled, the usual suspects of non-voting (Leighley and Nagler, 2013), but increasingly affects individuals with all the necessary means to political participation.

The remaining crucial aspect in a discussion about the electoral relevance of a specific group is party choice. Traditional insider/outsider theory has been more than clear on the prime example of a social democratic voter: the well-protected insider. However, I suspect that support for the Left among insiders is overestimated, whereas it is underestimated in the case of outsiders, resulting in a much less clear-

cut picture. First, I argue that social democratic parties are a likely choice for outsiders. On election day, voters have to choose from existing "policy packages" (**?**) and need to compromise. The existing literature has heavily focused on employment protection to justify the expectation of strong support for social democrats among insiders but weak or even inexistent support among outsiders. However, the overall package offered by social democrats might still be one of the more interesting options for the latter - despite the adherence to employment protection. An ideal policy package that matches preferences in each and every policy domain is hardly available. Parties with a more skeptical stance on employment protection are likely to combine this position with a generally critical attitude towards welfare provision. And general social policy retrenchment cannot be in the interest of outsiders, which makes the major right an unlikely choice (Rovny and Rovny, 2017).

Second, I question the assumption of unambiguous support for social democratic parties among insiders. The realignment literature has pointed out that the working class vote has experienced a rightward shift (Gingrich and Häusermann, 2015). Right-wing populists have been shown to successfully mobilize among moderately skilled private sector insiders (Bornschier, 2010) and especially attract support from small business owners and production workers (Oesch, 2008a). It is therefore not primarily precariousness or low wages that drives workers into the arms of right-wing populist parties but rather the fear of losing status and/or privileges that were previously deemed protected (Gidron and Hall, 2017; Kurer, 2017). As insiders are much more likely to depend on such "taken-for-granted features" (Rydgren, 2013, p. 6) than the more vulnerable outsiders, they seem especially prone to abandon the left and instead vote for its populist competitor from the right. All in all, then, insiders might not be so much more likely to support social democratic parties than vulnerable outsiders who demand social policy protection as a reaction to economic insecurity (Burgoon and Dekker, 2010; Rehm, 2009; Häusermann et al., 2015).

Taken together, this section discussed several reasons why the electoral relevance of outsiders relative to insiders might have been underestimated in previous accounts. In that case, according to my electoral relevance argument, the surprisingly high share of pro-outsider policy in recent years is not puzzling but a logical consequence of social democratic parties anticipating changes in their electorate and aiming at dynamically representing their pivotal voter.

More specifically, I hypothesize that the country-specific electoral relevance of labor market outsiders relative to insiders affects the kind of labor market reforms social democratic parties implement when in government. My argument has four observable implications. (1) Mere group size of different subgroups of the population

per se should not affect policy outcomes since electoral relevance also depends on participation rates and vote choice. (2) The electoral relevance of insiders and outsiders should not generally affect policy outcomes. Both groups are considered part of the left core electorate and non-left governments' policy decisions should not be affected by their relative political clout. (3) In contrast, the relative electoral relevance of outsiders vis-a-vis insiders should impact on labor market reforms under governments with a significantly large share of left seats. In this case, I expect spending for ALMP and PLMP as well as the frequency of pro-outsider reforms to increase with outsiders' contribution to the coalition. More technically speaking, the focus of the empirical analysis is on the interaction effect between outsiders' electoral relevance and left government on implemented labor market reforms. (4) By implication, in countries with electorally dominant insiders, left government should, if anything, be negatively correlated with spending on and frequency of outsider-friendly labor market reforms.

8.4   Measurement, Data and Method

Like in the previous chapter, I build again on the same formula originally proposed by Axelrod (1972). The main difference being that this time I examine the relative electoral relevance of insiders and outsider for social democratic parties.

In terms of conceptualization, I largely rely on the original definition of outsiders as proposed by Rueda (2005), but coded students as outsiders only if they indeed faced some form of atypical employment. The group of outsiders consists of part-time workers (less than 30 hours), temporary workers and the unemployed. Insiders are workers with a full-time permanent working contract. More recently, the insider-outsider literature has been enriched by alternative and more fine-grained ways to operationalize outsiderness, e.g. risk-based, continuous measures of labor market vulnerability (Rehm, 2009; Schwander and Häusermann, 2013) or longitudinal approaches to labor market disadvantage that take into account previous experience and scar effects (Emmenegger et al., 2015).[3] I deliberately stick to the simple initial version because the calculation of relative group size requires a clear-cut distinction between insiders and outsiders, which is less straightforward when using continuous measures. Furthermore, a status-based operationalization will yield more conservative estimates of the prevalence of outsiderness and thus prevent me from overestimating the share of outsiders based on risk-based classifications. I test my conjectures first in the nine Continental and Southern European countries of this

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[3]For a comparison of these approaches, see Rovny and Rovny (2017).

study and later on a broader sample consisting of 19 European countries that are considered advanced capitalist democracies.[4]

In order to calculate the electoral relevance of insiders and outsiders, I need three parameters: group size, turnout, and vote share. For the first parameter, group size, I rely on the large samples of EU-SILC data (2004-2015) in order to provide reliable estimates of relative shares of both insiders and outsiders among the entire labor force. The political parameters are derived from the European Social Survey rounds 1-8 (2002-2016, see A.15). I run two separate unconditional logistic regression models to calculate predicted probabilities of the effect of labor market status on turnout and vote choice, respectively.[5] Unconditional (i.e. models without control variables) because I want to capture the effect of inherent "outsiderness" instead of partial correlations under the control of covariates such as age, gender or occupation. When thinking about electoral relevance of different groups, it is this unconditional effect of outsiderness that should matter most for party strategies. Having said that, controlling for compositional effects and thus examining partial correlations of outsiderness – unsurprisingly – decreases the participation gap and further strengthens my central claim (see Table A.16 in the Appendix A.8).

In the second empirical part, I test the hypotheses regarding the bottom-up impact of insiders/outsiders on different policy outputs and outcomes with a pooled times-series cross-section (TSCS) analysis. For this, I have created a dataset that includes measures of labor market reforms effects on insiders and outsiders, spending on active and passive labor market policy, strength of social democratic governments, electoral relevance of insiders and outsiders, as well as control variables. I use four different measures to assess policy outputs and outcomes.

The first two policy output variables are based on my reform data and assess how insiders and outsiders have been affected by labor market reforms. This measure has been described extensively in Chapter 4. All the reforms in one country-year are aggregated together and measure the sum effect all the policy changes have on insiders and outsiders in a given country-year. This will help to shed light on the insider/outsider politics in Continental and Southern Europe, arguably two regions where the dualization of labor markets is most pronounced.

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[4]These countries are Austria, Belgium, Switzerland, Czech Republic, Germany, Denmark, Spain, Finland, France, Greece, Great Britain, Hungary, Ireland, Italy, the Netherlands, Norway, Poland, Portugal and Sweden. All countries have a per capita GDP higher than 25'000 international dollars and more than 3 million inhabitants (for a similar case selection see Beramendi et al. 2015, p. 4).

[5]Based on Armingeon et al. (2018), the following parties were classified as the main social democratic parties: SP.A and PS (Belgium), SP (Switzerland), CSSD (Czech Republic), SPD (Germany), SD (Denmark), PSOE (Spain), SDP (Finland), PS (France), Labour (Great Britain), MSZP (Hungary), Labour (Ireland), PD (Italy), PvdA (Netherlands), A (Norway), SLD (Poland), PS (Portugal), SAP (Sweden).

The drawback of the reform measure is that is only available for nine countries. As a reaction, I complement the empirical evaluation with traditional spending data, despite the discussed concerns, in order to test the robustness of the results and broaden the geographical scope of the analysis. These measures are straightforward: I use *spending on active labor market policy* and *spending on passive labor market policy* as indicators for pro-outsider policies.[6] The data comes from the Comparative Political Dataset (Armingeon et al., 2018). I try to minimize the main concern with spending data, i.e. their interlinkage to various other factors, by controlling for the most obvious confounders such as the unemployment rate and real GDP growth.

Following my theoretical argument, I am mainly interested in two explanatory variables and their interaction: the electoral relevance of insiders/outsiders and the strength of social democratic governments. For the former I use the measure of electoral relevance that I have developed above.[7]. The data for the cabinet posts of social democratic parties in percentage of total cabinet posts (weighted by the number of days in office in a given year) comes again from the CPDS I dataset (Armingeon et al., 2018). I include further control variables for the unemployment rate, real GDP growth and union density (also same source). In order to test the main idea, I include an interaction term between the two main explanatory variables - the strength of social democratic parties and the electoral relevance of insiders/outsiders. I followed again the same three recommendations (see previous Chapter 7 for details) regarding the possibility of non-linear interaction effects. The diagnostics reveals that the interaction terms are indeed linear (see Figure A.22 in the Appendix).

The use of TSCS data violates several assumptions of ordinary least squares (OLS) regression. To take the problems of autocorrelation and heteroskedasticity into account, I estimate all the models with a lagged dependent variable (LDV) and country-clustered standard errors (Beck and Katz, 1995). Prais-Winsten (AR1) regression, instead of LDV, results in very similar findings. In contrast to the previous chapter, common tests have shown that time-fixed effects are not needed.[8] I include country-fixed effects to account for unit heterogeneity and unobserved

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[6]Whereas ALMP spending can be safely used as a proxy for pro-outsider policies, PLMP spending is more ambiguous to classify because of the institutional diversity of unemployment benefits systems. In some countries, it functions as an insurance system for insiders where outsiders have only partial access to these traditional unemployment benefits systems due to the unstable nature of their previous job history. However, in most countries it can still be considered as mainly pro-outsider.

[7]Like in the previous chapter, I can only calculate turnout and vote choice biannually due to data availability of the ESS. The missing years have been linearly imputed if there are observations one year before and one year after. The findings do not change if I run the models without the linear imputation.

[8]The results do not change, though, if time-fixed effects are included.

country-specific factors that do not vary over time (Beck, 2001). This approach attributes a separate intercept to each country while the slope parameter does not vary by country. The inclusion of country-fixed is only problematic if crucial variables in the model are sluggish or even constant over time (Plümper et al., 2005), but this is not the case here. Country-fixed effects are also appropriate in this case, because I am interested in analyzing the within-country variation.

8.5 Results

8.5.1 The Electoral Relevance of Insiders and Outsiders

Table 8.1 summarizes the average electoral relevance of insiders and outsiders for social democratic parties in 19 European countries for the years 2002 to 2016. The first two columns show the relative group shares derived from EU-SILC, the next two columns display the predicted probability to turnout for both groups and the sixth and seventh column give the calculated probabilities to vote for the social democratic party. The fifth and eight column shows the national average in turnout and the national average of the social democratic vote share. Finally, the last four columns to the right-hand side of Table 8.1 represent the estimates of electoral relevance, i.e. the product of the three parameters for each group divided by the product of the two national parameters, as well as the difference and the ratio in electoral relevance between insiders and outsiders. Take for example the case in the first row, Denmark. According to the data, 44.3% of the votes for the Danish Social Democrats come from insiders and only 11.9% from outsiders.[9] By implication, I would expect social democratic labor market policy in Denmark to be strongly geared to the interests of insiders.

Figure 8.3 then provides a more compact overview about the relative weight of distinct subsets of voters in the social democratic support coalition by plotting the ratio between the electoral relevance of insiders vis-a-vis outsiders. For example, in Ireland, insiders' contribution to the social democratic coalition (averaged over the time span between 2002 and 2016) is an estimated 27.5% whereas outsiders' contribution amounts to 21.0%. This results in a slight predominance of insiders among the potential Irish social democratic electorate (27.5/21.0=1.3).

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[9] The total adds up to 100% with the few votes of labor market upscales, which are not considered typical supporters of social democratic parties, and the considerable vote share among people not in the labor force, mainly pensioners, who are an unlikely driving force behind labor market policy. Reducing the sample to the labor force, as is often done in the insider/outsider literature, would obviously increase vote shares massively but I deem the current numbers both more telling and more intuitive.

Table 8.1: Electoral Relevance of Insiders and Outsiders for Social Democrats, pooled 2002-2016 (unconditional models)

	Group Share		Turnout			Social Democratic Vote			Electoral Relevance			
	Outsider	Insider	Outsider	Insider	National	Outsider	Insider	National	Outsider	Insider	diff	ratio
Nordic												
Denmark	12.9%	44.0%	90.0%	94.9%	93.5%	26.1%	26.9%	27.1%	11.9%	44.3%	32.4	3.7
Finland	14.0%	33.8%	74.4%	82.3%	82.9%	19.2%	22.1%	22.2%	10.9%	33.4%	22.5	3.1
Sweden	18.8%	40.2%	88.3%	92.8%	91.1%	34.5%	34.6%	33.1%	19.0%	42.7%	23.8	2.3
Norway	12.6%	46.3%	81.6%	88.0%	86.9%	31.2%	33.4%	33.0%	11.2%	47.5%	36.3	4.3
	14.6%	41.1%	83.6%	89.5%	88.6%	27.7%	29.3%	28.9%	13.2%	42.0%	28.7	3.3
Liberal												
United Kindgom	14.0%	34.0%	68.1%	70.2%	72.4%	40.4%	41.4%	39.9%	13.4%	34.2%	20.8	2.6
Ireland	20.8%	25.8%	71.5%	80.9%	77.9%	12.3%	11.2%	11.0%	21.4%	27.3%	5.9	1.3
	17.4%	29.9%	69.8%	75.6%	75.2%	26.4%	26.3%	25.4%	17.4%	30.7%	13.3	1.9
Continental												
Belgium	21.5%	30.0%	92.4%	94.9%	92.6%	30.0%	24.4%	25.4%	25.3%	29.6%	4.2	1.2
Germany	23.6%	29.8%	76.7%	84.4%	82.5%	32.4%	32.8%	32.0%	22.2%	31.2%	9.1	1.4
France	19.8%	32.9%	62.3%	72.8%	73.9%	34.4%	33.1%	33.0%	17.4%	32.6%	15.2	1.9
Netherlands	27.2%	27.3%	82.0%	84.7%	84.6%	20.9%	20.8%	20.6%	26.8%	27.7%	0.9	1.0
Switzerland	21.9%	31.6%	66.9%	65.1%	69.5%	22.5%	23.3%	22.1%	21.5%	31.3%	9.8	1.5
Austria	17.8%	33.4%	82.0%	84.2%	84.9%	30.2%	33.2%	33.0%	15.7%	33.3%	17.5	2.1
	21.9%	30.8%	77.0%	81.0%	81.3%	28.4%	27.9%	27.7%	21.5%	30.9%	9.5	1.5
Southern												
Spain	30.1%	24.9%	78.3%	83.8%	82.4%	45.9%	39.5%	40.5%	32.4%	24.7%	-7.7	0.8
Italy	18.6%	24.9%	81.7%	87.7%	84.2%	32.7%	31.6%	31.9%	18.5%	25.6%	7.2	1.4
Portugal	20.8%	29.9%	64.4%	77.2%	74.0%	41.6%	38.4%	39.9%	18.9%	30.1%	11.2	1.6
Greece	19.5%	21.8%	88.2%	90.0%	89.8%	42.8%	42.1%	42.9%	19.1%	21.4%	2.3	1.1
	22.2%	25.4%	78.1%	84.7%	82.6%	40.7%	37.9%	38.8%	22.2%	25.5%	3.2	1.2
Visegrad												
Czech Republic	13.6%	36.1%	56.6%	64.6%	60.9%	31.6%	32.5%	32.3%	12.3%	38.6%	26.2	3.1
Hungary	13.5%	34.0%	71.4%	78.5%	75.9%	27.9%	27.5%	30.6%	11.6%	31.7%	20.1	2.7
Poland	22.7%	24.0%	64.6%	70.1%	70.0%	16.0%	16.6%	17.0%	19.7%	23.6%	3.9	1.2
	16.6%	31.4%	64.2%	71.1%	69.0%	25.2%	25.5%	26.6%	14.5%	31.3%	16.7	2.4

Note: Relative groups shares are based on all pooled EU-SILC (2002-2015). Participation and social democratic vote shares are predicted probabilities based on unconditional country-by-country logistic regressions of all pooled ESS Rounds 1-8 (2002-2016).
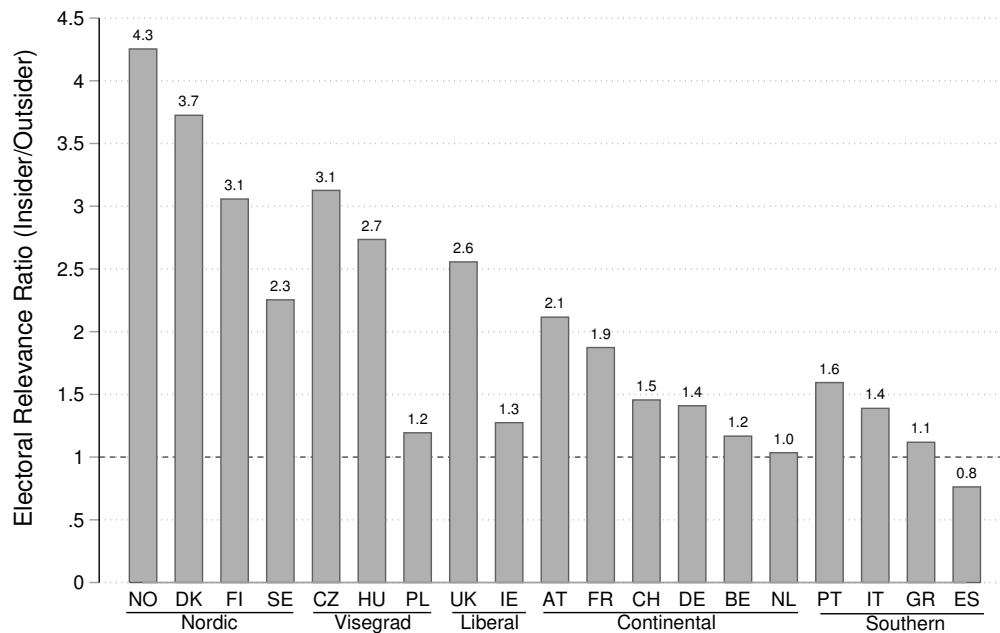
Figure 8.3: Electoral relevance ratio by country, pooled 2002-2016

This first descriptive evidence yields two important insights. First, insiders are (still) electorally more relevant than outsiders. However, in many places, particularly in Continental and Southern Europe, the gap is small and perhaps not sufficient to explain social democratic strategies abandoning the demands of outsiders. Second, the remarkable cross-sectional, but also within-regime, variance highlights the different significance of the social democratic dilemma across Europe. In countries like Spain, Greece but also the Netherlands, Belgium, Ireland or Poland outsiders represent a large part of the electorate, comparable in size to labor market insiders. In an extreme case like Spain, outsiders in fact outnumber insiders in terms of electoral relevance.

Consequently, in these countries, social democrats truly do face a dilemma as they are confronted with two similarly important groups of potential supporters with clearly distinct policy preferences. In contrast, the strategic considerations for social democrats in most Scandinavian countries, Hungary or the Czech Republic are much less complex. As the working class is still dominated by standard employment, resulting in electoral relevance ratios of 3 and above, insider-friendly policies seem to be a straightforward and reasonable programmatic choice for vote-seeking social democratic parties.

Taking electoral relevance into account helps to put the balancing act of social democratic parties into perspective. Promoting policies that benefit insiders might lead outsiders to abandon the center-left. However, as long as one group dominates the electorate, policy choices for vote-seeking parties are not very delicate, thus strongly mitigating the social democratic dilemma. For example, in the Swedish case discussed by Lindvall and Rueda (2014), an emphasis on insider policies makes sense since insiders have more than twice the weight of outsiders (ratio=2.3) in the electorate of the Swedish Social Democratic party. In contrast, as demonstrated by Lindvall and Rueda's analysis, pro-outsider reforms are electorally costly. Strategic decisions are even more straightforward in other Nordic countries, where the ratio in favor of insiders is even higher. The relative electoral relevance of insiders and outsiders thus offers the party elite a dominant strategy.

Finally, one aspect I have not addressed so far concerns the absolute electoral decline of the social democratic vote share across Europe. To be clear, I am primarily interested in the relative strength and, thus, policy influence of different social democratic constituencies rather than their combined electoral relevance vis-a-vis other parties. However, I do not want to ignore the fact that many of the analyzed social democratic parties have lost a significant share of voters to competing parties in recent years. While it is clearly beyond this chapter to provide an answer to the important question of vote switching, which requires longitudinal data to be properly addressed, my data on the relative electoral relevance of different sub-constituencies allows for some tentative insights. In Figure A.21 in the Appendix A.8, I show how the social democratic voting propensity of the two groups, insiders and outsiders, changes over time compared to social democrats' national vote share. Since I look at a relatively short period of time, in most countries we do not see spectacular changes. Still, as expected, a steady downward trend is visible in many countries. Exceptions are more dramatic cases like Poland and Hungary, where social democratic parties have been almost electorally obliterated (mainly) due to corruption scandals that accelerated the decline, visible in almost any other country. The data does not reveal a consistent pattern as to whether insiders are more likely than outsiders to leave social democrats.

8.5.2   Electoral Relevance and Labor Market Reforms

The presentation of the regression results is split into two sections. The first part is based on the reform data. The second part recedes to more traditional spending measures in order to test my hypotheses with models based on a geographically more encompassing sample with more statistical power.

How does the relative electoral relevance of insiders and outsiders affect actual social democratic policy making, i.e. labor market policy output under social democratic government? Table 8.2 present the results from the models looking at how outsiders (M1-M3) and insiders (M4-M6) have been affected by labor market reforms. We see in Model 1 and Model 4 that neither the group size of insiders nor outsiders has a direct effect on the two dependent variables. Furthermore, the results in Model 2 and Model 5 show that neither the strength of social democratic governments nor the electoral relevance of insiders or outsiders has a direct effect on the two reform measures. Thus, there is no direct correlation between a change in the group size of specific subgroups of the electorate and labor market reforms. The absence of such a functional relationship between mere group size and policy outputs lends support to my operationalization of electoral relevance that takes political mobilization into account by also including participation rates and vote choice. Similarly, the results in Model 2 and Model 5 show that neither the strength of social democratic governments nor the electoral relevance of insiders or outsiders has a direct effect on the two reform measures. Again, this is an expected result given my theoretical reasoning. Social democratic parties are expected to implement pro-outsider (insider) policies especially or even only if outsiders (insiders) form a substantial part of their electorate. Since this is not the case across the board (see Figure 8.3), the pooled results should yield weak correlations.

Finally, Model 3 supports my main theoretical assumption. The interaction term between the strength of social democratic governments and the electoral relevance of outsiders has a statistically significant and positive effect on the outsider reform measure. Figure 8.4 visualizes this interaction effect. From very low levels of outsiders' electoral relevance until about 0.25, the marginal effect of social democratic government strengths' on outsiders' reform outcome is negative. This means that the increasing presence of social democrats in government leads to labor market reforms that actually worsen situation of outsiders. This is essentially the insider/outsider story of Rueda (2007). Such a negative effect on outsiders has been especially common during the 1980s and 1990s, when insiders have been the dominant social democratic electorate. But we see such a negative effect of social democratic governments on outsiders only if the electoral relevance of outsiders is low. When outsiders, however, become more relevant (at about 0.25), as they have in some countries, then the negative effect ceases. More speculatively, judging from the figure, one could extrapolate that if outsiders become even more relevant in the future, we might witness a positive marginal effect of social democratic government strengths' on outsiders' reform outcome, and thus a reversal of insider/outsider bias of social democratic parties.

Table 8.2: Left government, electoral relevance and labor market reforms

	Reform Effect on Outsiders			Reform Effect on Insiders		
	M1	M2	M3	M4	M5	M6
L.OutsiderReform	0.083	0.094	0.054			
	(0.10)	(0.08)	(0.10)			
L.InsiderReform				0.183	0.196	0.220
				(0.15)	(0.16)	(0.15)
LeftGov		-0.010	-0.066*		-0.006	-0.112
		(0.01)	(0.03)		(0.01)	(0.08)
ElRelOutsider		2.310	-9.528		3.929	7.484
		(7.25)	(8.23)		(9.06)	(11.47)
ElRelInsider		-4.198	-14.463		2.882	2.906
		(20.02)	(22.15)		(11.79)	(11.43)
LeftGov X ElRelOutsider			0.239*			
			(0.10)			
LeftGov X ElRelInsider						0.380
						(0.29)
Outsidershare	-0.605			-5.043		
	(12.70)			(17.82)		
Insidershare	17.688			15.650		
	(13.96)			(15.43)		
L.Unemploymentrate	0.010	-0.048	-0.004	0.002	-0.039	-0.061
	(0.06)	(0.07)	(0.07)	(0.08)	(0.08)	(0.07)
L.RealGDPgrowth	0.269+	0.282+	0.316+	0.212	0.209	0.127
	(0.13)	(0.14)	(0.14)	(0.17)	(0.17)	(0.08)
L.UnionDensity	-0.199	-0.203	-0.241	-0.056	-0.053	-0.017
	(0.14)	(0.16)	(0.15)	(0.07)	(0.06)	(0.08)
Constant	0.744	8.353*	14.890*	-2.509	0.601	-1.091
	(7.45)	(3.15)	(4.55)	(8.94)	(4.81)	(5.48)
Country Fixed Effects	✓	✓	✓	✓	✓	✓
R^2	0.143	0.159	0.192	0.236	0.242	0.285
AIC	473.763	473.734	471.558	418.229	419.449	415.268
BIC	489.687	492.312	492.789	434.152	438.026	436.499
N	105	105	105	105	105	105

Notes: Pooled OLS-regression with lagged dependent variable, country fixed effects and country-clustered SEs. Standard errors in parentheses: $^+$ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.
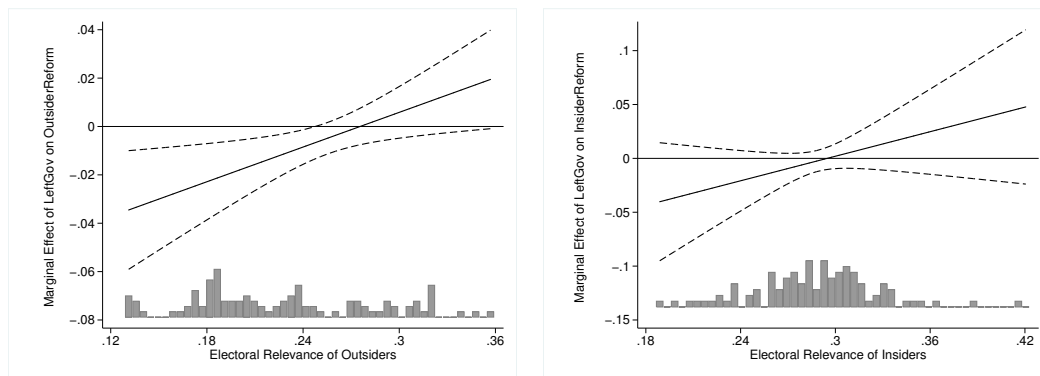
Figure 8.4: Interaction LeftGov with electoral relevance of outsiders and insiders on reform effects data (each based on Model 3 and 6 in Table 8.2)

Moving on to the substantive significance of this finding, I find a marginal effect of about -0.025 on the outsiders' reform measure when the electoral relevance of outsiders is low (about 0.18). This sounds like a negligible effect at first sight. However, an one-point change in government strength is not very telling because the cabinet share of social democratic parties in the 19 European countries under study usually varies quite drastically from one election to another (see A.24 in the Appendix for country-specific cabinet shares). In a majority of the cases, it is common to witness 50-100 percentage point changes (Czech Republic, Denmark, Germany, Spain, France, Greece, Italy, Norway, Poland, Portugal, Sweden, UK, Hungary) and in all the other countries, with the exception of Switzerland, 25-50 percentage point changes are no exception (Austria, Belgium, Finland, Ireland, the Netherlands). A more realistic fifty-point change in the strength of social democratic governments leads to a 1.25 point decrease in the outsiders' reform measure. In other words, if social democrats can improve their cabinet share by 50 percentage points, it is associated with at about 1.25 comprehensive policy changes that negatively affect outsiders, but only if outsiders are electorally almost irrelevant. If it comes to a wholesale government alteration, which equals a 100 percentage point change, it is related to a about two and a half comprehensive policy changes that worsen the situation of outsiders. These are quite substantive effects given that the standard deviation of the outsiders' reform measure is 2.2. Looking at the effective policy changes that took place in a country over time (see Figure A.20 in the Appendix), it becomes clear that the effects are substantively relevant: many actual policy changes are of a smaller magnitude.

Model 6 in Table 8.2 shows that the interaction term between the strength of social democratic governments and the electoral relevance of insiders fails to reach conventional levels of statistical significance. This stands in contrast to Model 3

and all other interactions that will follow in the next section. The right-hand side of Figure 8.4 visualizes this conditional relationship. Clearly, the effect goes in the expected direction but is imprecisely estimated. This is for two reasons. This second part of the analysis only includes countries from Continental and Southern Europe, thus substantially reducing sample size. In addition, the distribution of insiders' electoral relevance is much more centered than those of outsiders on the left-hand plot in Figure 8.4, resulting in fewer cases on the margins with reduces precision. In the light of these circumstances and given that at least the direction of the effect confirms my expectations, I contend that Model 6 should not fundamentally invalidate the all in all affirmative evidence of the main hypothesis. The next section, which is based on more broadly available spending data, will demonstrate that we can recover this effect with more statistical power.

8.5.3 Electoral Relevance and Labor Market Policy Spending

As a last step, I complement my analysis with more conventional spending data. The following analyses are based on a larger sample of countries and thus represent a welcome validation of my previous results based on original, new data. Table 8.3 presents the results of spending on active and passive labor market policy.

Model 1 and Model 5 indicate that the group size of insiders and outsiders is in itself not directly related to the level of spending on active or passive labor market policy. I tested further in Model 2 and Model 6 whether the strength of social democratic governments or the measures of the electoral relevance of insiders and outsiders is associated with the two spending outcomes. As anticipated, the results show that there is hardly any direct correlation between the three explanatory variables and the two dependent variables. The one exception to this pattern is the significant negative correlation between the electoral relevance of insiders and ALMP spending. Since ALMP is clearly the least beneficial policy for insiders, perhaps even other than social democratic parties lower spending in that domain if insiders form a large part of the electorate.

Models 3 and 7, are another test of my core hypothesis and provide strong and consistent evidence in line with our expectations. For both labor market outcome measures, the interaction between the strength of social democratic governments and the electoral relevance of outsiders is statistically significant and positive. This means that the stronger social democratic governments are, the more they pursue pro-outsider policies like active and passive labor market policies if and only if the electoral relevance of outsiders is sufficiently high.

Table 8.3: Left government, electoral relevance and labor market spending

	ALMP Spending (in % of GDP)				PLMP Spending (in % of GDP)			
	M1	M2	M3	M4	M5	M6	M7	M8
L.ALMP	0.752***	0.751***	0.739***	0.757***				
	(0.06)	(0.05)	(0.05)	(0.05)				
L.PLMP					0.878***	0.882***	0.871***	0.878***
					(0.09)	(0.08)	(0.07)	(0.08)
Leftgov		0.000	-0.001*	0.001		0.001	-0.002*	0.003
		(0.00)	(0.00)	(0.00)		(0.00)	(0.00)	(0.00)
ElRelOutsider		-0.376	-0.562*	-0.380		-0.319	-0.744*	-0.319
		(0.25)	(0.26)	(0.24)		(0.29)	(0.31)	(0.31)
ElRelInsider		-0.559*	-0.677**	-0.498*		-0.973	-1.214*	-0.869
		(0.20)	(0.20)	(0.21)		(0.60)	(0.56)	(0.64)
Leftgov X ElRelOutsider			0.006**				0.014**	
			(0.00)				(0.00)	
Leftgov X ElRelInsider				-0.003+				-0.006
				(0.00)				(0.00)
Outsidershare	-0.261				0.003			
	(0.55)				(0.58)			
Insidershare	-0.903+				-0.881			
	(0.45)				(1.31)			
L.unemploymentrate	-0.004	-0.004	-0.003	-0.004+	-0.025+	-0.025+	-0.022*	-0.024*
	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
L.RealGDPgrowth	-0.010***	-0.010***	-0.009***	-0.010***	-0.029***	-0.028***	-0.027***	-0.027***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
L.Uniondensity	-0.004+	-0.001	-0.000	-0.001	0.004	0.006	0.008	0.007
	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)
Constant	0.697***	0.496***	0.543***	0.457***	0.512	0.511	0.590	0.446
	(0.22)	(0.11)	(0.11)	(0.11)	(0.72)	(0.37)	(0.37)	(0.40)
Country Fixed Effects	✓	✓	✓	✓	✓	✓	✓	✓
R^2	0.956	0.956	0.958	0.957	0.963	0.965	0.966	0.965
AIC	-575.699	-576.433	-581.342	-577.681	-162.340	-169.585	-175.546	-169.444
BIC	-554.643	-551.867	-553.267	-549.606	-141.283	-145.019	-147.471	-141.369
N	247	247	247	247	247	247	247	247

Notes: Pooled OLS-regression with lagged dependent variable, country fixed effects and country-clustered SEs. Standard errors in parentheses: $^+ p < 0.1$, $^* p < 0.05$, $^{**} p < 0.01$, $^{***} p < 0.001$.
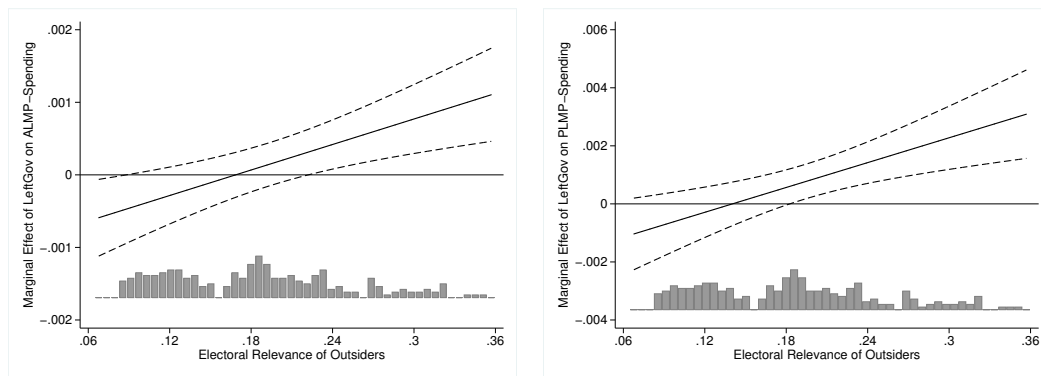
Figure 8.5: Interaction LeftGov with electoral relevance of outsiders on ALMP and PLMP spending with 95%-confidence intervals.
Notes: Results are based on Model 3 and 7 in Table 8.3. Histograms show the distribution of the electoral relevance of outsiders.

As hypothesized, the impact of social democratic governments depends upon the electoral relevance of outsiders. Figure 8.5 visualizes the interaction effect of the two continuous variables by presenting the marginal effects. In both cases, for low values of the outsiders' electoral relevance measure, I find no effect of social democratic governments on the level of active or passive labor market policy spending. When outsiders become sufficiently relevant (at about 0.22 for ALMP and at about 0.18 for PLMP), I do find a positive and significant marginal effect of social democratic government strengths' on active and passive labor market policy spending.

For an outsider value of 0.3 on the electoral relevance measure, I find a positive marginal effect of about 0.001 percentage points for ALMP and 0.002 percentage points for PLMP spending (both measured in % of GDP) for an one-point change in the social democratic government strength. A more realistic 50 or even 100 percentage point change in the strength of social democratic governments, would be associated with a yearly percentage point increase in ALMP spending equal to 0.05 or 0.10 and PLMP spending equal to 0.10 or 0.20. Given that the standard deviation of ALMP and PLMP spending is 0.13 and 0.34, these are substantial changes in labor market policy spending. I can further contextualize the effect by looking at ALMP/PLMP levels of particular countries (see Figure A.25 and A.26 in the Appendix). In the case of Spain, for example, the share of GDP devoted to ALMP is about 0.70. A 50 or 100 percentage point change in Left government would therefore lead to a considerable 7 or 14 percent yearly increase in ALMP spending. In contrast, in a counterfactual Spain with outsiders being only half as relevant in the social democratic support coalition, a similar increase in left government seats would not result in higher ALMP spending.

As a kind of placebo test, I tested in Model 4 and Model 8 the reverse idea. Given that both active and passive labor market policy spending can be seen as a pro-outsider policy, the interaction between the strength of social democratic governments and the electoral relevance of insiders should be either not significant or have a negative effect. The results indicate that the interaction term is not significant for PLMP spending and negative for ALMP spending (but only at the 10 percent significance level). Figure A.23 in the Appendix visualizes the interaction effects and shows that the marginal effect of social democratic governments on ALMP spending is only significant if the electoral relevance of insiders is exceptionally high (0.48 and above).

8.6 Conclusion

This chapter provides two main takeaways. First, I show that the often-made assumption of widespread political apathy among the more vulnerable part of labor does not hold under empirical scrutiny. Especially in Continental and Southern Europe, insiders and outsiders are of comparable electoral relevance. Given the structural developments of the past decades, an ongoing spread of atypical work is highly likely, which will make labor market outsiders even more relevant in the electoral arena.

Second, and more importantly, the described variation in electoral relevance is politically consequential. This is the case with respect to both actual labor market reforms and spending on different kinds of labor market policy. I demonstrate that a higher relative electoral weight of labor market outsiders is consistently related to more frequent pro-outsider labor market reforms and increased spending on ALMP and PLMP whenever left parties have a substantial share in government. From the perspective of electoral relevance, social democratic governments in the 1980s and 1990s have implemented reforms biased against outsiders because insiders were their core electorate. As outsiders, however, become more electorally relevant for social democratic parties over time, I witness a shift in social democratic labor market policy-making away from the pro-insider bias emphasized in the seminal insider/outsider literature towards more inclusive, pro-outsider oriented policies.

Chapter 9

Conclusion

9.1 Discussion of the Main Findings

This thesis has argued that the politics of welfare state change do not follow the same dynamics as during the Golden Age of the welfare state expansion. The main conflict lines in welfare politics are not anymore about expansion versus retrenchment, but about the recalibration of the welfare state along different *orientations* (consumption, investment, regulation) and along *distributive effects* of such policies on old and new social risk groups. Thus, in order to fully grasp the politics of welfare state recalibration we need to conceptualize the dependent variable of welfare state change in a multidimensional way. Chapter 4 therefore has set out to propose a new measure of welfare state change based on coding the actual policy output. Drawing on a sample of nine Continental and Southern European countries from 1990 until 2016, information on all labor market reforms has been gathered and hand-coded. Unlike spending or welfare state entitlement data, the main advantages of this approach are that labor market reforms can be analyzed in a multidimensional way and that its allows to tie policy outputs directly to specific parties in government. The validation exercise gives strong evidence for the credibility of the proposed measure.

In line with the first hypothesis, the findings from Chapter 5 clearly indicate that there is no uniform trend towards welfare state expansion or retrenchment over time or across countries. Once we disaggregate welfare state change into three broader dimensions of consumption, protection, and investment, we see different reform patterns. Overall, Continental European countries have started to invest earlier and more in active labor market policies while broadly maintaining the current levels of employment protection legislation and passive labor market policies. Germany is the only exception in this region where consumption and regulation policies were

strongly decreased in the 1990s and early 2000s. In stark contrast, Southern European countries underwent a drastic deregulation of employment protection since the onset of the Great Recession, but they have also witnessed an increase in active labor market policies, though the trend towards activation started later and never reached the levels of Continental European countries. The exception to the rule is Italy, where most additional resources were devoted to improvements in passive instead of active labor market policies. In addition, the chapter also tested the role of institutional legacies and the economic context. The findings from the TSCS regression analyses have shown that there is little relationship between institutional legacies and reform outcomes, but that the economic context does play a crucial role for consumption and regulation reforms. A higher unemployment rate and lower GDP growth leads is associated with a further deregulation of employment protection legislation and less generous consumption policies. Interestingly, the economic context does not seem to play a role for investment-oriented reforms.

As both policy legacies and the economic context cannot fully account for the broad variation of labor market reforms over time and across countries, Chapter 6 has shifted the focus away from structural explanations towards *agency* and looks at the extent to which government partisanship affects labor market reforms. A detailed country-by-country discussion has shown that similar government compositions do not directly lead to similar labor market reforms. First, center-left governments in Continental Europe have increasingly moved towards investment-oriented labor market reforms. The Dutch PvdA has been a Continental European activation frontrunner in the mid-1990s, followed by the German SPD and the Belgian PS/SP in the early 2000s, whereas the Austrian SPÖ embraced activation relatively late in the mid-2000s. The French PS is the only social democratic party in Continental Europe that was never convinced by the activation paradigm and, as a result, the turn to activation occurred in France under a center-right government. Similar to the Continental European pattern, a shift towards activation in Spain and Italy took place under center-left governments, though to a more limited extent. Partisanship differences on the investment dimension are less visible in Greece and Portugal. Second, partisanship differences become even more complicated on the traditional dimensions of consumption and regulation (together called protection dimension). The shift towards more investment-oriented reforms under center-left governments does not directly translate into a retrenchment of the protection dimension. We still see a strong emphasis of center-left governments on protection-oriented reforms in Austria, Belgium, France, Italy and Portugal, whereas the role of center-left governments is more ambiguous in the Netherlands, Greece and Spain. Unlike all the other social democratic parties studied here, the German SPD had a negative effect

on the protection dimension. These findings show that social democratic parties do not anymore pursue a clear strategy of welfare state expansion, but that the politics of welfare state recalibration are indeed multidimensional and multifaceted. The TSCS regression analyses added further evidence to this claim. There is not clear relationship between government composition and labor market reforms, but there is an interaction between government composition and the economic context. Left governments enact expansive reforms in good economic times while they engage in retrenchment during tough times. For center-right governments it is exactly vice versa.

In order to further explain the broad variation of labor market reforms enacted under social democratic governments, the thesis argues that social democratic parties have changed their reform strategies over time depending on the relative electoral weight of different constituencies within their party. I have argued that two crucial divides run right through the heart of the social democratic coalition: an occupational divide between the working class and the middle class and a social risk divide between labor market insiders and outsiders. In times of austerity, these divides become an issue of conflict pitting different constituencies within the social democratic coalition against each other.

Chapter 3 establishes the micro-level foundations of this argument. In order to tease out citizens' *priority ordering*, unidimensional survey questions are not very telling in times of limited resources and increasing social demands. The results from the split-sample and the conjoint experiments have shown that policy preferences do vary across subgroups. First, the working class prefers social consumption over social investment, while the middle class favors social investment over social consumption. Second, social policy priorities of left- compared to right-wing respondents differ much more with regards to social consumption compared to social investment. Interestingly, voters of the center right and center left are much more in favor of an activation turn compared to voters from either the far right or the far left. Third, labor market outsiders put a much higher priority on passive and active labor market policies compared to all other respondents. Overall, subgroup differences follow strongly a logic of narrow self-interest, where specific policy constituencies react very strongly to trade-offs that affect them directly. These strong reactions of policy constituencies also demonstrate that reforms need to be carefully crafted in order to avoid strong electoral repercussions for governing parties. Retrenchment in the highly popular field of pension and education is electorally dangerous, but trade-offs between different policies are generally contested in all the policy fields. Policy-makers therefore need to think carefully how the could com-

pensate reform losers in order to craft a majority coalition for a reform and to avoid negative electoral consequences.

The last two empirical chapters focused on the role of divisions within the social democratic electorate. Chapter 7 has looked at how the divide between the middle class and the working class shapes the way social democratic governments shape the broader *orientation* of the welfare state along the two dimensions of investment and protection (consumption plus regulation). Unlike traditional measures that study class voting in isolation of changing levels of turnout and group size (e.g. Alford index), my measure of electoral relevance gives a more complete picture on the electoral weight of different constituencies within the social democratic coalition. The measure of electoral relevance shows the profound transformation of social democratic electorates over the last forty years and reveals that the extent to which different occupational classes are relevant for social democratic parties varies greatly over time and across countries. The German SPD and the Dutch PvdA are prime examples of such a radical transformation towards a middle class party. While in the 1970s around 55-60% of vote came from the working class and only about 20% from the middle class, the picture is completely reversed by the mid-2010s with only about 20% of the vote coming from the working class and about 60% from the middle class. We see a similar trend towards a middle class party also for the Austrian SPÖ and the Belgian PS/SP, though the transformation of the latter took more time and was less profound. In stark contrast, the working class has never more electorally relevant than the middle class for the French PS. The electoral relevance of the working class has also declined for the Greek PASOK and the Italian center-left parties, but this decline never matched an equal increase in the electoral relevance of the middle class. Finally, the electoral relevance of the working class and the middle class is overall smaller for the Portuguese PS and the Spanish PSOE.

The changing nature of electoral relevance is also consequential for the types of labor market reforms enacted under social democratic governments. As long as the electoral relevance of the working class is relatively high, social democratic governments are more likely to implement protection-oriented labor market reforms. Once the electoral weight of the working class starts to decline, social democratic governments become even less likely to implement such reforms. Interestingly, I also found that in countries where employers are electorally relevant for social democratic parties, they are less likely to implement protection-oriented reforms. The evidence regarding the electoral relevance of the middle class is less conclusive. The findings show that as long as the middle class is electorally irrelevant, social democratic governments are negatively associated with investment-oriented reforms. To what

extent a growing electoral relevance of the middle class leads to more investment-oriented reforms, however, remains unclear. The findings indicate that the negative effect of social democratic governments on investment-oriented reforms vanished and perhaps even becomes positive. It is possible that this inconclusive finding is due to the fact that the middle class and the working class differ less in their preferences towards active labor market policies than towards passive labor market policies or because of the clear distributive effects of active labor market policies.

The last Chapter 8 has therefore turned to the question how the social risk divide between labor market insiders and labor market outsiders influences the *distributive effects* of labor market reforms enacted under social democratic governments. Building on the same measure of electoral relevance, the findings first show that the electoral relevance of outsiders relative to insiders has been underestimated in the literature. The often-made assumption of widespread political apathy among labor market outsiders does not hold under empirical scrutiny. The is a remarkable variation of the electoral relevance of insiders and outsiders over time and across countries highlights the different significance of the social democratic dilemma across Europe. Especially in Continental and Southern Europe, insiders and outsiders are already of comparable electoral relevance and most likely to become even more relevant as long as the spread of atypical work continues. The increasing electoral relevance of labor market outsiders also affects labor market reforms enacted under social democratic governments. While the literature on the insider-bias of social democracy has focused mainly on labor market reforms in the 1980s and 1990s, this thesis has studied social democratic labor market reforms in more recent years. The findings clearly demonstrate that as outsiders become more electorally relevant, social democratic governments have shifted towards more inclusive, pro-outsider oriented policies.

In sum, this thesis claims that the dynamics behind the politics of welfare state recalibration in Continental and Southern Europe are different from those during the Golden Age of the post-war years. While the latter has been characterized by relatively clear positions of political parties with stable core constituencies in the context of industrialization and economic growth, ongoing structural processes since the 1970s have profoundly altered the economic, social, and political structure within which welfare state reforms occur. Post-industrialization, occupational change and the emergence of new social risks have considerably complicated partisan politics of the welfare state. Social democratic parties do not anymore pursue a clear strategy of welfare state expansion. Instead, they have changed their reform strategies over time depending on the relative electoral weight of different constituencies within their party.

9.2   Main Contributions

This thesis contributes to the literature in at least four ways. First of all, this thesis contributes to a growing literature on the changing social democratic electorate in post-industrial societies (Best, 2011; Karreth et al., 2013; Gingrich and Häusermann, 2015; Abou-Chadi and Wagner, 2018). It does not only add further evidence on the relevance of intra-party heterogeneity for social democratic policy-making, but the results also show a remarkable responsiveness of parties to their voters' demands, even when studying the issue within political blocks. While policy-makers do not blindly follow the mood of their supporters and certainly retain some room for strategic maneuver, I demonstrate that labor market reforms are systematically related to the relative electoral weight of different groups within their support coalition. In contrast to much of the existing work, I do not study what parties *promise* in their manifestos but what they really *do* in terms of policy output. This finding ties in with the idea that parties anticipate and deliver what their pivotal voter wants in order to maximize votes and increase chances for re-election (Stimson et al., 1995). This is not a trivial result, in particular in times when mainstream parties' ability and willingness to respond to "the ordinary voter" is increasingly challenged, not least by populist parties from various ideological backgrounds.

Second, the electoral relevance approach I proposed in the last two chapters has a more general takeaway for research on responsiveness in post-industrial societies, which are characterized by increasingly heterogeneous electorates. Existing studies often examine preferences of specific constituencies without taking into account differences in size and, thus, electoral relevance. To get a more encompassing understanding of political decision-making and responsiveness, research needs to move beyond focusing solely on particular subgroups' preferences but also incorporate their specific electoral weight. A notable recent example is Evans and Tilley's (2017) analysis of long-term changes in class voting in Britain, which explicitly takes into account the varying size of different societal strata over time. More importantly, the results of this thesis have important implications for political science research beyond the specific case of social democratic policy-making. I highlight the role of distinct voter segments' relative electoral relevance for parties aiming at dynamically representing decisive parts of their electorate, emphasizing that the underlying logic equally applies to any other situation where a party is confronted with competing demands from its core constituencies. Importantly, such situations of increasingly heterogeneous electorates are a core characteristic of post-industrial societies and have become much more prevalent due to the erosion of traditional class voting (Oesch, 2006; Evans and Tilley, 2017; Oesch and Rennwald, 2018). I make

a strong case for the argument that accounting for the relative political significance of different constituencies considerably adds to a more complete and encompassing understanding of policy-making in times of increasing electoral volatility.

Third, the thesis contributes to the literature on social investment and labor markret dualization. I have proposed a new way to measure welfare state change based on coding the actual policy output. It allows to better capture the multidimensional nature of welfare state change. The proposed measure does not only shed light on 26 years of multidimensional labor market reforms in nine Continental and Southern European countries, but it also ties these reforms directly to the specific government in power and therefore allows to assess the actual *politics* of welfare state recalibration more accurately than previous accounts. In addition, this policy-based approach is also highly flexible where researchers can define their social groups of interests or specific policy subdimensions and code welfare state reforms in line with their theoretical conceptualization.

Fourth, this thesis also contributes to the literature on policy preferences and more specifically to the growing discussion on policy trade-offs and policy priorities in multidimensional settings. There is an increasing awareness in the field of comparative political economy that standard, unidimensional preference questions in big cross-country surveys (European Social Survey, International Social Survey Program, Eurobarometer) fail to capture the relevant questions policy-makers nowadays face. It is undisputed that most citizens would generally prefer more government spending on virtually all social policy fields, however, it tells us little about their *priority ordering* if they face strong trade-offs. As this thesis has shown, many reforms are not per se expansive but change the distributive design of welfare state, thereby creating winners and losers. In times of limited resources, these trade-offs become more and more important and so does the question about citzens' *priority ordering.* I have therefore put forward the argument that recent advances in survey experimental design can help teasing out these multidimensional preferences and priorities.

9.3   Avenues for Future Research

The findings of this thesis do also lead to multiple avenues for future research. First of all, the political mobilization of particular subgroups of the electorate partly depends on parties' programmatic offers and what they offer in turn hinges on the relative electoral relevance of each group. Iteratively assessing how strongly an increase in electoral relevance affects party programs and what such a programmatic

move means for the political mobilization among the targeted groups is at the heart
of political science. Ideally one would combine supply- and demand-side in a more
dynamic framework. However, the apparent endogeneity issues pose thorny em-
pirical questions. I believe that acknowledging the importance of both supply- and
demand-side and assessing them separately is a first (but not the last) step towards a
more encompassing understanding of both party strategies and citizen's political de-
cisions. Studies concerned with the moderating impact of social democratic (or any
other party's) policy decisions on the share and prevalence of occupational classes
and atypical employment might incorporate the findings of this thesis to arrive at a
more encompassing picture of feedback effects and policy-making in post-industrial
societies. In addition, policy decision of governments do not only affect future group
sizes but also influence future voting behavior of occupational classes and social risk
groups (e.g. insiders and outsiders). It would therefore be fruitful to further use the
multidimensional labor market reform data as an explanatory variable in order to
assess the electoral consequences of reforms and how it affects the support structure
of different occupational classes and social risk groups.

Second, social democratic parties are not the only ones who have to represent
a multitude of interests within their coalition. The proposed measure of electoral
relevance of different constituencies is broadly applicable and should be relevant
also for other parties and other policy-related questions. For example, most of the
research indicates that populist radical right parties hold together a coalition of
production workers and small business owners with different political preferences.
It would therefore be interesting to apply the measure of electoral relevance also to
those parties and study how it affects both their programmatic positions as well as
their voting behavior on a variety of policy issues.

Third, the supply-side effects of parties programmatic campaigns could also be
further integrated into the framework. Initially, this has been planed also for this
thesis, but limited data availability has made this impossible. There is data from the
Manifesto project on party programs or data from the POLCON project on electoral
campaigns. Unfortunately, both of these datasets mainly allow for a broad concep-
tualization of welfare state expansion and welfare state retrenchment. They do not
allow to clearly distinguish the relevant dimensions of welfare state change analyzed
in this thesis and could therefore not be used. However, the recent methodological
advances in quantitative text analysis could make such an endeavor possible in the
future.

Fourth, the proposed measure of policy outputs could be a fruitful way to analyze
welfare state change not only for a broader set of countries and over a longer period

of time, but also for more subfields of the welfare state. With an exclusive focus on labor market reforms, this thesis could only give an incomplete picture of welfare state recalibration. An initial step towards such an extension has already been made and I have gathered information on all family policy reforms in Continental and Southern Europe from 1990 until 2016. Both due to time and space constraints, this data could not be integrated into this dissertation as it would have deserved an in-depth qualitative assessment and a thorough integration of the links between labor market reforms and family policy reforms. In addition, a possible way to further improve the policy measure is to make the weighting more fine-grained. This could be done by enhancing the weighting of reforms depending on the possible costs of the policy changes. However, this requires not only detailed information on public budgeting but also raises the question how to weight reforms that do not have a direct impact on the public budget such as employment protection legislation.

Finally, the survey experiments on policy preferences could only give a broad overview on individual level preferences across several big subfields of the welfare state in four countries. An obvious starting point for future research relates to the thorny issue of external validity. Ideally, one would need to further extend and replicate the analysis for more countries. In order to remedy concerns that the findings are driven by the economic crisis, one would need to replicate the study also at another point in time. In addition, the conjoint experiment could only look at trade-offs across policy fields in an arguably simplified way by pitting broad social policies against each other. It would be pertinent to further zoom-in in each of these policy fields and assess to what extent distributive changes *within* one policy field affects support for a reform and to what extent this differs across countries and different electoral constituencies.

Appendix A

Appendix

A.1   Appendix Chapter 1

Figure A.1: Party Systems in Continental and Southern Europe, 1990-2016

Continental

	RADICAL LEFT		CENTER-LEFT		CENTER-RIGHT		RADICAL RIGHT	
	Communists	Socialists	Social Democrat	Greens	Chr. Dem./Cons.	Liberals	Populist Right	Extreme Right
Austria			SPÖ	Grüne Alternative	ÖVP	LIF, NEOS, TS	FPÖ, BZÖ	
Belgium			SP /SP.a, PS	Ecolo, Agalev/Greens	CD&V, PSC/CDH	PVV/VLD, MR	Flemish Interest / Block	
France	Communist Party		PS	Les Verts	RPR/UMP, UDF		Front National	
Germany	PDS / Die Linke		SPD	B90/Die Grünen	CDU/CSU	FDP		
Netherlands		-2002: NO / 2002-: Socialist P.	PvdA, DS70	Green Left	CDA	VVD, D66	Pre-2002: NO / 2002-: LPF/PVV	

Southern

	RADICAL LEFT		CENTER-LEFT		CENTER-RIGHT		RADICAL RIGHT	
	Communists	Socialists	Social Democrat	Greens	Chr. Dem./Cons.	Liberals	Populist Right	Extreme Right
Greece	SYN, KKE	-2009: NO / 2009: SYRIZA	PASOK		ND		Pre-2004: NO / 2004-: Laos, Anel	Pre-2012: NO / 2012-: XA
Italy	-1992: PCI / 1992-2008: RC / 2008-: NO		-1994: PSI / 1994-2001: NO / 2001-: PSDI, PD		DC, FI/PDL	PRI, RC, Di Pietro, SC	Lega Nord	-2009: MSI / AN / 2009-: NO
Portugal	PCP-PEV	-2005: NO / 2005-: BE	PS		CDS-PP	PSD		
Spain	PCE/PSUC/IU	-2015: NO / 2015-: Podemos	PSOE		PP	-2015: NO / 2015-: C's		

A.2   Appendix Chapter 2

Figure A.2: Employment in agriculture, industry and services, 1960-2013.
Note: Own calculations based on Armingeon et al. (2018).

A.3 Appendix Chapter 3

Instructions for the Conjoint Experiment

The full instructions for the conjoint tasks are shown below. First, respondents will be presented the following introduction to the experiment:

Please take your time and read the information below very carefully. It contains the instructions for the next part of the survey.

Every year the [COUNTRY] government spends money in a variety of different areas. We are interested in how you would like the government to change its spending pattern.

We will now show you several proposals for possible changes to government spending in different areas. We will always show you two possible proposals in comparison. For each comparison we would like to know which of the two proposals you prefer. You may like both proposals or neither. In any, case please chose the proposal that you like the most. In total, we will show you five comparisons.

The possible proposals only include changes with regard to a few selected types of government spending. Please assume that spending in all other areas is held constant. Please also assume that taxation and the level of government debt are held constant.

People have different opinions about this issue and there are no right or wrong answers. Please always take your time when reading the proposals.

This introduction will be followed by a screen presenting two reform proposals, as shown in Figure A.3. In this way, respondents are asked five times to choose (i) between two packages (choice variable) and (ii) to indicate how likely they are to support each of the proposals (ranking variable).

Figure A.3: Screenshot of a Conjoint Task Presented to Respondents

Please carefully review the options detailed below, then please answer the questions.

Which of these proposals do you prefer?

	Proposal 1	**Proposal 2**
Child benefits	Decrease spending	No change
Old-age pensions	No change	Decrease spending
Education	No change	Increase spending
Training for the unemployed	Increase spending	No change
Unemployment benefits	Increase spending	Decrease spending
Childcare services	Decrease spending	Increase spending

Proposal 1

Proposal 2

How would you rate proposal 1 on a scale from 0 to 10, where 0 indicates that the government should definitely not adopt the proposal and 10 indicates that the government should definitely adopt it?

0 - Definitely not adopt	1	2	3	4	5	6	7	8	9	10 - Definitely adopt

How would you rate proposal 2?

0 - Definitely not adopt	1	2	3	4	5	6	7	8	9	10 - Definitely adopt

Mean Plots

Figure A.4: Mean support for spending increases with and without trade-offs, by country
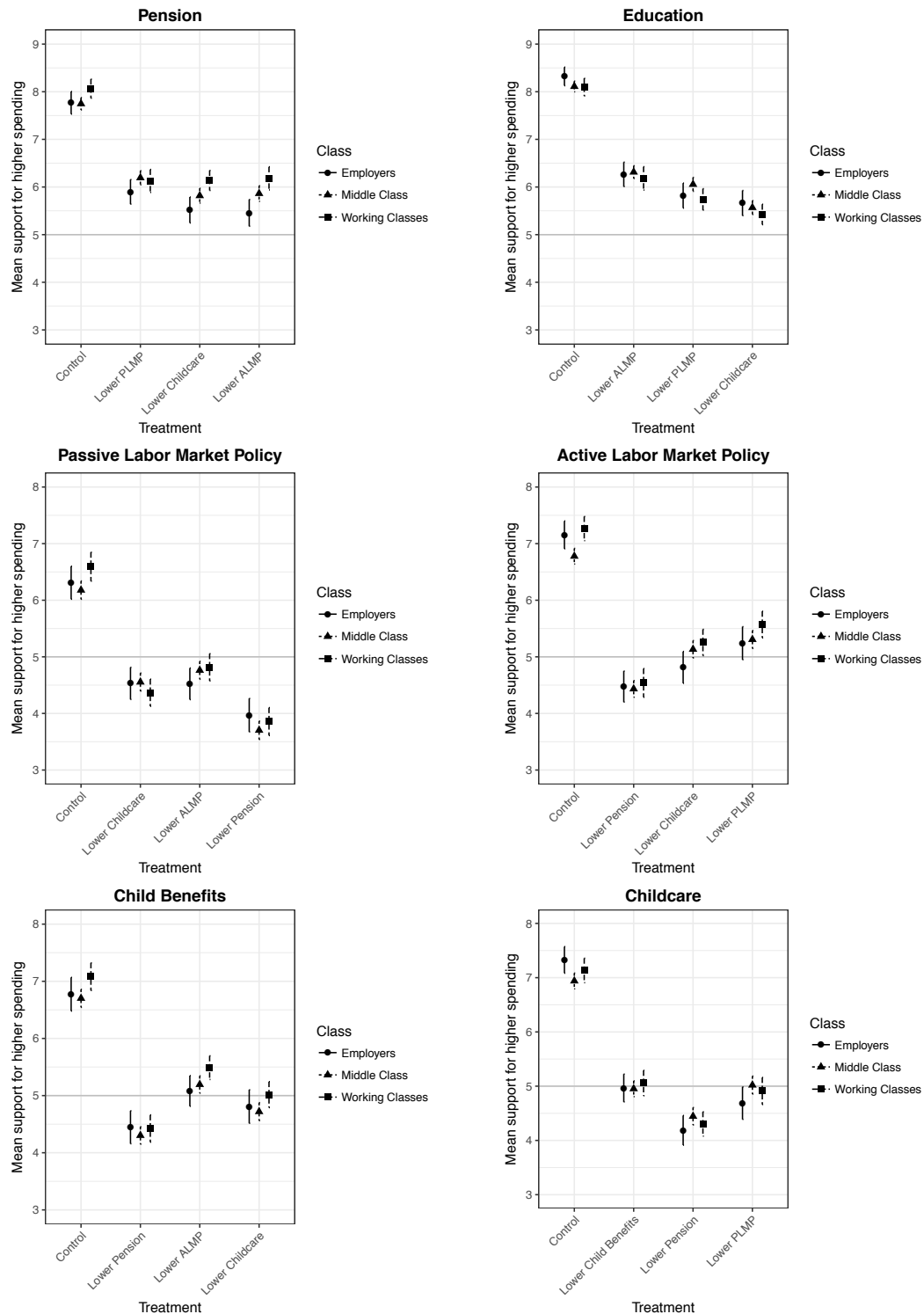
Figure A.5: Mean support for spending increases with and without trade-offs, by country

Robustness tests for the conjoint survey experiment
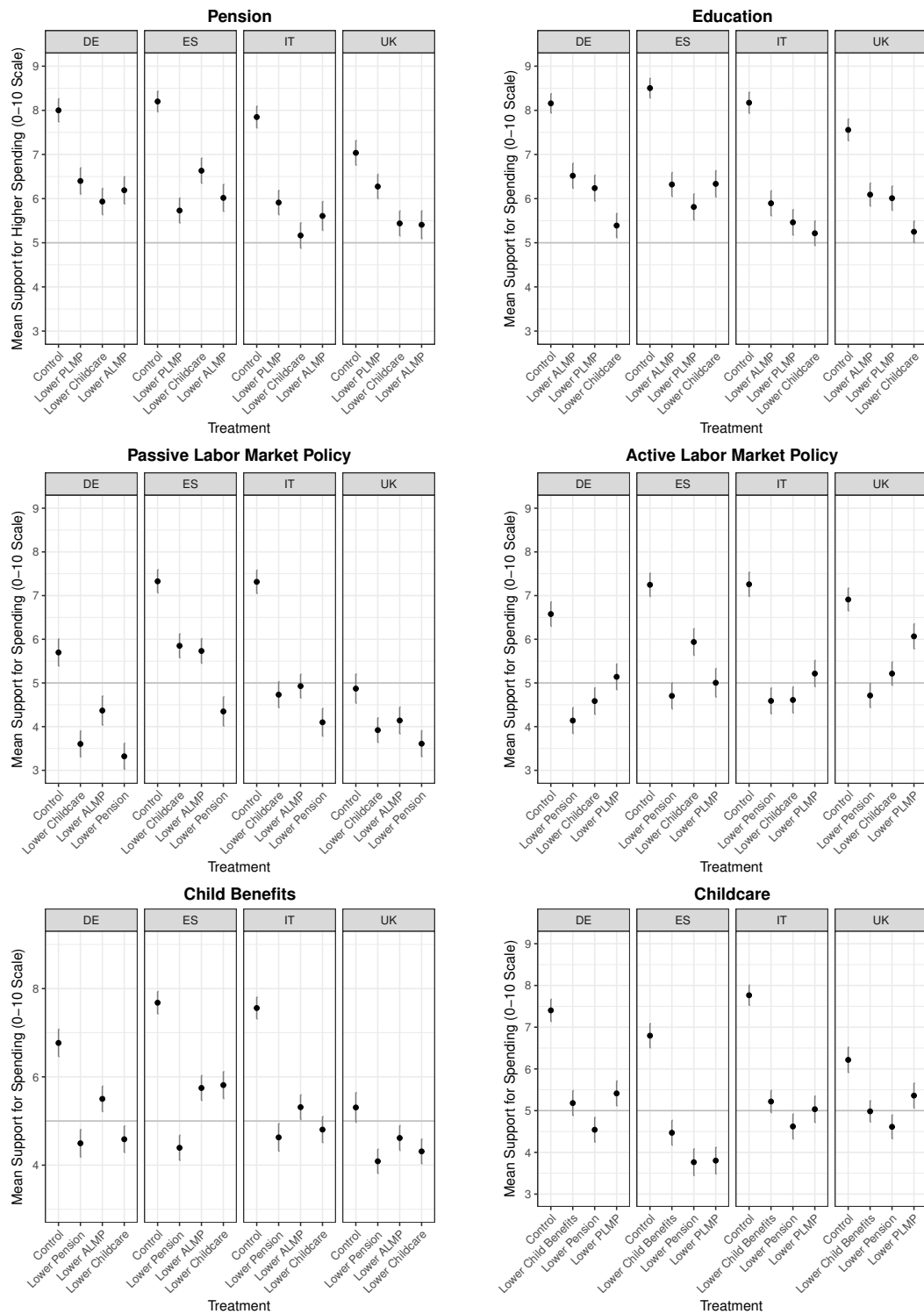
I have used a series of tests to check whether the results are robust. They were designed to check that the common assumptions involved in conjoint analysis are satisfied and to probe potential concerns about the validity of the results.

On the one hand, I conducted the diagnostic tests suggested by Hainmueller et al. (2014). First, conjoint analyses relies on the assumption that there are no carryover effects between the different rounds of conjoint tasks. To test whether this assumption holds, I estimated AMCEs separately for each of the five rounds of conjoint tasks. Second, I checked whether there are profile order effects, i.e. whether the AMCEs depend on whether the attribute occurs in the first or second profile in a given task. To this end, I estimated AMCEs separately for all the observations where attribute levels occurred in the first and the second profile respectively. Third, I checked whether there are attribute-order effects, i.e. whether the AMCE of an attribute depends on the order in which it appears in the conjoint table. I estimated row-specific AMCEs, testing whether the estimates are significantly different from each other. Fourth, the analysis depends on the fact that profiles are randomly created. Although the design guarantees that this assumption holds, I still checked whether the randomization actually produced experimental groups that are well balanced in our sample. Therefore, I compared the profiles rated by different groups of respondents in the sample and conducted multivariate balance checks by regressing the characteristics of respondents on indicator variables for all profile attributes used in our design. Finally, note that I already addressed the concern about atypical profiles raised by Hainmueller et al. (2014) in the research design. Specifically, I included a large number of restrictions to prevent profiles that are unrealistic and would not occur in the real world.

One the other hand, I also used further robustness tests, which are important due to the design of the survey. First, I checked whether respondents lost concentration throughout the survey by estimating all results based on the first two (out of five) conjoint comparisons only. Moreover, I included round or task fixed effects to take account of the fact that respondents might make different choices in later stages of the conjoint experiment, for example due to fatigue or lack of concentration. Second, I assessed the relative time that respondents took to complete the conjoint tasks and I excluded those respondents that speed through the conjoint tasks, comparing the results with the overall sample. Third, the conjoint survey experiment described above was embedded in a survey, which included two different set of conjoint tasks. The order in which these conjoint experiments occurs in the survey was randomized. Still, I checked whether respondents are influenced in their

evaluations of the conjoint profiles if they have already completed a different set of conjoint tasks beforehand. For this purpose, I split the sample and analyzed the results separately depending on whether the conjoint experiment occurred before or after the other conjoint experiment in the survey. Fourth, there is also a possibility that the screen size might affect the way respondents evaluate the conjoint tasks. I therefore also separately analyzed responses from mobile versus non-mobile respondents and checked to what extent they differ. Finally, I also repeat the analysis without the weights created with entropy balancing to check whether the results are dependent on the weights. All of these robustness checks yielded very similar results to the ones shown here and do not change the substantive findings of this chapter.

A.4   Appendix Chapter 4

Table A.1: Three Stages in the Process of Data Collection and Verification

SOURCE	DESCRIPTION	LINK
First Step: Gathering Primary Data on National Legislation		
ILO Natlex	Full text or abstracts of national legislation	https://www.ilo.org/dyn/natlex/natlex4.home
ILO EPLex	Information on employment protection legislation	https://www.ilo.org/dyn/eplex/termmain.home?p_lang=en
ILO Travail	Regulatory environment of working time, minimum wages and protection	https://www.ilo.org/dyn/travail/travmain.home
EU-MISSOC	Information about national social protection systems	https://ec.europa.eu/social/main.jsp?catId=815&langId=en
EUR-Lex	General European and national law databse	https://eur-lex.europa.eu/homepage.html?locale=en
Austria	Staats- und Bundesgesetzblatt	https://www.ris.bka.gv.at/Bund/
Belgium	Belgisch Staatsblad / Moniteur Belge	http://www.ejustice.just.fgov.be/cgi/welcome.pl
France	Journal Officiel de la République Française	https://www.legifrance.gouv.fr/initRechJO.do
Germany	Bundesgesetzblatt	https://www.bgbl.de
Greece	Εφημερίς της Κυβερνήσεως, Efimeris tis Kyverniseos (government gazette))	https://www.e-nomothesia.gr/table-nomoi.html
Italy	Gazzetta Ufficiale	https://www.gazzettaufficiale.it/
Netherlands	Staatsblad	https://www.officielebekendmakingen.nl/staatsblad
Portugal	Diário da República	https://dre.pt/
Spain	Boletín Oficial del Estado	https://www.boe.es/
Second Step: Compare With Two Established Databases		
LABREF Database	Enacted labor market legislation in EU countries, 2000-2016	https://webgate.ec.europa.eu/labref/public/
FRDB Social Reforms Database	Fondazione Rodolfo DeBenedetti: Qualitative database of relevant labor market reforms in European countries (1980-2007)	http://www.frdb.org/page/data/categoria/international-data

Third Step: Double Checking With Secondary Literature
Double checking collected data with the country-specific secondary literature (see Table A.2 for details.)

Note: All links provided in this table were checked the last time on March 4, 2019.

Table A.2: Sources for the Third Step of Data Collection (Double Checking)

Country	Secondary Literature on Reforms
Austria	Seeleib-Kaiser (2008); Obinger et al. (2010); Afonso (2013); Bösch and Bundesministerium für Arbeit (2013); Lang et al. (2013); Agostini et al. (2016); Rathgeb (2018); Fill (2019)
Belgium	Cantillon et al. (2006); Clauwaert and Schömann (2012); Clegg (2012); Lang et al. (2013); Popelier and Cantillon (2013); van Kersbergen (1995); Clegg (2007); Hemerijck and Marx (2010)
France	Hancké (2001); Amable (2003); Palier (2010); Bentolila et al. (2012); Clauwaert and Schömann (2012); Clegg (2012); Bonoli (2013); Lang et al. (2013); Emmenegger (2014); Hassenteufel and Palier (2016); Leruth (2017)
Germany	Leibfried and Obinger (2003); Streeck and Hassel (2003); Manow (2004); Kemmerling and Bruttel (2006); Weishaupt (2010); Eichhorst and Marx (2011); Fleckenstein (2012); Bonoli (2013); Lang et al. (2013); Emmenegger (2014); Heuer and Mau (2017); Schwander and Manow (2017); Seeleib-Kaiser (2017)
Greece	Rhodes (1997); Sotiropoulos (2004); Ferrera (2005); Matsaganis (2005, 2011); Petmesidou and Guillén (2014); Theodoropoulou (2014); Featherstone and Papadimitriou (2015); Moreira et al. (2015); Petmesidou and Glatzer (2015); Theodoropoulou (2016); Petmesidou (2017); Perez and Matsaganis (2018)
Italy	Rhodes (1997); Ferrera and Gualmini (2004); Ferrera (2005); Barbieri and Scherer (2009); Amable et al. (2011); Ferrera et al. (2012); Rangone and Solari (2012); Bonoli (2013); Culpepper (2014); Emmenegger (2014); Moreira et al. (2015); Pavolini et al. (2015); Sacchi and Vesan (2015); Kazepov and Ranci (2017); Guillén and Pavolini (2017); Picot and Tassinari (2017); Sacchi (2018)
Netherlands	van Kersbergen (1995, 2009); Hemerijck and Marx (2010); Bonoli (2013); Lang et al. (2013); Emmenegger (2014); Spies and van de Vrie (2014); Soentken et al. (2017)
Portugal	Rhodes (1997); Ferrera (2005); Ferreira (2008); Rodrigues and Reis (2012); Moury and Freire (2013); Stoleroff (2013); Moreira et al. (2014); Balbona and Begega (2015); Moreira et al. (2015); Watson (2015); Theodoropoulou (2016)
Spain	Rhodes (1997); Ferrera (2005); Cabrero (2011); León (2011); Salido (2011); Bentolila et al. (2012); Theodoropoulou (2014); Moreira et al. (2015); Pavolini et al. (2015); Watson (2015); Guillén and Pavolini (2017); Picot and Tassinari (2017)

A.5   Appendix Chapter 5

Table A.3: Number of Policy Changes by Activation Type and Country

	Type of Activation				
	Upskilling	Employment Incentives	Occupation	Incentive Reinforce-ment	Total
Austria	17	12	4	3	36
	47.2%	33.3%	11.1%	8.3%	100%
Belgium	8	43	2	6	59
	13.6%	72.9%	3.4%	10.2%	100%
France	6	26	14	4	50
	12.0%	52.0%	28.0%	8.0%	100%
Germany	8	33	3	11	55
	14.6%	60.0%	5.5%	20.0%	100%
Greece	4	23	15	0	42
	9.5%	54.8%	35.7%	0.0%	100%
Italy	3	15	11	11	40
	7.5%	37.5%	27.5%	27.5%	100%
Netherlands	6	34	0	7	47
	12.8%	72.3%	0.0%	14.9%	100%
Portugal	13	22	13	7	55
	23.6%	40.0%	23.6%	12.7%	100%
Spain	11	15	11	6	43
	25.6%	34.9%	25.6%	13.9%	100%
Total	76	223	73	55	427
	17.8%	52.2%	17.1%	12.9%	100%

Note: Absolute number of policy changes and relative row percentages.

Figure A.6: Cumulative Direction of Consumption, Regulation, and Investment Reforms, 1990-2016.
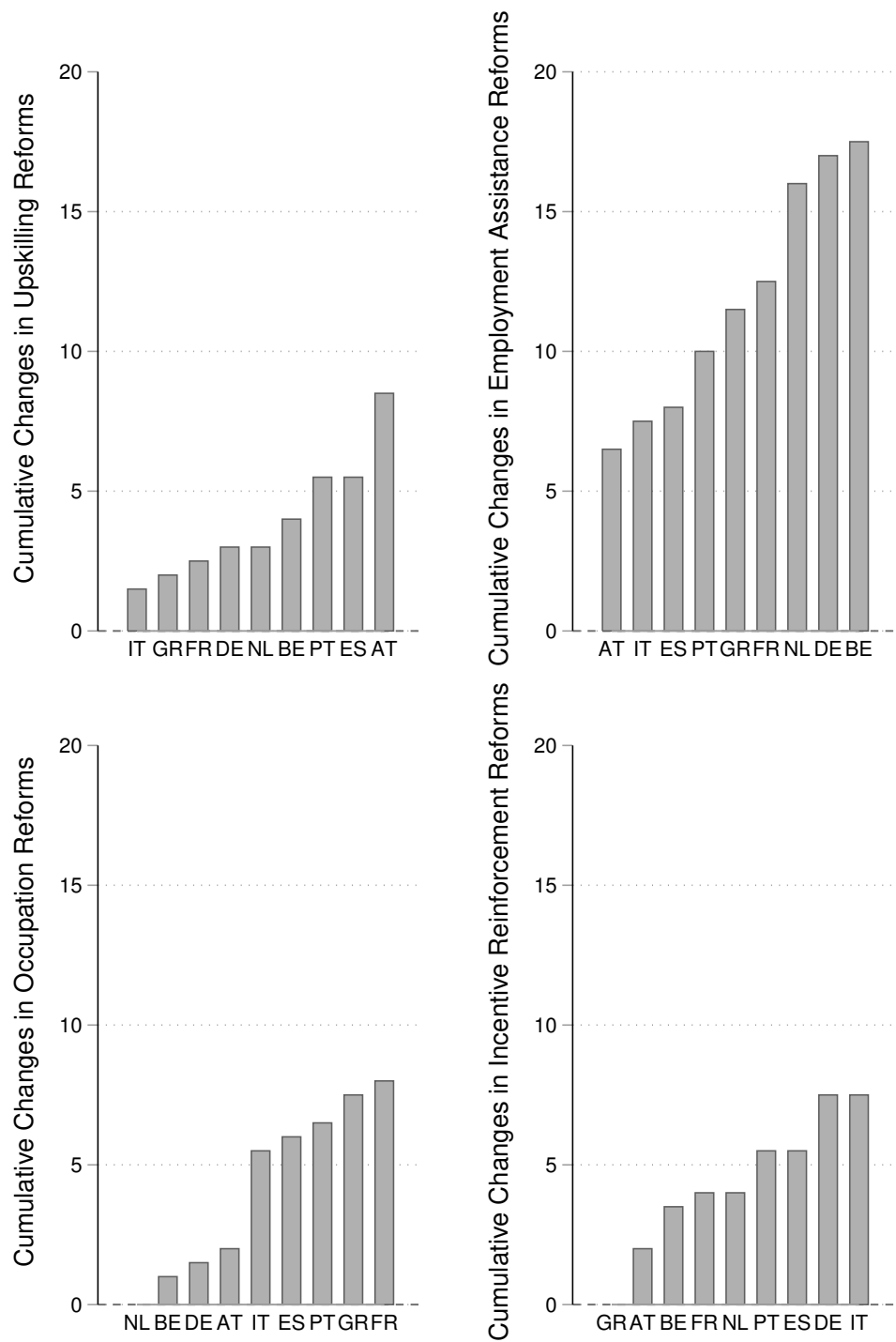
Figure A.7: Cumulative Direction of Activation Reforms by Type and by Country
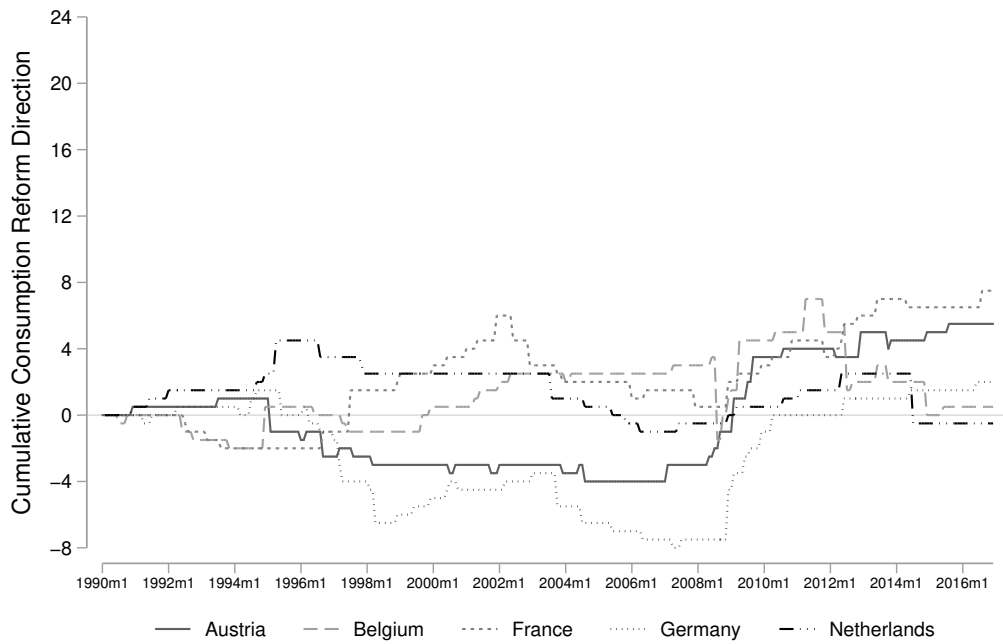
(a) Continental Europe
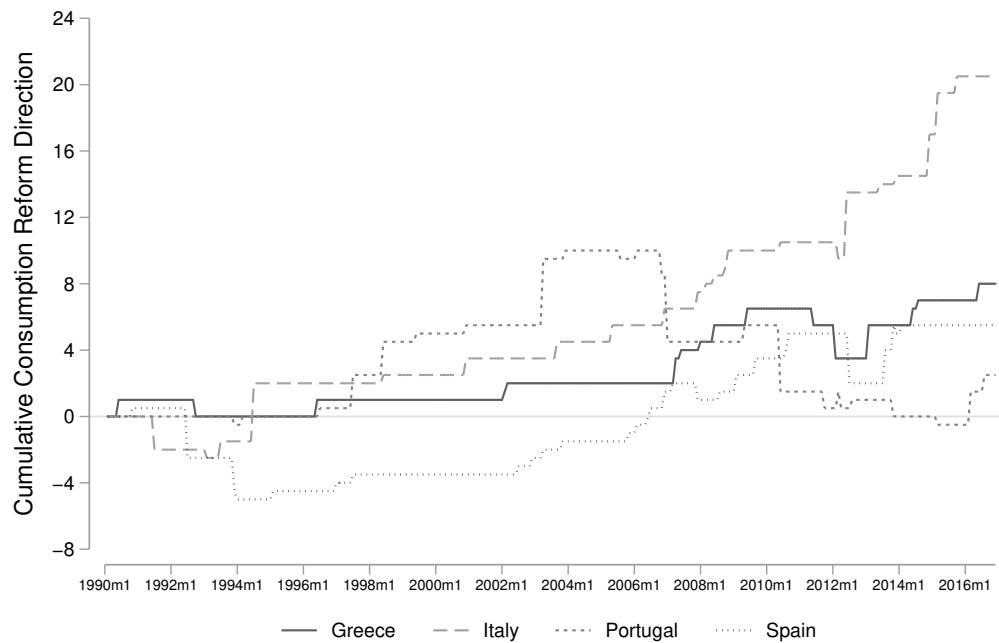
(b) Southern Europe

Figure A.8: Cumulative Direction of all Consumption Reforms, 1990-2016.
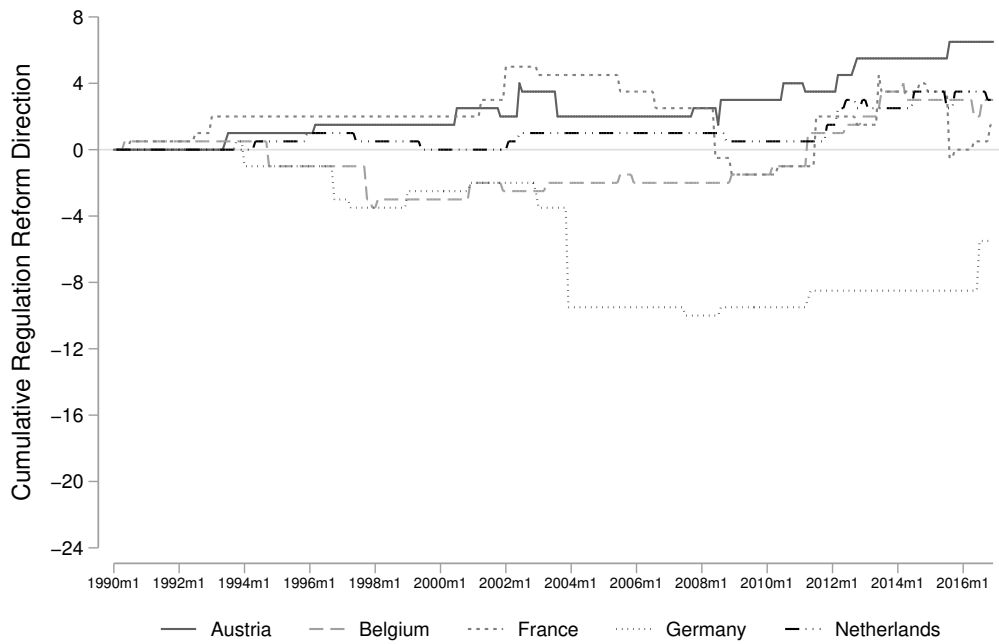
(a) Continental Europe
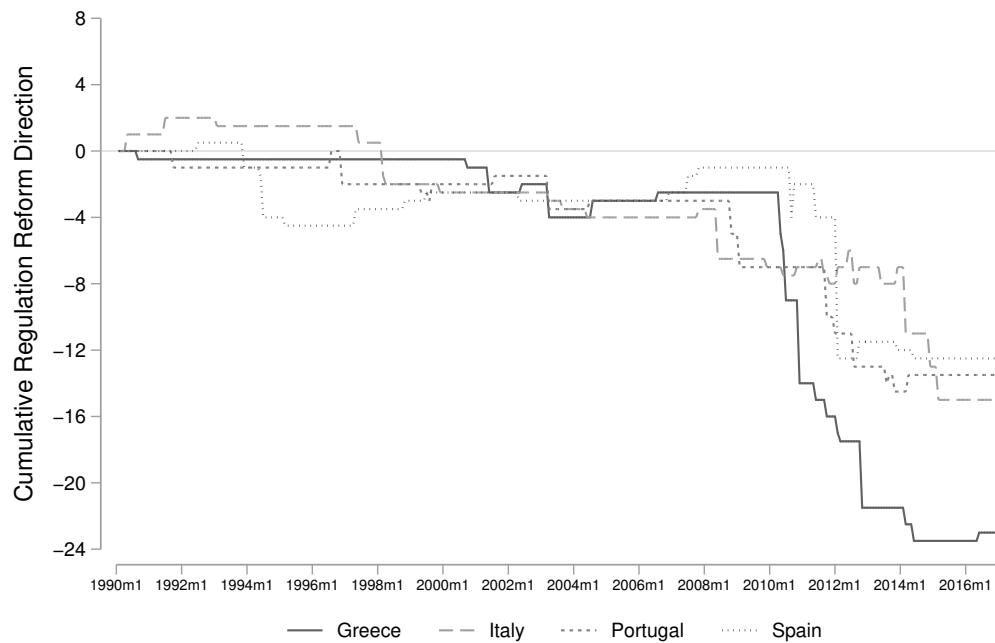
(b) Southern Europe

Figure A.9: Cumulative Direction of all Regulation Reforms, 1990-2016.
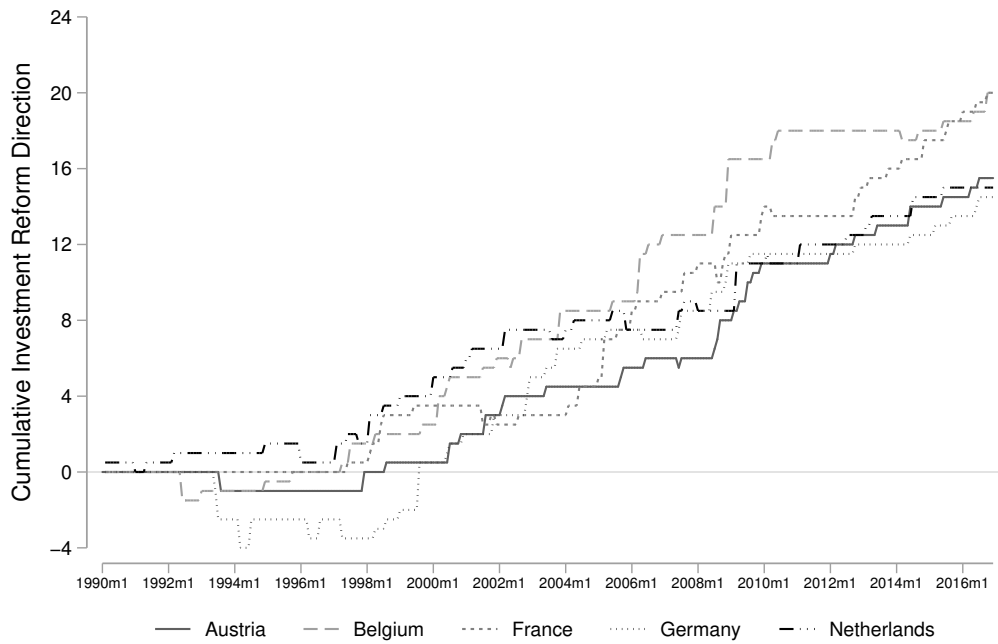
(a) Continental Europe
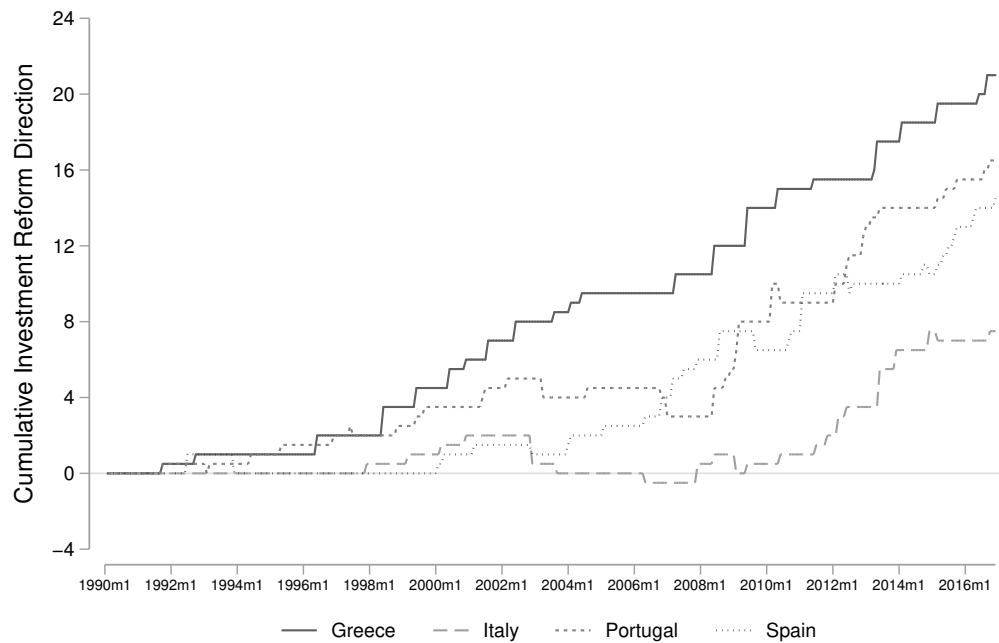
(b) Southern Europe

Figure A.10: Cumulative Direction of all Investment Reforms, 1990-2016.

Table A.4: Institutional Legacies, Economic Context and Activation Reforms

	Upskilling	EmpAss.	Occupation	IncentRein.
Consumption Spending	0.017	-0.009	0.051**	-0.006
	(0.01)	(0.03)	(0.02)	(0.01)
Unemployment Rate	-0.016*	0.023	-0.021+	0.007
	(0.01)	(0.02)	(0.01)	(0.01)
Real GDP-Growth	-0.038	0.001	-0.004	-0.023
	(0.02)	(0.01)	(0.01)	(0.01)
L.Upskilling	0.130			
	(0.07)			
L.EmploymentAssistance		0.115		
		(0.09)		
L.Occupation			0.015	
			(0.09)	
L.IncentiveReinforcement				-0.051
				(0.08)
Constant	0.109	0.282	-0.811*	0.199
	(0.23)	(0.43)	(0.26)	(0.15)
Country Fixed Effects	✓	✓	✓	✓
R^2	0.147	0.073	0.198	0.075
AIC	138.594	470.737	87.096	206.616
BIC	152.566	484.709	101.069	220.588
N	243	243	243	243

Notes: OLS-regression with lagged DV, country fixed effects and country-clustered SEs.
Standard errors in parentheses: $^+$ $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.

A.6 Appendix Chapter 6

Table A.5: Cabinets in Austria, 1990-2016

Election	Cabinet	Start	End	Days	CT	PM	Party1	Party2	Party3	Seats	Type
23/11/86	Vranitzky II	21/01/87	16/12/90	1426	0	SPÖ	SPÖ (43.7)	ÖVP (42.1)		157/183	MW
07/10/90	Vranitzky III	17/12/90	28/11/94	1443	0	SPÖ	SPÖ (43.7)	ÖVP (32.8)		140/183	MW
09/10/94	Vranitzky IV	29/11/94	11/03/96	469	0	SPÖ	SPÖ (35.5)	ÖVP (28.4)		117/183	MW
17/12/95	Vranitzky V	12/03/96	27/01/97	322	0	SPÖ	SPÖ (38.8)	ÖVP (28.4)		123/183	MW
17/12/95	Klima I	28/01/97	03/02/00	1102	0	SPÖ	SPÖ (38.8)	ÖVP (28.4)		123/183	MW
03/10/99	Schüssel I	04/02/00	27/02/00	1120	0	ÖVP	ÖVP (28.4)	FPÖ (28.4)		104/183	MW
21/11/02	Schüssel II	28/02/03	10/01/07	1413	0	ÖVP	ÖVP (43.2)	FPÖ (9.8)		97/183	MW
01/10/06	Gusenbauer I	11/01/07	01/12/08	691	0	SPÖ	SPÖ (37.2)	ÖVP (36.1)		134/183	MW
28/09/08	Faymann I	02/12/08	15/12/13	1840	0	SPÖ	SPÖ (31.1)	ÖVP (27.9)		108/183	MW
29/09/13	Faymann II	16/12/13	16/05/16	883	0	SPÖ	SPÖ (28.4)	ÖVP (25.7)		99/183	MW
29/09/13	Kern I	17/05/16		229	0	SPÖ	SPÖ (28.4)	ÖVP (25.7)		99/183	MW

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).

Notes: Value in brackets is the respective seat share of the party in parliament.

Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MG = majority government; MW = minimum winning; MiG = minority government.

Table A.6: Cabinets in Belgium, 1990-2016

Election	Cabinet	Start	End	Days	CT	PM	Party1	Party2	Party3	Party4	Party5	Seats	Type
13/12/87	Martens VIII	09/06/88	02/10/91	1211	0	CVP	CVP (20)	PS (19)	SP.a (15)	PSC (9)	VU (7)	150/212	SPM
13/12/87	Martens IX	03/10/91	12/03/92	162	0	CVP	CVP (20)	PS (19)	SP.a (15)	PSC (9)	VU (7)	120/212	MW
24/11/91	Dehaene I	13/03/92	22/06/95	1197	0	CVP	CVP (18)	PS (17)	SP.a (13)	PSC (9)		120/212	MW
21/05/95	Dehaene II	23/06/95	12/07/99	1481	0	CVP	CVP (19)	PS (14)	SP.a (13)	PSC (8)		82/150	MW
13/06/99	Verhofstadt I	13/07/99	11/07/03	1460	0	VLD	VLD (15)	PS (13)	PRL (12)	SP.A (9)	Ec/Ag (13)	94/150	SPM
18/05/03	Verhofstadt II	12/07/03	19/03/08	1623	0	VLD	VLD (17)	PS (17)	MR (16)	SP.a (15)		97/150	MW
10/06/07	Leterme I	20/03/08	29/12/08	285	0	CD&V	CD&V (20)	MR (15)	PS (13)	VLD (12)	CDH (7)	101/150	SPM
10/06/07	Van Rompuy	30/12/08	24/11/09	330	0	CD&V	CD&V (20)	MR (15)	PS (13)	VLD (12)	CDH (7)	94/150	SPM
10/06/07	Leterme II	25/11/09	05/12/11	741	0	CD&V	CD&V (20)	MR (15)	PS (13)	VLD (12)	CDH (7)	94/150	SPM
13/06/10	Di Rupo I	06/12/11	10/10/14	1040	0	PS	PS (17)	CD&V (11)	MR (12)	VLD (9)	SP.a (9)	93/150	SPM
25/05/14	Michel I	11/10/14		813	0	MR	MR (13)	N-VA (22)	CD&V (12)	VLD (9)		85/150	MW

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).

Notes: Value in brackets is the respective seat share of the party in parliament.

Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MG = majority government; MW = minimum winning; MiG = minority government.

Table A.7: Cabinets in France, 1990-2016

Election	Cabinet	President	Start	End	Days	CT	PM	Party1	Party2	Party3	Seats	Type
05/06/88	Rocard II	Mitterrand II	28/06/88	14/05/91	1051	0	PS	PS (46.8)	MRG (1.6)	GE (0)	260/555	MiG
	Cresson I	Mitterrand II	15/05/91	01/04/92	323	0	PS	PS (46.8)	MRG (1.6)	GE (0)	275/555	MiG
	Bérégovoy I	Mitterrand II	02/04/92	28/03/93	361	0	PS	PS (46.8)	MRG (1.6)		275/555	MiG
28/03/93	Balladur I	Mitterrand II	29/03/93	17/05/95	780	0	RPR	RPR (44.5)	UDF (37.3)		463/577	MW
	Juppé I	Chirac I	18/05/95	06/11/95	173	0	RPR	RPR (44.5)	UDF (37.3)		472/577	MW
	Juppé II	Chirac I	07/11/95	03/06/97	575	0	RPR	RPR (44.5)	UDF (37.3)		472/577	MW
01/06/97	Jospin I	Chirac I	04/06/97	06/05/02	1798	0	PS	PS (42.6)	PCF (6.4)	V/MRG/MDC (5)	291/577	MW
16/06/02	Raffarin II	Chirac II	07/05/02	30/03/04	651	0	UMP	UMP (63.3)	UDF (5.0)		384/577	SPM
	Raffarin III	Chirac II	31/03/04	30/05/05	426	0	UMP	UMP (63.3)	UDF (5.0)		394/577	SPM
	Villepin I	Chirac II	31/05/05	17/05/07	717	0	UMP	UMP (63.3)	UDF (5.0)		394/577	SPM
16/06/07	Fillon II	Sarkozy	18/05/07	13/11/10	1244	0	UMP	UMP (54.1)	NC (3.8)		335/577	SPM
	Fillon III	Sarkozy	14/11/10	15/05/12	549	0	UMP	UMP (54.1)			343/577	SPM
17/06/12	Ayrault II	Hollande	16/05/12	30/03/14	651	0	PS	PS (48.5)	PRG (2.1)	V (2.9)	309/577	SPM
	Valls I	Hollande	31/03/14	10/02/16	682	0	PS	PS (48.5)	PRG (2.1)		308/577	SPM
	Valls II	Hollande	11/02/16	05/12/16	299	0	PS	PS (48.1)	PRG (2.1)	V (2.9)	325/577	SPM

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).

Notes: Value in brackets is the respective seat share of the party in parliament.

Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MG = majority government; MW = minimum winning; MiG = minority government.

Table A.8: Cabinets in Germany, 1990-2016

Election	Cabinet	Start	End	Days	CT	PM	Party1	Party2	Party3	Seats	Type
25/01/87	Kohl III	11/03/87	17/01/91	1302	0	CDU	CDU (35.0)	CSU (9.9)	FDP (9.3)	269/497	MW
02/12/90	Kohl VI	18/01/91	16/11/94	1440	0	CDU	CDU (40.5)	CSU (7.7)	FDP (11.9)	398/622	MW
16/10/94	Kohl V	17/11/94	26/10/98	1399	0	CDU	CDU (36.3)	CSU (7.4)	FDP (7.0)	341/672	MW
27/09/98	Schröder I	27/10/98	21/10/02	1456	0	SPD	SPD (44.5)	G (7.0)		345/669	MW
22/09/02	Schröder II	22/10/02	21/11/05	1127	0	SPD	SPD (41.6)	G (9.1)		306/603	MW
18/09/05	Merkel I	22/11/05	27/11/09	1436	0	CDU	CDU (29.3)	CSU (7.5)	SPD (36.2)	448/614	MW
27/09/09	Merkel II	28/10/09	16/12/13	1511	0	CDU	CDU (31.2)	CSU (7.2)	FDP (15.0)	332/622	MW
22/09/13	Merkel III	17/12/13			0	CDU	CDU (40.4)	CSU (8.9)	SPD (30.6)	504/631	MW

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).

Notes: Value in brackets is the respective seat share of the party in parliament.

Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MW = majority government; MG = majority government; MW = minimum winning; MiG = minority government.

Table A.9: Cabinets in the Netherlands, 1990-2016

Election	Cabinet	Start	End	Days	CT	PM	Party1	Party2	Party3	Seats	Type
06/09/89	Lubbers III	07/11/89	21/08/94	1749	0	CDA	CDA (36.0)	PvdA (32.7)		103/150	MW
03/05/94	Kok I	22/08/94	02/08/98	1442	0	PvdA	PvdA (24.7)	VVD (20.7)	D66 (16.0)	92/150	MW
06/05/98	Kok II	03/08/98	21/07/02	1352	0	PvdA	PvdA (30.0)	VVD (25.3)	D66 (9.3)	97/150	SPM
15/05/02	Balkenende II	22/07/02	26/05/03	223	0	CDA	CDA (28.7)	VVD (16.0)		93/150	MW
21/01/03	Balkenende III	27/05/03	06/07/06	1137	0	CDA	CDA (29.3)	VVD (18.7)	D66 (4.0)	78/150	MW
	Balkenende IV	07/07/06	21/02/07	230	1	CDA	CDA (29.3)	VVD (18.7)		71/150	MiG
21/11/06	Balkenende V	22/02/07	19/02/10	1094	0	CDA	CDA (27.3)	PvdA (22.0)	CU (4.0)	80/150	MW
	Balkenende VI	20/02/10	13/10/10	236	1	CDA	CDA (27.3)	CU (4.0)		47/150	MiG
09/06/10	Rutte I	14/10/10	04/11/12	753	0	VVD	VVD (20.7)	CDA (14.0)		52/150	MiG
12/09/12	Rutte II	05/11/12		1518	0	VVD	VVD (27.3)	PvdA (25.3)		79/150	MW

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).

Notes: Value in brackets is the respective seat share of the party in parliament.

Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MG = majority government; MW = minimum winning; MiG = minority government.

Table A.10: Cabinets in Greece, 1990-2016

Election	Cabinet	Start	End	Days	CT	PM	Party1	Party2	Party3	Seats	Type
05/11/89	Zolotas I	23/11/89	12/02/90	81	1	non	ND (49.3)	PASOK (42.7)	SYN (7.0)	297/300	SPM
05/11/89	Zolotas II	13/02/90	10/04/90	56	1	non					CT
08/04/90	Mitsotakis	11/04/90	12/10/93	1280	0	ND	ND (50.0)			150/300	MG
10/10/93	Papandreou A IV	13/10/93	21/01/96	830	0	PASOK	PASOK (56.7)			170/300	MW
10/10/93	Simitis I	22/01/96	23/09/96	245	0	PASOK	PASOK (56.7)			170/300	MW
22/09/96	Simitis II	24/09/96	12/04/00	1296	0	PASOK	PASOK (54.0)			162/300	MW
09/04/00	Simitis III	13/04/00	09/03/04	1426	0	PASOK	PASOK (52.7)			158/300	MW
07/03/04	Karamanlis K I	10/03/04	30/09/07	1299	0	ND	ND (55.3)			166/300	MW
16/09/07	Karamanlis K II	01/10/07	05/10/09	735	0	ND	ND (50.7)			152/300	MW
04/10/09	Papandreou G	06/10/09	10/11/11	765	0	PASOK	PASOK (53.3)			160/300	MW
04/10/09	Papademos	11/11/11	15/05/12	186	1	non	PASOK (53.3)	ND (30.3)	LAOS (5.0)	266/300	SPM
06/05/12	Pikramenos	16/05/12	19/06/12	34	1	non					CT
17/06/12	Samaras I	20/06/12	24/06/13	369	0	ND	ND (43.0)			129/300	MG
17/06/12	Samaras II	25/06/13	26/01/15	580	0	ND	ND (43.0)	PASOK (11.0)		162/300	MW
25/01/15	Tsipras I	27/01/15	20/09/15	236	0	SYRIZA	SYRIZA (49.7)	AE (4.3)		162/300	MW
20/09/15	Tsipras II	21/09/15			0	SYRIZA	SYRIZA (48.3)	AE (3.3)		155/300	MW

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).

Notes: Value in brackets is the respective seat share of the party in parliament.

Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MG = majority government; MW = minimum winning; MiG = minority government.

Table A.11: Cabinets in Italy, 1990–2016

Election	Cabinet	Start	End	Days	CT	PM	Party1	Party2	Party3	Seats	Type
14/06/87	Andreotti VI	23/07/89	12/04/91	628	0	DC	DC (37.1)	PSI (14.9)	PRI (3.3)	377/630	SPM
14/06/87	Andreotti VII	13/04/91	27/06/92	441	0	DC	DC (37.1)	PSI (14.9)	PSDI (2.7)	356/630	SPM
05/04/92	Amato I	28/06/92	28/04/93	304	0	PSI	DC (32.7)	PSI (14.6)	PLI (2.7)	331/630	MW
05/04/92	Ciampi	29/04/93	10/05/94	376	0	Non	DC (32.7)	PSI (14.6)	PLI (2.7)	331/630	MW
27/03/94	Berlusconi I	11/05/94	16/01/95	250	0	FI	LN (18.6)	AN (17.3)	FI (15.7)	358/630	SPM
27/03/94	Dini I	17/01/95	10/01/96	358	1	Non					CT
27/03/94	Dini II	11/01/96	17/05/96	127	1	Non					CT
21/04/96	Prodi I	18/05/96	20/10/98	885	0	PpP	PDS (27.1)	PpP (11.9)	INI-RI (4.1)	288/630	MG
21/04/96	D'Alema I	21/10/98	20/12/99	425	0	DS	DS (27.0)	PpP (10.6)	UDR	326/630	MW
21/04/96	D'Alema II	21/12/99	27/04/00	128	0	DS	DS (27.0)	PpP (10.6)	Ril	295/630	MG
21/04/96	Amato II	28/04/00	10/06/01	408	0	Non	DS (27.0)	PpP (10.6)	Ril	295/630	MG
13/05/01	Berlusconi II	11/06/01	27/05/05	1446	0	FI	FI (29.2)	AN (16.3)	CCD (6.6)	347/609	SPM
13/05/01	Berlusconi III	28/05/05	16/05/06	353	0	FI	FI (29.2)	AN (16.3)	UDC	350/609	SPM
09/04/06	Prodi II	17/05/06	07/05/08	721	0	Unione	Unione (34.9)	PRC (6.5)	RI (2.9)	337/630	SPM
13/04/08	Berlusconi IV	08/05/08	15/11/11	1286	0	FI	FI (43.8)	LN (9.5)		336/630	MW
13/04/08	Monti	16/11/11	26/04/13	527	1	Non					CT
25/02/13	Letta I	27/04/13	17/11/13	204	0	PD	PD (47.3)	PdL (15.7)	SC (6.0)	434/617	SPM
25/02/13	Letta II	18/11/13	21/02/14	95	0	PD	PD (47.3)	SC (6.0)	NCD	366/617	SPM
25/02/13	Renzi	22/02/14	11/12/16	1023	0	PD	PD (47.3)	SC (6.0)	NCD	366/617	SPM
25/02/13	Gentiloni	12/12/16			0	PD	PD (47.3)	SC (6.0)	NCD	366/617	SPM

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).

Notes: Value in brackets is the respective seat share of the party in parliament.

Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MG = majority government; MW = minimum winning; MiG = minority government.

Table A.12: Cabinets in Portugal, 1990-2016

Election	Cabinet	Start	End	Days	CT	PM	Party1	Party2	Party3	Seats	Type
19/07/87	Silva II	17/08/87	30/10/91	1535	0	PSD	PSD (59.2)			148/250	MW
06/10/91	Silva III	31/10/91	27/10/95	1457	0	PSD	PSD (58.7)			135/230	MW
01/10/95	Guterres I	28/10/95	24/10/99	1457	0	PS	PS (48.7)			112/230	MG
10/10/99	Guterres II	25/10/99	05/04/02	893	0	PS	PS (50.0)			115/230	MG
17/03/02	Barroso	06/04/02	22/07/04	838	0	PSD	PSD (45.7)	CDS-PP (6.1)		119/230	MW
17/03/02	Santana Lopes	23/07/04	11/03/05	231	0	PSD	PSD (45.7)	CDS-PP (6.1)		119/230	MW
20/02/05	Socrates I	12/03/05	25/10/09	1688	0	PS	PS (52.6)			121/230	MW
27/09/09	Socrates II	26/10/09	14/06/11	596	0	PS	PS (42.2)			97/230	MG
05/06/11	Passos Coelho I	15/06/11	29/10/15	1597	0	PSD	PSD (47.0)	CDS-PP (10.4)		132/230	MW
04/10/15	Passos Coelho II	30/10/15	25/11/15	26	0	PSD	PSD (46.5)	CDS-PP (0)		107/230	MG
04/10/15	Costa	26/11/15			0	PS	PS (37.4)			86/230	MG

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).

Notes: Value in brackets is the respective seat share of the party in parliament.

Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MG = majority government; MW = minimum winning; MiG = minority government.

Table A.13: Cabinets in Spain, 1990-2016

Election	Cabinet	Start	End	Days	CT	PM	Party1	Party2	Party3	Seats	Type
29/10/89	Gonzalez III	05/12/89	08/07/93	1311	0	PSOE	PSOE (50.0)			175/350	MG
06/06/93	Gonzalez IV	09/07/93	04/05/96	1030	0	PSOE	PSOE (45.4)			159/350	MG
03/03/96	Aznar I	05/05/96	25/04/00	1451	0	PP	PP (44.6)			156/350	MG
12/03/00	Aznar II	26/04/00	16/04/04	1451	0	PP	PP (52.3)			183/350	MW
14/03/04	Zapatero I	17/04/04	11/04/08	1455	0	PSOE	PSOE (46.9)			164/350	MG
09/03/08	Zapatero II	12/04/08	20/12/11	1347	0	PSOE	PSOE (48.3)			169/350	MG
20/11/11	Rajoy I	21/12/11	19/12/15	1459	0	PP	PP (53.1)			186/350	MW
20/12/15	Rajoy II	20/12/15	01/06/18		0	PP	PP (35.1)			123/350	MG/CT

Sources: ParlGov (Döring and Manow, 2018) and CPDS I (Armingeon et al., 2018).
Notes: Value in brackets is the respective seat share of the party in parliament.
Abbreviations: CT = caretaker; non = non-partisan; PM = prime minister; SPM = surplus majority; MG = majority government; MW = minimum winning; MiG = minority government.

A.7   Appendix Chapter 7

Operationalization of Occupational Classes

This is the operationalization as proposed by Gingrich and Häusermann (2015). Occupational classes are created based on three variables available in both datasets: occupation, education level and self-employment. In both datasets, those out of the work force (unemployed, retired, disabled, homemakers) are excluded.

European Social Survey (2002-2016)

Gingrich and Häusermann (2015) draw on Oesch (2006) broad scheme of 17 occupational groups, which is based on ISCO-code, self-employment status and education level. The only difference is that socio-cultural professionals and skilled service require at least upper secondary education to be classified as such. They further moved those in routine jobs with at least upper secondardy education into the group of skilled service. These groups are then aggregated into four occupational classes:

1. Small and large employers: agricultural routine workers, large employers, small employers, self-employed professional, small proprietors.

2. Middle classes: socio-cultural professionals and semi-professionals, skilled service workers, technical experts, higher managers, associate managers, skilled office workers.

3. Working classes: technicians, skilled craft workers, technical routine workers.

4. Routine workers: routine service workers, routine office workers.

Eurobarometer (1975-2002

The occupational coding of the Eurobarometer data is more aggregated and does not include on ISCO-code. Gingrich and Häusermann (2015) rely on Knutsen (2006) work, but include a country-specific definition when upper secondary education is completed. the operationalization follows strictly the explanations in the paper of Gingrich and Häusermann (2015). There were some possible differences regarding the criteria at what point upper secondary education is completed. This criteria is not provided in the paper by Gingrich and Häusermann (2015). I had to slightly change the education criteria in order to arrive at similar numbers like they did. Otherwise, the results are substantially the same.

1. Small and large employer: self-employed farmers, fishermen, professionals, owner shop/ business proprietor (all EB rounds)

2. Middle classes:

   - EB 1-299: general management, white collar with upper secondary education.

   - EB 300-260: employed professionals, gen- eral management, middle management, other office employee with upper second- ary education, non-office employed/non- manual with upper secondary education.

   - EB 370-572: employed professionals, general management, middle management, employed position desk with upper secondary education, employed position travelling with upper secondary education and employed position ser- vice with upper secondary.

3. Working classes:

   - EB 1-299: manual worker.

   - EB 300-260: skilled manual workers, supervisors and unskilled workers with upper secondary education.

   - EB 370-572: skilled manual workers, supervisors and unskilled workers with an upper secondary education.

4. Routine workers:

   - EB 1-299: white collar without upper secondary education

   - EB 300-260: unskilled worker with- out upper secondary, other office employee without upper secondary education, non-office employed/non-manual without upper secondary education.

   - EB 370-572: unskilled worker without upper secondary, employed position desk without upper secondary education, employed position travelling without upper secondary education and employed position service without upper secondary.
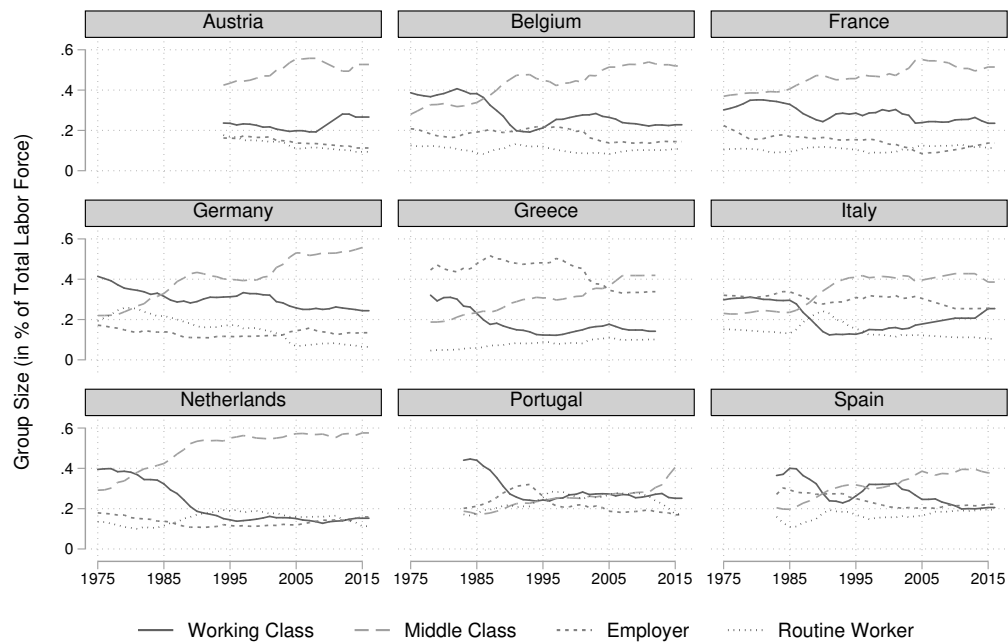
Additional Figures

Figure A.11: Group size by occupational class and by country.
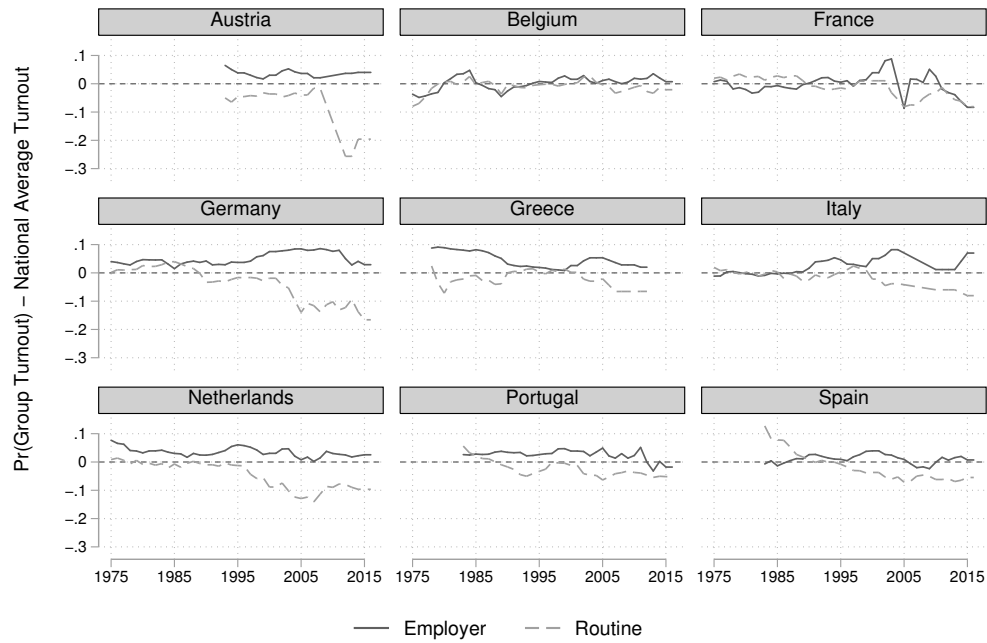Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.

Figure A.12: Turnout differences of employers and routine workers, by country.
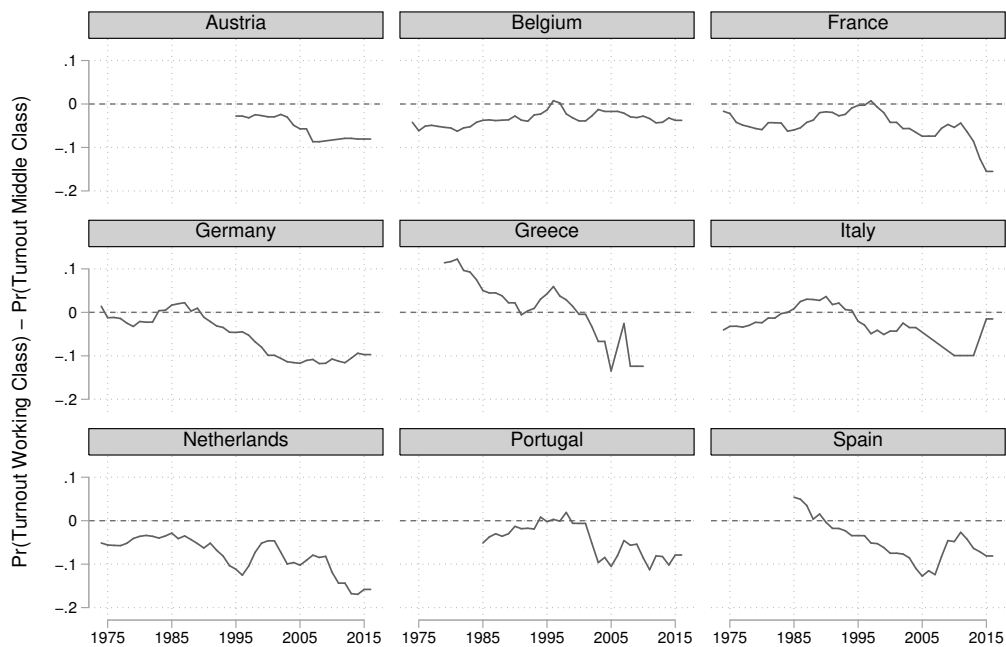Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.

Figure A.13: Turnout differences between working class and middle class, by country.
Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.
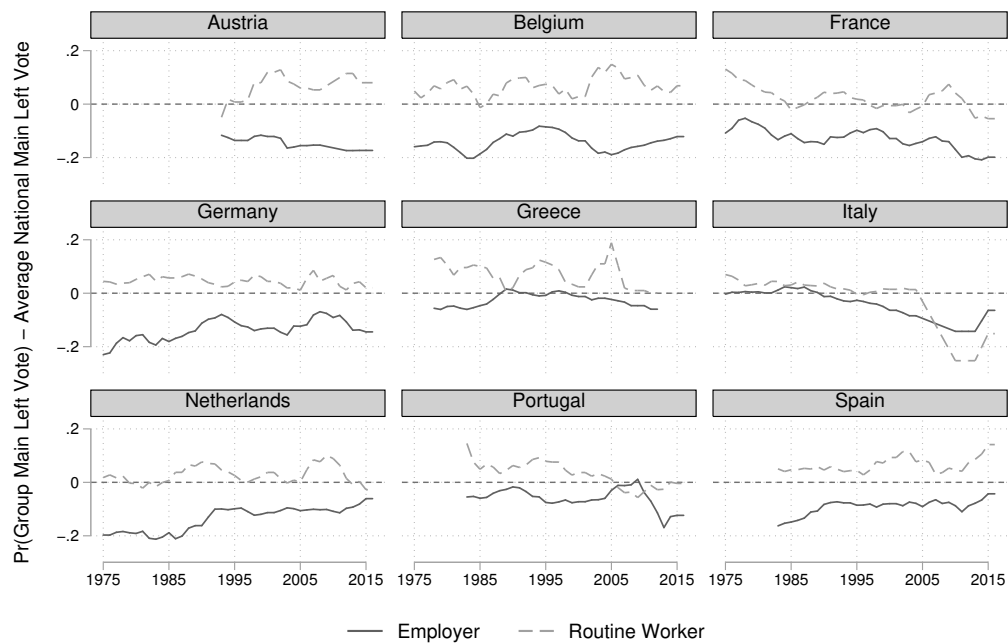
Figure A.14: Probability to vote for main left party for employer and routine worker, by country.
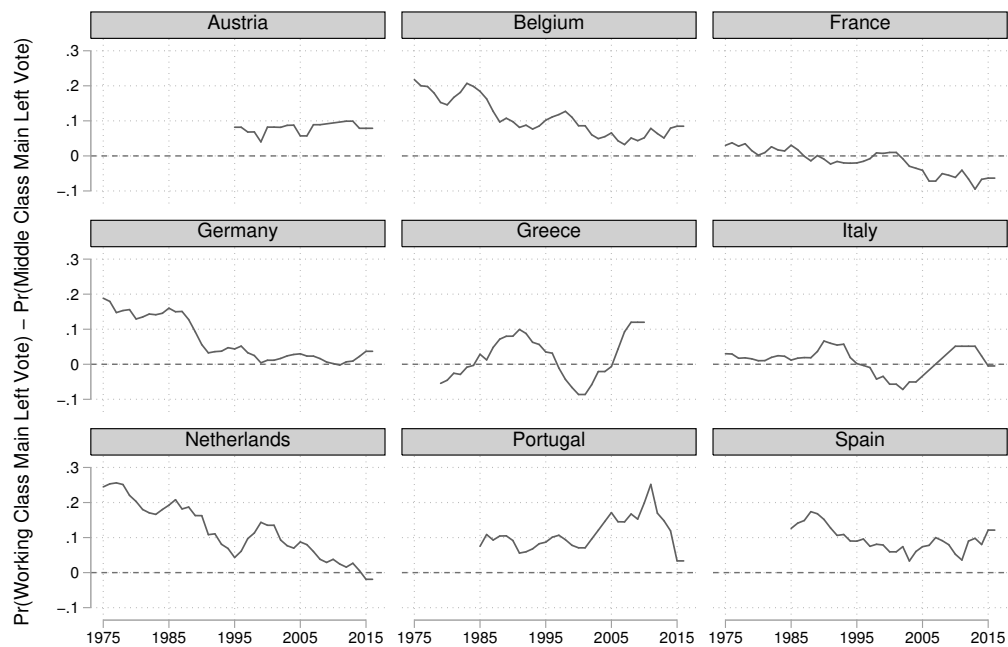Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.

Figure A.15: Vote differences between working class and middle class by country.
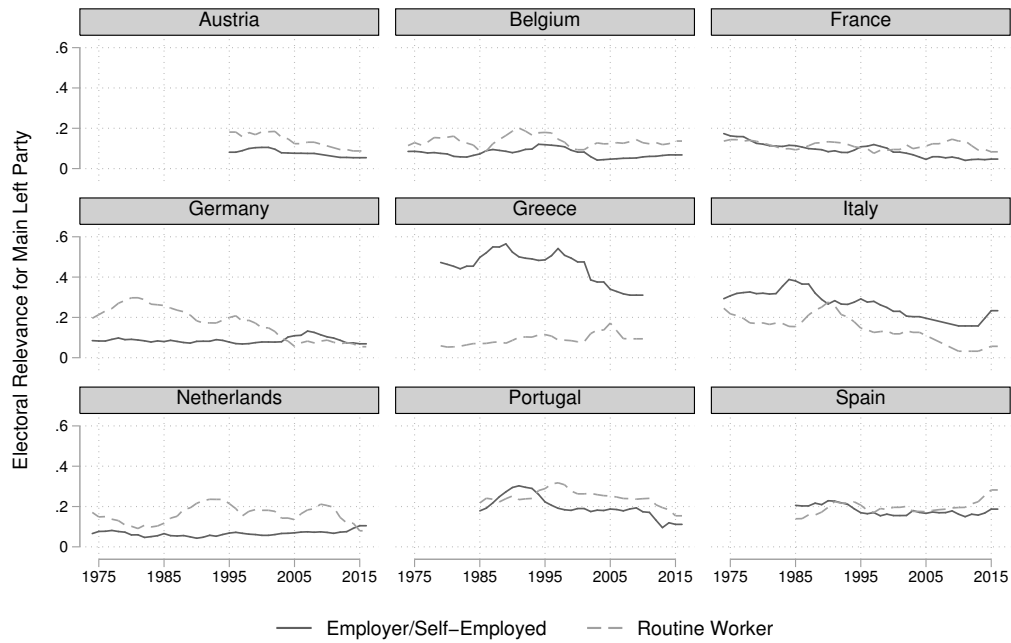Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.

Figure A.16: Electoral relevance of employers and routine workers for social democratic parties by country.
Data: Own calculations based on Eurobarometer and ESS; 5-year moving average.
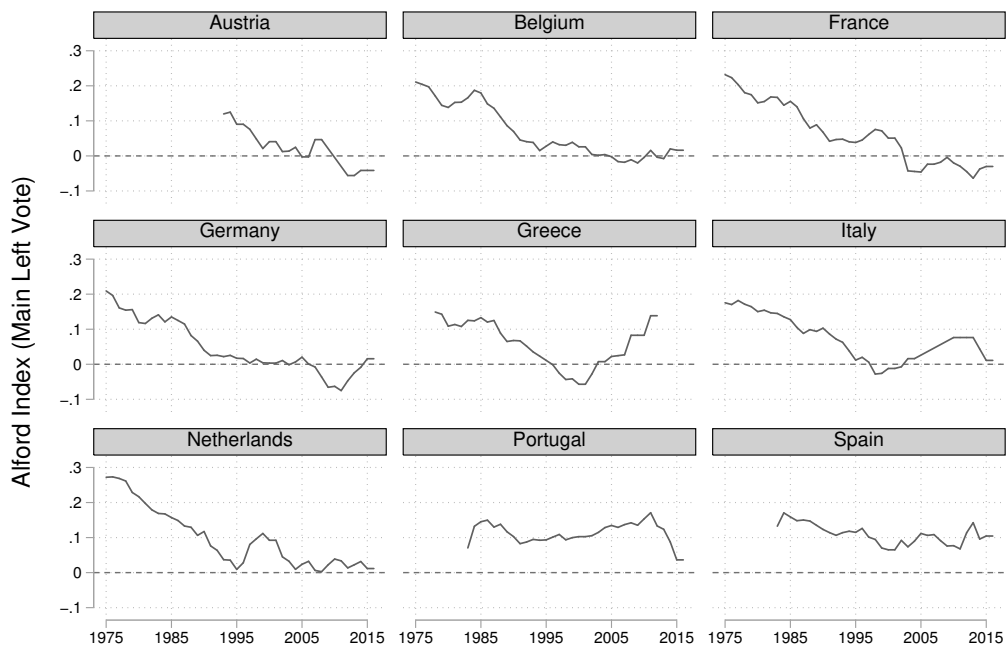
Figure A.17: Alford index of class voting by country.
Data: Own calculations based on Eurobarometer and ESS; 3-year moving average.
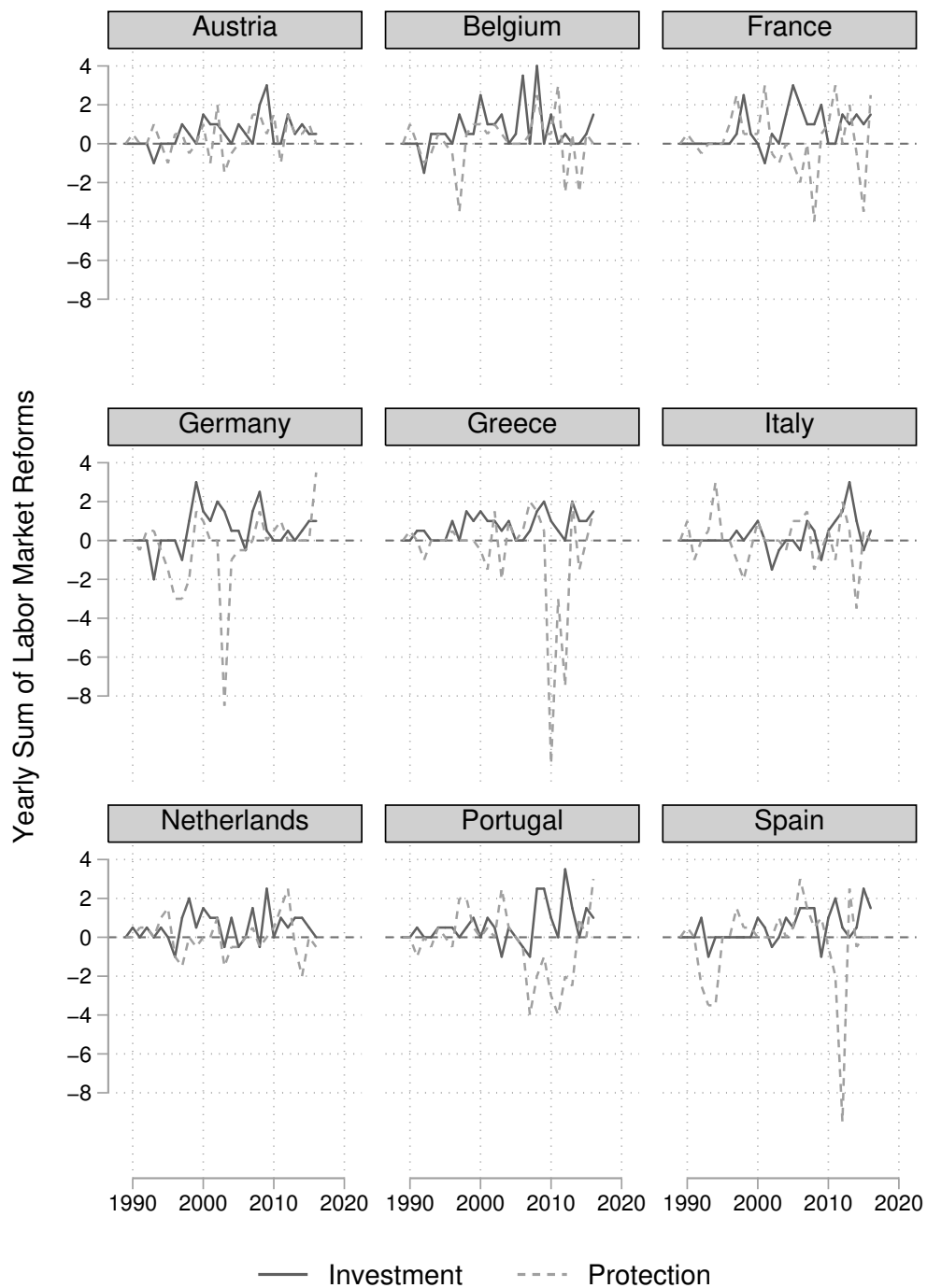
Figure A.18: Yearly sum of labor market reform by investment and protection
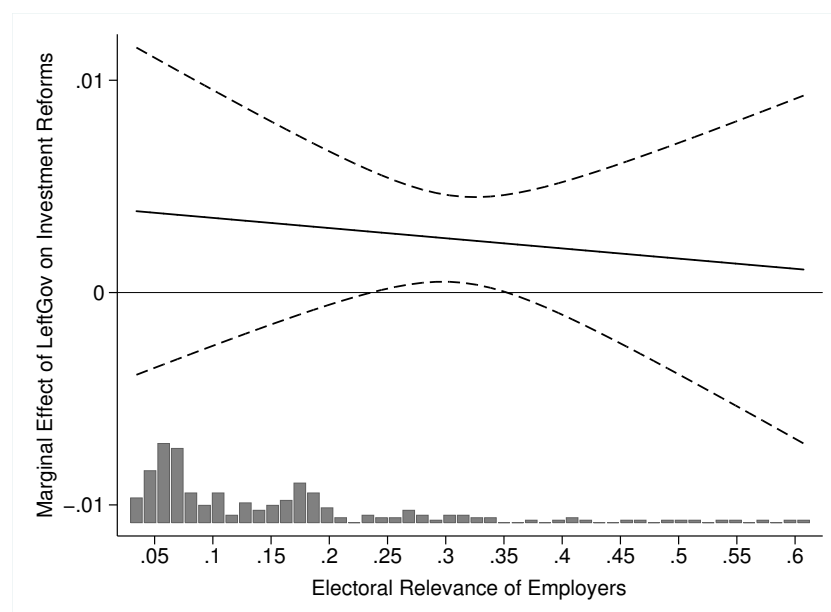
Figure A.19: Non-linear interaction of social democratic government strengths' with electoral relevance of middle class on investment reforms (95% confidence intervals) Note: Non-linear interaction effect has been calculated using a Kernel estimator.

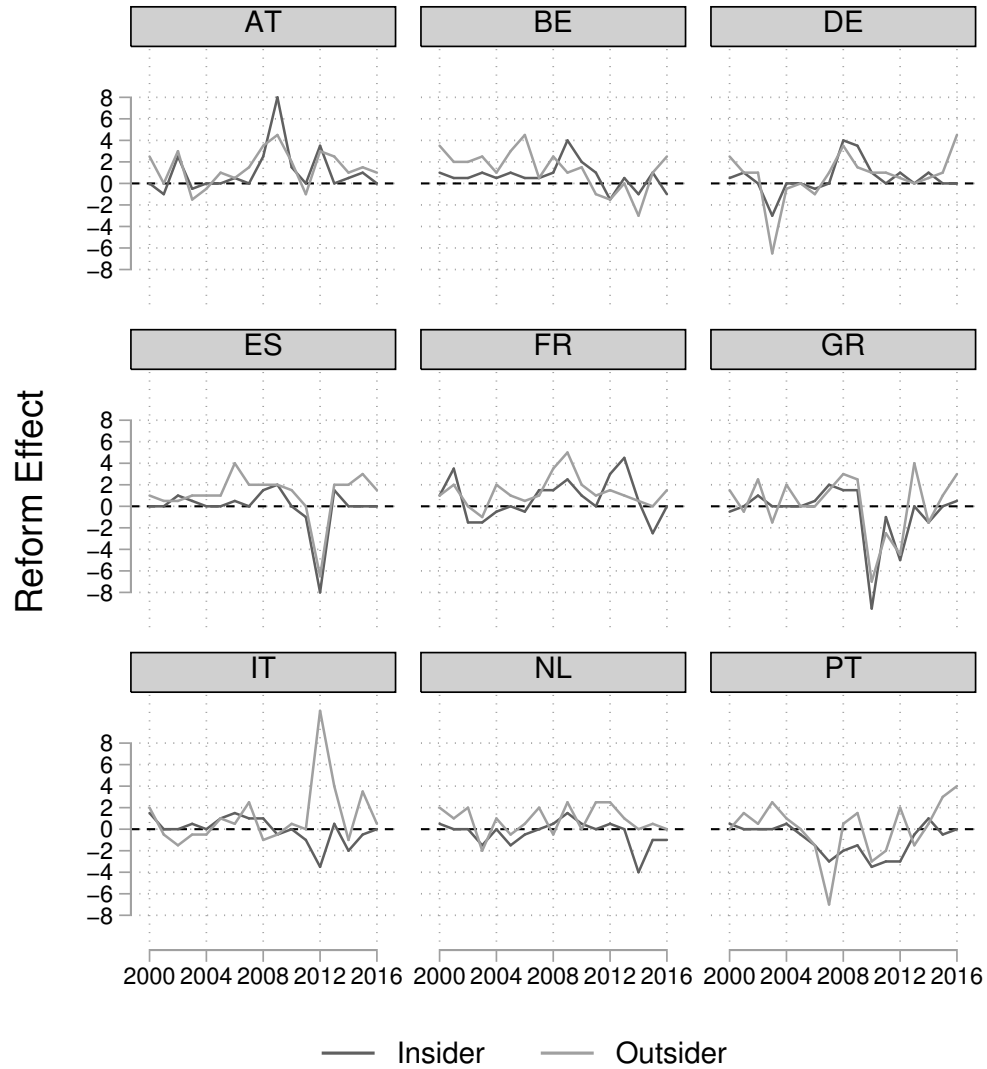## A.8   Appendix Chapter 8

Figure A.20: Effects of all labor market reforms on insiders and outsiders, by country, 2000-2016

Table A.15: Number of Observations of ESS Rounds 1-8, by Country

| Country	ESS1	ESS2	ESS3	ESS4	ESS5	ESS6	ESS7	ESS8	Total
Austria	2,228	2,164	2,298	0	0	0	1,762	1,994	10,446
Belgium	1,810	1,697	1,709	1,682	1,639	1,790	1,686	1,702	13,715
Switzerland	1,973	2,089	1,765	1,776	1,449	1,439	1,476	1,464	13,432
Czech Republic	1,343	2,934	0	1,955	2,324	1,941	2,082	2,186	14,765
Germany	2,812	2,742	2,829	2,691	2,898	2,832	2,938	2,726	22,468
Denmark	1,466	1,429	1,472	1,550	1,509	1,582	1,435	0	10,443
Spain	1,670	1,608	1,814	2,486	1,840	1,841	1,880	1,918	15,057
Finland	1,891	1,924	1,815	2,105	1,794	2,116	2,022	1,868	15,535
France	1,477	1,769	1,934	2,009	1,680	1,927	1,858	2,016	14,670
Great Britain	2,000	1,841	2,323	2,301	2,365	2,241	2,227	1,925	17,223
Greece	2,511	2,363	0	2,019	2,649	0	0	0	9,542
Hungary	1,610	1,430	1,489	1,506	1,535	1,962	1,663	1,580	12,775
Ireland	1,995	2,236	1,750	1,723	2,507	2,581	2,343	2,729	17,864
Italy	1,193	1,497	0	0	0	935	0	2,524	6,149
Netherlands	2,305	1,839	1,854	1,740	1,793	1,812	1,866	1,644	14,853
Norway	2,008	1,694	1,669	1,482	1,476	1,547	1,365	1,479	12,720
Poland	1,971	1,614	1,624	1,547	1,659	1,822	1,569	1,632	13,438
Portugal	1,444	2,008	2,180	2,296	2,104	2,117	1,227	1,249	14,625
Sweden	1,911	1,861	1,854	1,745	1,437	1,780	1,736	1,515	13,839
Total	35,618	36,739	30,379	32,613	32,658	32,265	31,135	32,152	263,559
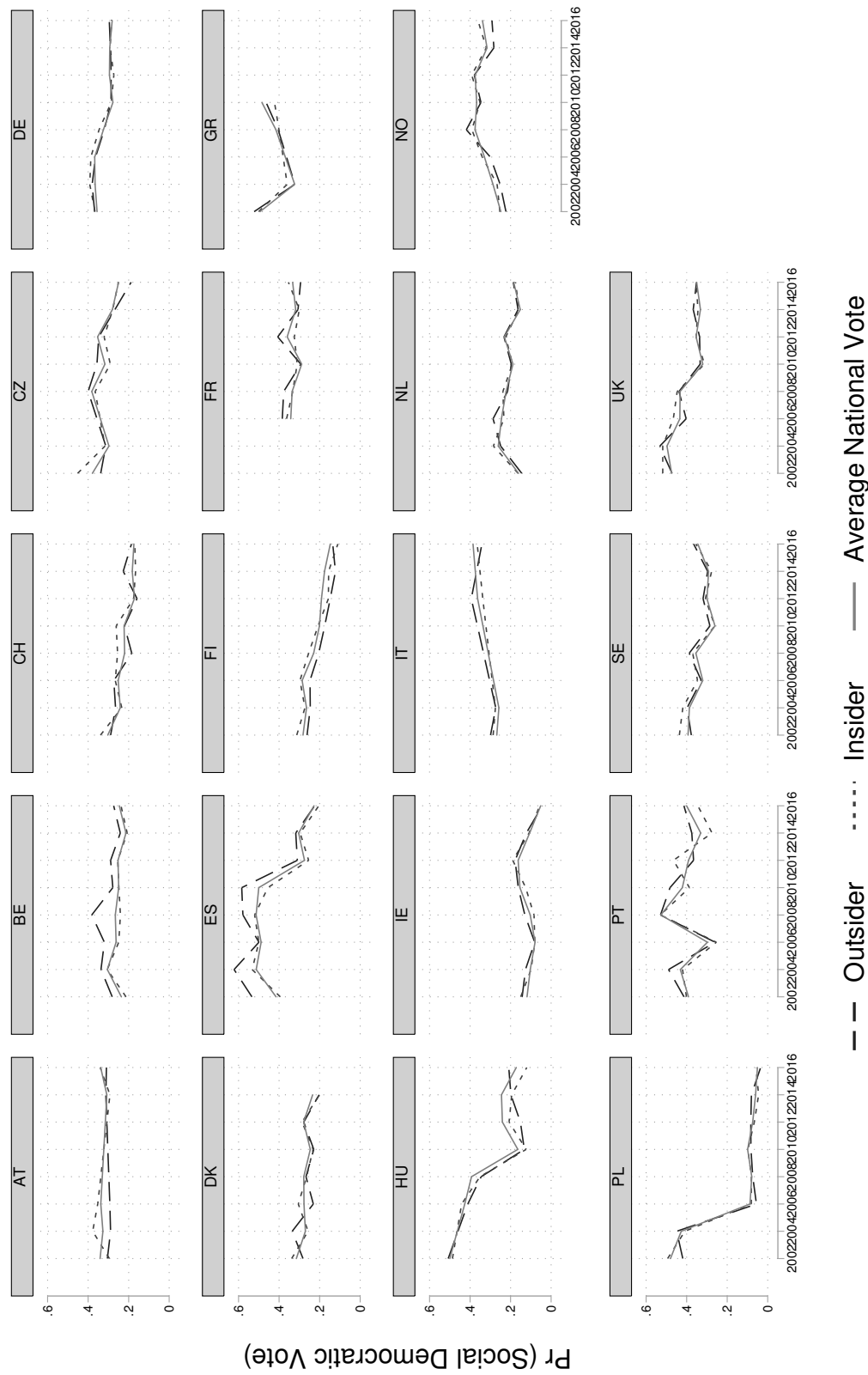
Figure A.21: Probability to Vote for Social Democratic Party by Insider and Outsider compared to the National Average Social Democratic Vote Share

Table A.16: Electoral Relevance of Insiders and Outsiders for Social Democrats, years 2002-2016 (conditional models)

	Group Share		Turnout			Social Democratic Vote			Electoral Relevance		
	Outsider	Insider	Outsider	Insider	National	Outsider	Insider	National	Outsider	Insider	diff
Nordic											
Denmark	12.9%	44.0%	93.9%	94.4%	93.5%	26.0%	29.3%	27.1%	12.3%	47.9%	35.5
Finland	14.0%	33.8%	81.4%	81.7%	82.9%	21.3%	24.1%	22.2%	13.2%	36.1%	22.9
Sweden	18.8%	40.2%	92.2%	92.3%	91.1%	34.2%	35.8%	33.2%	19.7%	44.0%	24.3
Norway	12.6%	46.3%	86.3%	88.0%	86.9%	31.2%	34.7%	33.0%	11.8%	49.3%	37.5
	14.6%	41.1%	88.4%	89.1%	88.6%	28.2%	31.0%	28.9%	14.3%	44.3%	30.1
Liberal											
United Kingdom	14.0%	34.0%	73.3%	72.6%	72.4%	38.2%	41.1%	39.9%	13.6%	35.1%	21.5
Ireland	20.8%	25.8%	78.4%	82.0%	77.9%	10.9%	9.9%	11.0%	20.7%	24.6%	3.9
	17.4%	29.9%	75.9%	77.3%	75.1%	24.6%	25.5%	25.5%	17.2%	29.8%	12.7
Continental											
Belgium	21.5%	30.0%	92.4%	93.8%	92.6%	28.6%	25.2%	25.4%	24.2%	30.2%	6.0
Germany	23.6%	29.8%	81.3%	83.6%	82.5%	33.7%	34.6%	32.0%	24.5%	32.6%	8.1
France	19.8%	32.9%	72.4%	75.5%	73.9%	35.6%	33.1%	33.0%	20.9%	33.8%	12.8
Netherlands	27.2%	27.3%	85.8%	85.7%	84.6%	20.4%	21.3%	20.6%	27.3%	28.6%	1.3
Switzerland	21.9%	31.6%	72.5%	68.9%	69.5%	23.0%	23.6%	22.1%	23.7%	33.5%	9.8
Austria	17.8%	33.4%	86.6%	85.4%	84.9%	32.1%	37.4%	33.0%	17.7%	38.1%	20.4
	21.9%	30.8%	81.8%	82.2%	81.3%	28.9%	29.2%	27.7%	23.1%	32.8%	9.7
Southern											
Spain	30.1%	24.9%	82.5%	83.2%	82.4%	45.2%	41.4%	40.5%	33.6%	25.8%	-7.9
Italy	18.6%	24.9%	87.9%	88.3%	84.2%	39.2%	33.2%	31.8%	23.8%	27.2%	3.3
Portugal	20.8%	29.9%	69.3%	78.3%	74.0%	44.3%	40.4%	39.9%	21.7%	32.1%	10.5
Greece	19.5%	21.8%	90.4%	91.4%	89.8%	41.6%	43.0%	42.9%	19.1%	22.2%	3.2
	22.2%	25.4%	82.5%	85.3%	82.6%	42.6%	39.5%	38.8%	24.5%	26.8%	2.3
Visegrad											
Czech Republic	13.6%	36.1%	57.8%	63.0%	60.9%	31.4%	36.4%	32.3%	12.5%	42.2%	29.7
Hungary	13.5%	34.0%	76.4%	78.5%	75.9%	31.8%	31.3%	30.6%	14.1%	36.0%	21.9
Poland	22.7%	24.0%	70.1%	71.7%	70.0%	17.0%	17.5%	17.0%	22.7%	25.3%	2.5
	16.6%	31.4%	68.1%	71.1%	69.0%	26.7%	28.4%	26.6%	16.4%	34.5%	18.0

Note: Groups shares based on EU-SILC (2002-2015). Participation and vote shares are predicted probabilities based on country-by-country logistic regressions of ESS Rounds 1-8 (2002-2016) including controls (sex, age, education, household income, religiosity, union membership). Unconditional predicted probabilities (without controls) yield largely the same results – only difference is a slightly bigger participation gap.

Table A.14: Share of outsiders among the middle classes, manual workers, and routine workers

|	Middle classes	Manual workers	Routine workers
Nordic			
Denmark	16.3%	6.7%	23.9%
Finland	15.2%	12.6%	29.8%
Sweden	23.6%	11.6%	37.4%
Norway	16.7%	7.2%	27.9%
	18.0%	9.5%	29.8%
Liberal			
United Kingdom	15.7%	8.9%	21.3%
Ireland	19.8%	23.9%	35.2%
	17.8%	16.4%	28.3%
Continental			
Austria	21.6%	11.6%	35.4%
Belgium	23.8%	19.4%	49.7%
Switzerland	25.2%	17.0%	33.7%
Germany	24.7%	20.5%	43.5%
France	21.0%	17.2%	37.7%
Netherlands	36.2%	18.3%	39.5%
	25.4%	17.3%	39.9%
Southern			
Spain	29.9%	35.2%	52.2%
Greece	22.3%	18.2%	50.9%
Italy	19.9%	18.8%	30.8%
Portugal	20.6%	21.3%	31.7%
	23.2%	23.4%	41.4%
Visegrad			
Hungary	10.5%	16.7%	23.5%
Poland	24.3%	22.9%	35.6%
Czech Republic	13.2%	12.3%	30.9%
	16.0%	17.3%	30.0%
Total Mean	**21.1%**	**16.9%**	**35.3%**

Note: The three occupational groups are based on Oesch's 16-class scheme operationalized by ISCO 2-digit codes and re-categorized relying on replication files provided by Jane Gingrich. The displayed numbers are labor market outsiders as a share of total population averaged across all years available in EU-SILC (2004-2015).
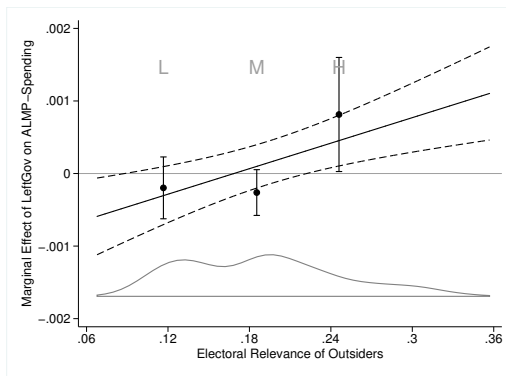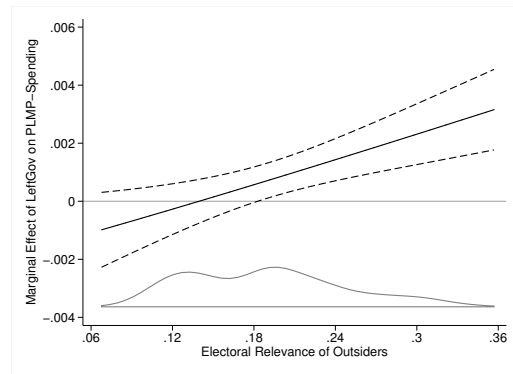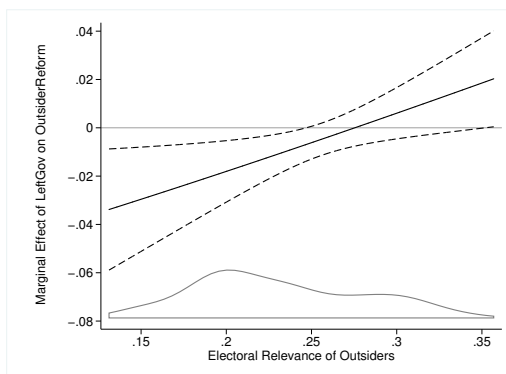
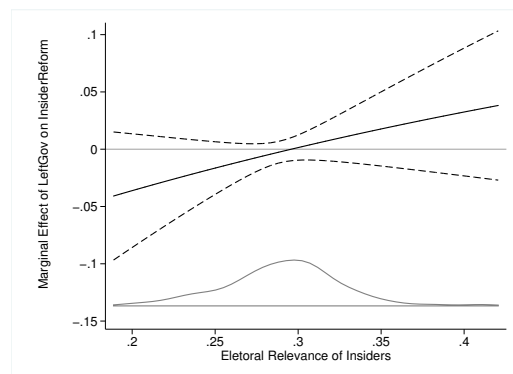(a) ALMP, Binning Estimator
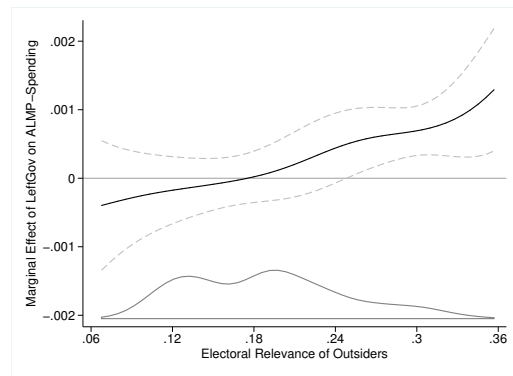
(b) ALMP, Kernel Estimator
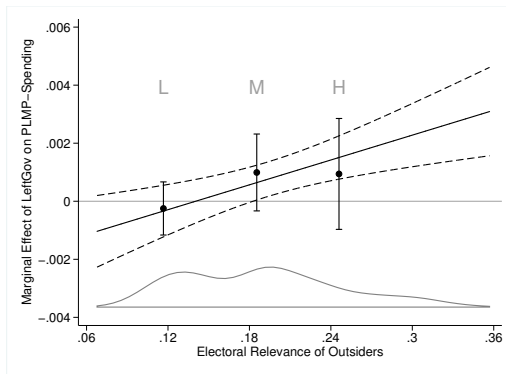
(c) PLMP, Binning Estimator

(d) PLMP, Kernel Estimator

(e) Outsider-Reform, Kernel Estimator

(f) Insider-Reform, Kernel Estimator

Figure A.22: Tests for Non-Linearity of Interaction Effects

Notes: Binning estimator not possible to estimate for the reform data due to the low sample size.
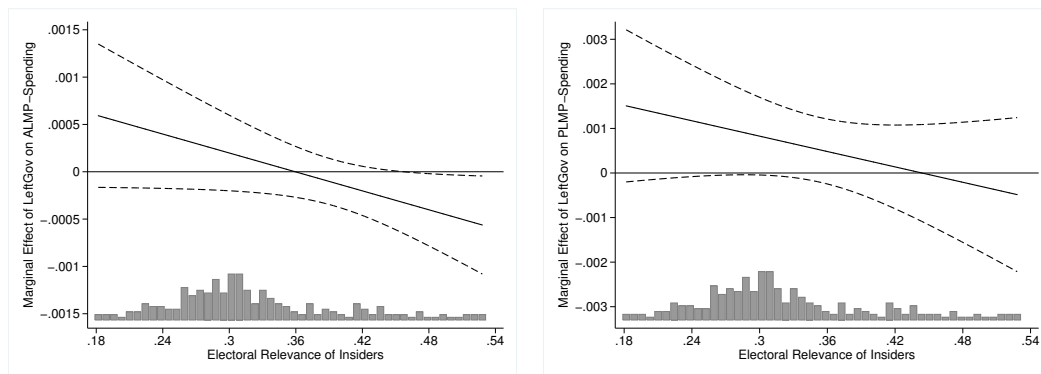
Figure A.23: Interaction LeftGov with electoral relevance of insiders on ALMP and PLMP spending with 95%-confidence intervals (based on Model 4 and 8 in Table 8.3). Histograms show the distribution of the electoral relevance of insiders.

Figure A.24: Strength of social democratic parties measured by the share of cabinet posts (Source: Armingeon et al. 2018)

Figure A.25: Spending on active labor market policy in % of GDP, by country 2000-2016 (Source: Armingeon et al. 2018)

Figure A.26: Spending on passive labor market policy in % of GDP, by country 2000-2016 (Source: Armingeon et al. 2018)

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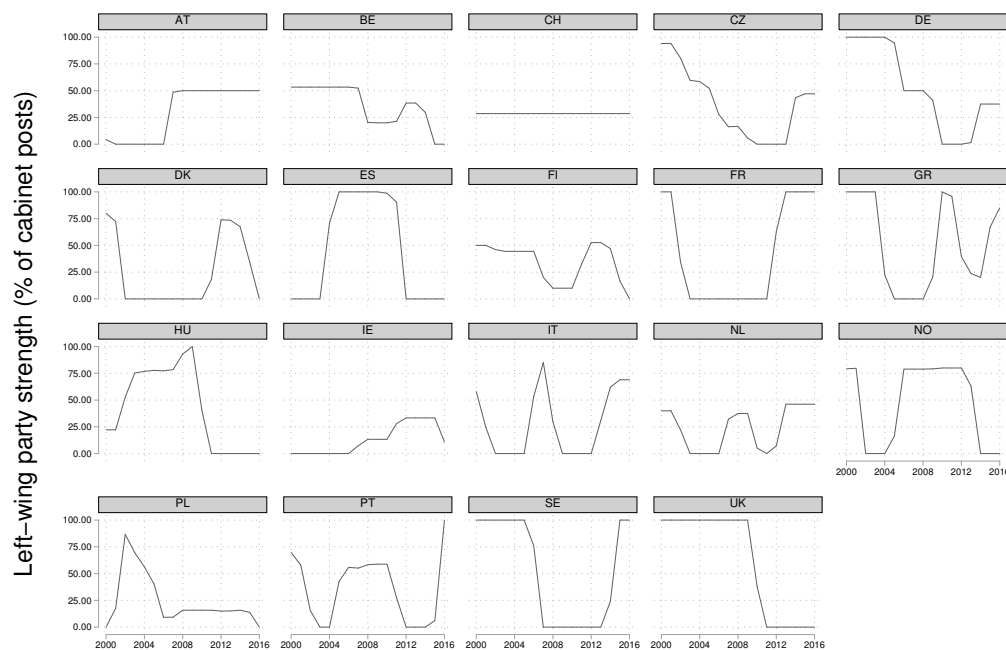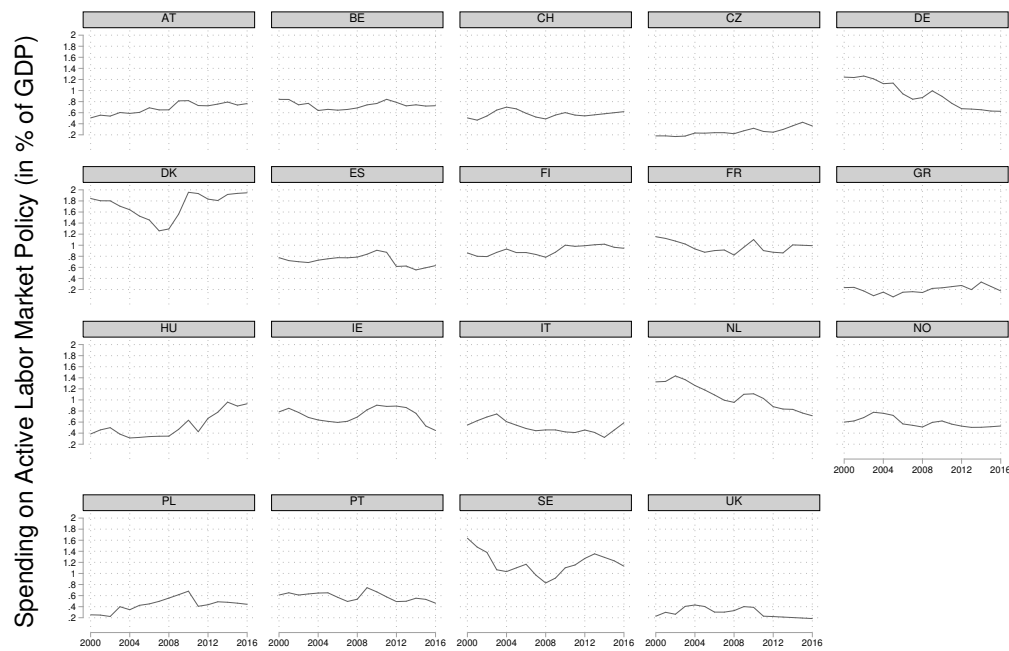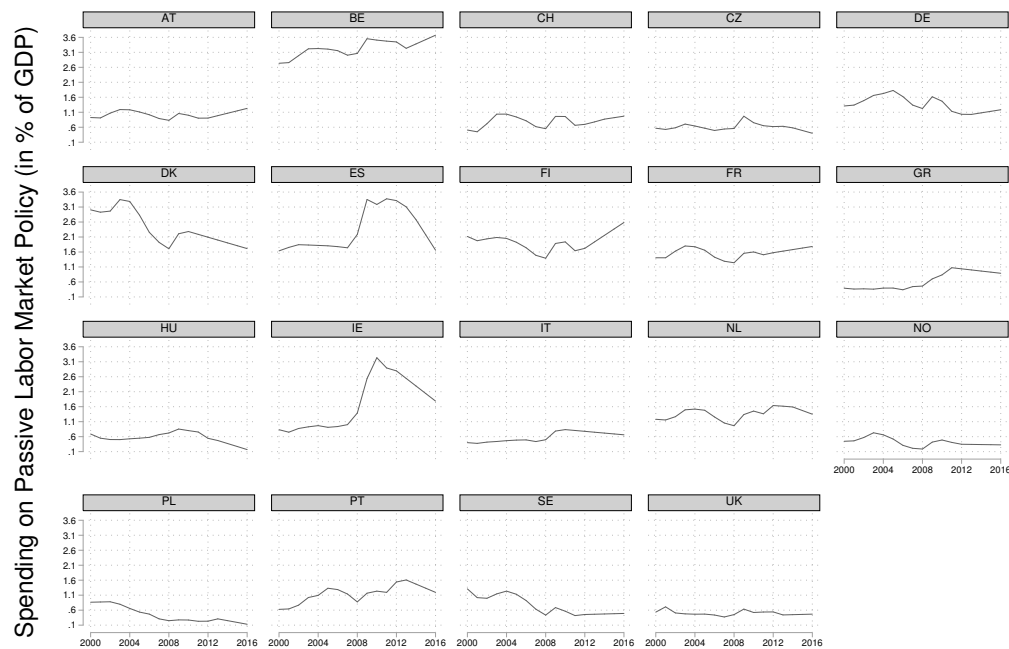
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