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Bachelor Thesis – European Studies

PARTY POLITICS, RETRENCHMENT AND ACTIVATION

Partisan Effects on the Direction of Welfare State Reforms?

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ABSTRACT

The effect of party politics is debated in the literature on welfare state restructuring – be it for retrenchment or activation. Theoretical expectations and empirical results diverge as to whether partisanship of the government has an effect on the direction of welfare state reforms or not; and, if there is an effect, on the way in which parties matter. Based on this debate, this thesis investigates the following research question: to what extent does political partisanship of the government account for the direction of welfare state reforms in Western European countries between 1989 and 2007? Through regression analysis this study tests the influence of a broad range of variables, partisanship being one of them, on retrenchment and activation. To that aim, welfare state reforms in the field of non-employment benefits are examined for a sample of 14 EU countries in the period from 1989 until 2007. Contrary to prior expectations, there is some evidence that rightist governments are more likely to retrench the welfare state than leftist governments. This relation is, however, not statistically significant. For activation, no partisan effects can be found. The main factors determining the direction of reforms seem to be external to the government. A deteriorating socio-economic situation and the pressures of economic globalization and demographic change trigger retrenchment. In the same vein, globalization contributes to an increase in the number of active labour market policies.

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LIST OF ABBREVIATIONS

ALMP   Active labour market policy

EU   European Union

EMU   Economic and Monetary Union

fRDB   Fondazione Rodolfo Debenedetti

GDP   Gross domestic product

IZA   Institute for the Study of Labor

OECD   Organisation for Economic Co-operation and Development

UK   United Kingdom

USA   United States of America

1. INTRODUCTION

The effect of party politics is contested in the literature on welfare state reform. Scholars agree on the importance of class politics, and of social democratic parties in particular, for the expansion of welfare states in the post-war 'golden era' (Esping-Andersen, 1990; Korpi, 1983). The case for welfare state restructuring is, however, much more disputed. The remit of this paper is to contribute to this on-going debate about partisan effects on welfare state reform.

Since the 1980s, welfare states have entered the 'silver age of permanent austerity': high unemployment, demographic changes and economic globalization have increasingly pressured governments to recalibrate the welfare state (Pierson, 2002; Taylor-Gooby, 2002). Governments have, however, shied away from substantially rolling back the welfare state because such drastic reforms are highly unpopular among the electorate (Pierson, 1996). They have instead initiated reforms which go into two directions: modest retrenchment (cost-containment and recommodification) and activation (Pierson, 2002; Taylor-Gooby, 2002). Which types of political parties have driven these changes? Can we discern differences between right-wing and left-wing governments? In the study of retrenchment this debate has been going on since the 1990s, but has not yet been resolved. The literature is even more undecided with regard to activation. Therefore, this study aims at answering the following question: *To what extent does political partisanship of the government account for the direction of welfare state reforms?*

This question does not only have scientific, but also social relevance. Retrenchment and activation reforms have a direct influence on many people in their daily lives. Which kinds of parties are more likely to enact these? In other words, does it make a difference whether one votes for a left- or right-wing party when it comes to welfare state restructuring?

1.1. THE FIRST PART OF THE PUZZLE: RETRENCHMENT

Against the backdrop of class politics, we would expect right-wing governments to be more likely to dismantle the welfare state than left-wing governments. In the 1990s, a strand of literature emerged which questions this 'old politics' approach. Pierson, the major proponent of the 'new politics' theory, argues that all governments, no matter where they are located on the political spectrum, refrain from retrenchment reforms. These policies are highly unpopular among the electorate and thus threaten the re-election of incumbent politicians (Pierson, 1996). Even though Pierson's arguments are now widely acknowledged, many studies have found evidence that the welfare state is not as resilient as he has suggested: (modest) cutbacks have taken place nevertheless (Starke, 2006).

The role of political parties in these changes is not yet clear. Studies by Allan and Scruggs (2004) and Korpi and Palme (2003) find that right-wing governments are more likely to implement retrenchment than left-wing governments. The authors follow the power resources school and argue that right parties in government employ their power resources to implement lower taxes and welfare state cutbacks. Green-Pedersen (2002) and Ross (2000) demonstrate exactly the opposite: they find that left parties are more likely to retrench than right parties because voters trust left parties to act in the common interest if they retrench.

This controversy is not only about competing theories, but also about competing empirical evidence. Several authors ascribe this to the so-called 'dependent variable problem' (Green-Pedersen, 2004; Kuhner, 2007; Starke, 2006). Early works on the resilience of welfare states have often used data on aggregate welfare spending to examine whether welfare states have changed. These data do neither reveal consequences of reforms for individuals nor changes in the direction of activation: governments might simultaneously cut costs for welfare benefits and spend more on activating measures – such a change is not discernible in aggregate social expenditure data. Several recent studies address this problem by using other indicators such as net replacement rates, i.e. the percentage of regular earnings one receives in case of sickness, unemployment etc. (Allan & Scruggs, 2004; Korpi & Palme, 2003; Schumacher, Vis, & van Kersbergen, 2013).

I argue that the use of net replacement rates does not fully solve the dependent variable problem either. Net replacement rates are problematic as well when it comes to measuring the relationship between partisanship and retrenchment because they measure the outcome i.e. the consequence of political decisions, but not the decisions as such (Klitgaard & Elmelund-Praestekaer, 2013; Siegel, 2007). Klitgaard and Elmelund-Praestakaer (2013) have addressed this problem by using a new empirical approach: they measure 'government intentions' by collecting data through content analysis of adopted laws. In a case study on Denmark they find evidence that partisanship still matters. In this thesis, I use a similar approach: I analyse adopted laws in the field of non-employment benefits in 14 EU countries. To that aim, I use data from the fRDB-IZA database[1] on welfare state reforms. Consequently, I would like to contribute to the debate on partisan effects on welfare state retrenchment.

1.2. THE SECOND PART OF THE PUZZLE: ACTIVATION

Welfare states have not only been retrenched in recent years. Simultaneously, a change from passive towards active labour market policies (ALMPs) has taken place. Social policies have become increasingly aimed at reducing unemployment and raising labour market participation. For this purpose, welfare states have started to spend more on public employment services, employment incentives, training and direct job creation (Vlandas, 2013).

Which parties have primarily implemented these policies? Some authors argue that social democratic parties have driven change towards activation (Boix, 1998; Esping-Andersen, 1990; Huo, Nelson, & Stephens, 2008). Others claim that social democratic parties are indifferent or even against activation policies – their main electorate are the insiders of the labour market, low- to middle-income wage earners. Therefore, they do not promote the inclusion of outsiders which could threaten the wage level or even jobs of insiders (Rueda, 2007). Again others argue that partisan effects differ for different kinds of active labour market policies (Vlandas, 2013).

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[1] The fRDB-IZA Social Reforms Database has been created in a joint initiative of the fondazione Rodolfo Debenedetti (fRDB), Milan, and the Institute for the Study of Labor (IZA), Bonn. For more information see the website: http://www.frdb.org/language/eng/topic/data-sources/dataset/international-data/doc_pk/9027

Thus, there is no agreement about the effect of partisanship on the introduction of activation policies. By studying which types of governments are more likely to implement activation reforms than others, I want to contribute to this rather new field of debate.

1.3. PUTTING THE PIECES TOGETHER: RESEARCH QUESTIONS AND THESIS OUTLINE

Based on the scholarly discussion on the relationship between partisanship and welfare state reforms, the question central to this study is as follows:

To what extent does political partisanship of the government account for the direction of welfare state reforms in Western European countries between 1989 and 2007?

This explanatory question is further divided into three sub-questions. The first of these sub-questions is a descriptive one. As there is some scholarly disagreement on whether there is much welfare state retrenchment at all, I first study the direction of change in the last decades.

I. *What is the direction of welfare state reforms in Western European countries between 1989 and 2007?*

The second and third sub-questions are explanatory and focus on the direction of change. The second question deals with the first dimension of welfare state reform: retrenchment. As the left-right dimension is the main cleavage in Western European political systems, I take this dimension to distinguish the partisanship of governments. First of all, I want to study whether governments of different partisanship differ in their likelihood of implementing retrenchment reforms.

II. *To what extent does the position of Western European governments on the left-right spectrum account for their likelihood of implementing reforms retrenching the welfare state between 1989 and 2007?*

The third sub-question deals with the second dimension of welfare state reform: activation. I want to study whether governments with different partisan compositions show differences in their likelihood of implementing activation reforms.

III. *To what extent does the position of Western European governments on the left-right spectrum account for their likelihood of implementing active labour market policies in the period between 1989 and 2007?*

This thesis goes about answering these questions through a longitudinal study covering a panel of 14 Western European welfare states in the time period from 1989 until 2007. The extent of retrenchment and activation is measured through data on the adopted laws in the area of non-employment benefits; these data are taken from the newly created fRDB-IZA database on welfare state reforms.

2. THEORY AND HYPOTHESES: PARTY POLITICS, RETRENCHMENT AND ACTIVATION

The golden age of the welfare state has faded away. Under the pressures of 'permanent austerity' welfare states have been restructured from the 1980s onwards (Pierson, 2002). Even though welfare state reforms are unpopular amongst the electorate (Pierson, 1996), most contemporary scholars agree that changes have been implemented, although most of them marginal.

Thus, I hypothesize that:

    I.   *Welfare state restructuring has been a significant phenomenon in Western European countries between 1989 and 2007.*

Welfare states' restructuring includes more than just retrenchment. According to Pierson, we can distinguish between three dimensions: recommodification, cost containment and recalibration. Recommodification denotes efforts to 'restrict the alternatives to participation in the labour market', e.g. by cutting benefits or introducing more conditionality (Pierson, 2002, p. 379). In the following, I will merge the concepts of recommodification and cost containment under the headline of 'retrenchment' as these two are often hard to distinguish: reducing unemployment benefits, for instance, can simultaneously be understood as an effort of recommodification and as a measure to reduce the costs of the welfare state.

Pierson's third dimension, 'recalibration' is more clearly distinct: it refers to the modernisation of the welfare state in the face of contemporary goals and demands (Pierson, 2002, p. 381). Governments have mainly responded to 'new social risks' by introducing activation policies (Taylor-Gooby, 2004). These active labour market policies (ALMPs) are policies 'which aim to reduce unemployment and raise labour market participation. ALMPs include spending on public employment services, employment incentives, training and direct job creation' (Vlandas, 2013, p. 3). The idea behind activation policies is to spend public resources on measures which get people into employment, such as education or job training, instead of giving welfare benefits to passive recipients.

When analysing the influence of partisanship on reforms, I thus distinguish between these two dimensions of welfare state reform: retrenchment (as recommodification and cost containment) and activation. In the following, I turn to the relationship between party politics and these two dimensions of welfare state reform.

2.1. PARTY POLITICS AND RETRENCHMENT

Conflict theories of welfare state retrenchment stress the importance of political struggles for the implementation or non-implementation of retrenchment policies (Starke, 2006, p. 108). In the golden age of welfare state expansion, the 'power resources approach' could account for the mechanisms of expansion: the power resources of wage-earners had increased in the after-war period and thus policies friendly towards wage-earners interests have been implemented (Korpi, 1983).

In the silver era of the welfare state from 1980 onwards, the question was whether the power resources theory could simply be reversed to account for welfare state retrenchment: if the strength of left parties had accounted for the emergence of the welfare state, did the power of right-wing, neo-liberal parties account for cutbacks?

In his seminal article, Pierson (1996) argued that the theory on welfare state expansion cannot simply be reversed: instead, 'new politics' have emerged. Powerful interest groups dependent on the welfare state have developed – therefore, politicians refrain from implementing cutbacks because they fear not being re-elected. This makes welfare states highly resilient to change.

Since the publication of Pierson's article, there has been an intense debate between two camps of conflict theories: the 'new politics' and the 'old politics' camps. Many authors have challenged Pierson's theory by bringing in empirical evidence rather in line with the 'old politics' approach – especially studies based on replacement rates (the percentage of income one receives from the welfare state in case of illness, unemployment etc.) have found that right-wing parties implement significantly more retrenchment policies than left-wing parties, with Christian democratic parties in between (Allan & Scruggs, 2004). Based on these findings, Korpi and Palme conclude: '[…] the power resources approach to welfare-state development, focussing on the role of socioeconomic class in distributive conflict, remains relevant also in the context of retrenchment' (Korpi & Palme, 2003, p. 426).

Even within the 'new politics' camp, we can find authors stating that political parties matter for whether retrenchment is implemented or not. They matter, but in ways completely different from those in the golden age of welfare state expansion. According to Green-Pedersen and in line with Pierson, the capability to justify retrenchment measures (blame avoidance) is crucial for a government in order to implement cutbacks: only if the electorate is convinced that reforms have been necessary, voters will re-elect the incumbent office-holders. Based on this assumption and supported by empirical evidence from the Netherlands and Denmark, Green-Pedersen argues that leftist parties are better able to retrench than rightist parties because voters tend to believe that left parties only implement retrenchment if it is really necessary e.g. due to economic pressures or budgetary deficits (Green-Pedersen, 2002, pp. 14-15). Ross (2000) makes the same point with regard to the UK and argues that parties serve as strategies today: they are often used as 'blame-avoidance instruments'. While voters are sceptical when rightist parties implement cutbacks, leftist governments can profit from retrenchment as it helps them to overcome the 'issue-association' of left-wing government with fiscal and economic irresponsibility and big government (Ross, 2000, pp. 164-165).

A recent study by Schumacher, Vis and van Kersbergen, on the other hand, argues the opposite based on data of 14 OECD countries: according to them, parties with a positive welfare image (left parties) lose votes when they implement cutbacks, while right parties (with a negative welfare image) do not lose votes (Schumacher et al., 2013).

Based on the 'old politics' theory I hypothesize that:

II. *Partisanship of the government is related to the likelihood of implementing reforms retrenching the welfare state in Western European countries between 1989 and 2007, with right-wing governments being more likely to retrench than*

Christian democratic and centre governments and with Christian democratic and centre governments being more likely to retrench than left-wing governments.

2.2. PARTY POLITICS AND ACTIVATION

For the second dimension of welfare state reform, activation, we can ask the same question: which parties have mainly implemented active labour market policies? The power resources approach (which has been outlined above) holds that social democratic parties implement more activation policies than conservative parties (Boix, 1998). Esping-Andersen (1990) even sees ALMPs as a defining feature of the 'social democratic' welfare state regime. Social democratic parties pursue two main goals with their social policies: decommodification (allowing citizens to exit the labour market without loss of income) and high labour market participation. These ideas seem to contradict each other: offering citizens a generous safety net might create disincentives to work. Several authors argue, however, that social democratic parties favour labour market participation over labour market exit (Huo et al., 2008). Policies shall provide citizens with benefits in case of temporary or involuntary exit from work, but the main focus is on re-integration into the labour market (Huber & Stephens, 2001, p. 334).

Other scholars argue that there is no link between social democracy and activation policies (Bonoli, 2010; Rueda, 2007). According to Rueda (2007), social democratic parties are indifferent or even against ALMPs. He argues that the traditional constituency of social democratic parties are the insiders of the labour market: low- and middle-income wage earners. The interests of these groups sometimes clash with those of the unemployed or excluded people, the outsiders of the labour market. As the insiders are better organized and more likely to give electoral support, social democratic parties favour their interests (Rueda, 2007). Therefore, there is, according to him, no relationship between partisanship and activation policies.

Recently, Vlandas (2011, 2013) has found that partisanship has different effects on different types of activation policies. He distinguishes between direct job creation, employment incentives and training measures and finds different partisan effects for these types of policies. Only for direct job creation, he observes a clear positive relationship with social democracy. Moreover, he finds different relationships between partisanship and activation policies under different welfare state regimes.

Based on the power resources theory, I hypothesize that:

III.   *Partisanship of the government is related to the likelihood of implementing active labour market policies in Western European countries between 1989 and 2007, with left-wing governments being more likely to introduce activation than Christian democratic and centre governments and with Christian democratic and centre governments being more likely than right-wing governments.*

2.3. OTHER FACTORS

There is a wide range of other potential factors which could have an influence on the direction of welfare state reforms, be it on retrenchment or the introduction of activation policies. Scholars following a neo-functionalist paradigm argue that problem pressures cause retrenchment (Starke, 2006, pp. 106-107). They stress especially that economic globalization requires states to downsize their social security systems (Scharpf, 1996). Political and institutional variables are at best intervening variables for them. Following this line of reasoning, we would also expect governments to be more likely to enact retrenchment reforms in a worse economic situation than in a better one and if the country has a high budgetary deficit. Similarly, governments facing financial problem pressures due to high unemployment or an ageing population have been found in some studies to enact more retrenchment measures than the ones that do not (Hicks & Zorn, 2005). Similarly, high unemployment could induce governments to introduce activation policies in order to get the unemployed back into the labour market.

According to Vis, governments only take the risk of taking unpopular decisions if a considerable change for the worse takes place. If a government considers itself to be in a 'losses domain' (i.e. if the status quo is no longer acceptable), it will implement risky reforms because it prefers potential gains over certain losses (Vis, 2010; Vis & van Kersbergen, 2007). Vis argues that a deteriorating socio-economic situation (a loss) is a necessary condition for unpopular reforms such as retrenchment measures (2009a). Popular activation reforms, on the contrary, are only enacted under the condition of an improving political position, a gains domain. Only under these conditions, she finds confirming evidence that rightist parties are more likely to retrench and that leftist governments are more likely to pursue activation (Vis, 2009b, p. 404).

Europeanization is another factor which could have an influence on the introduction of welfare state reforms. Although social policies are still largely in the hands of the member states, several developments influence their social systems. Social policy-making at EU level mainly takes the form of new modes of governance such as the Open Method of Coordination (Daly, 2006) Especially the European Employment Strategy pushes for more activation policies in EU member states (Van Vliet & Koster, 2011). Although this is a non-binding measure, Stiller and van Gerven argue that it has contributed to reforms at national level as core executives have used the European Employment Strategy to strategically push through reforms which they might not have been able to implement otherwise (Stiller & van Gerven, 2012). Apart from social policy measures at EU level, also other European developments might impact on welfare state reform. Member states which prepare for Economic and Monetary Union (EMU) membership are under strong pressure to stabilise their economies and finances; this could lead to reductions of social expenditure by the government (De la Porte & Jacobsson, 2012, p. 119).

Moreover, the welfare state regime could make a difference: 'welfare states follow specific development paths in how they adapt to new challenges, or in other words, history matters' (Van Gerven, 2008, p. 24). Due to path dependence or policy feedback, governments under different welfare state regimes might act differently – not only with regard to retrenchment, but also to activation policies (Vlandas, 2013).

Another factor which might have an influence is the institutional set-up of the state, especially the executives-parties dimension of democracies as detected by Lijphart (1999). According to Schmidt, 'the hypothesis of partisan influence [on public policy] is normally fully applicable to majoritarian democracies', but in consensual democracies, governments have less room to manoeuvre (Schmidt, 1996, p. 174).
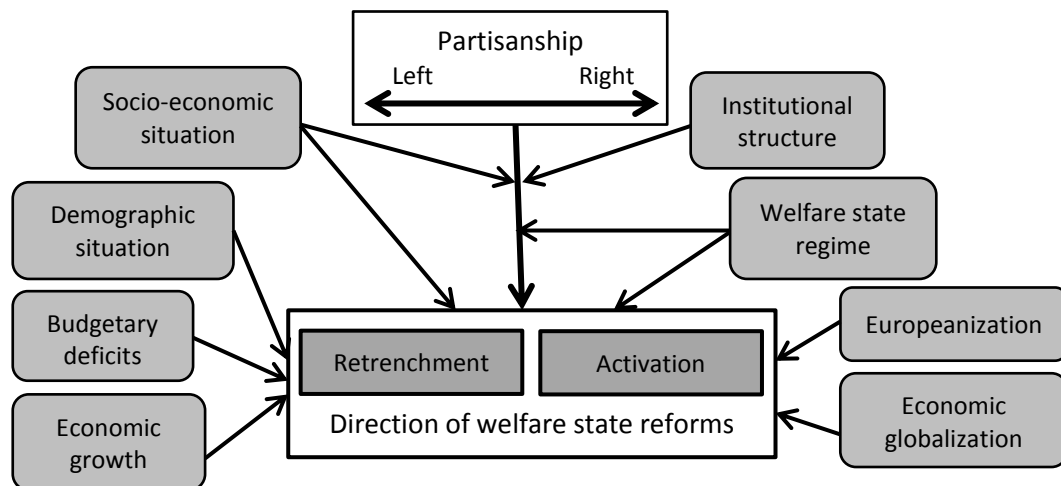
2.4. EXPECTED RELATIONSHIPS

In summary, I expect a causal relationship between partisanship of government and the direction of welfare state reforms. For the two dimensions of welfare state reforms, retrenchment and activation, I expect opposite causal effects of partisanship. The more to the right of the political spectrum a party is, the *more* I expect it to enact retrenchment reforms. Conversely, the more to the right a government is, the *less* I expect it to enact activation policies. The hypothesized relations are summarized in Figure 1.

Figure 1. Expected relationships
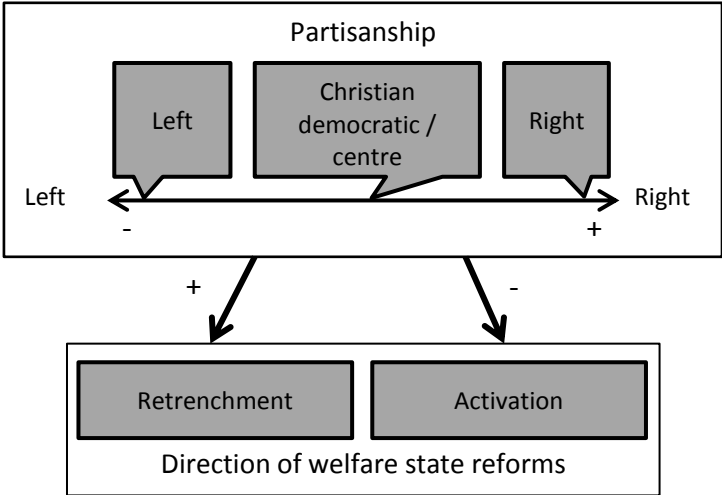
When analysing the relationship between partisanship of the government and the direction of welfare state reforms, I control for other potential independent variables suggested in the literature, which I have described above: these are the welfare state regime, the socio-economic and demographic situation, economic growth, globalization, Europeanization, budgetary deficits and the institutional structure of the state. Figure 2 shows how these alternative explanations might impact on the relationship between partisanship and the direction of welfare state reforms. Theoretically, we would expect most of these variables to influence the dependent variable 'direction of welfare state reforms' with its two dimensions retrenchment and activation. The institutional structure, the welfare state regime and the socio-economic situation might, however, also influence the causal mechanism between partisanship and direction of welfare state reforms. For certain values of these variables (e.g. a certain welfare state regime or a worsening economic situation), our assumptions about the relationship between partisanship and direction of welfare state reforms might hold, but not for others. In the following, I will outline how the expected relationships are tested in this thesis.

Figure 2. Expected causal relationship and alternative explanations

3. RESEARCH METHODOLOGY

3.1. RESEARCH DESIGN

This study has a quantitative approach. It is a longitudinal study covering 14 Western European welfare states[2] in the period from 1989 until 2007. The units of analysis are welfare states, but the units of observation are governing years (in each country). The goal of this study is to measure the expected relationship between the partisanship of the incumbent government and the direction of welfare state reforms enacted by it. Thereby, the focus is on two dimensions of welfare state reforms: retrenchment and activation.

I concentrate on the welfare state reforms governments enacted in the field of non-employment benefits. Data about the party composition of governments and about the direction of the enacted reforms are taken from existing databases, namely the Comparative Political Data Set and the fRDB-IZA database.

As has been laid out in the theory section, there is a wide range of potential third variables which could cause retrenchment. Governments always act within a specific economic and societal configuration. Retrenchment is almost certainly more likely in a worse economic situation than in a better one. The question is, however, whether partisan politics makes a difference: would a left-wing government act differently from a right-wing government in exactly the same situation? As we can never test the counterfactual and as random assignment is not feasible in this study, I control statistically for third variables which are mentioned in the literature as possible confounders. Nevertheless, the omitted variables problem can never be fully kept in check.

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[2] These countries are the EU15 countries without Luxembourg: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.

3.2. CASE SELECTION AND SAMPLING

The sample consists of 14 EU countries (the EU15 excluding Luxembourg) in the period from 1989 until 2007. The reason for choosing these specific countries in this time period is twofold. On the one hand, there are practical arguments connected to the availability of data: in order to study this question, I make use of the fRDB-IZA database which covers this period and countries (Debenedetti, 2012). It is a database jointly set up by the Fondazione Rodolfo Debenedetti (fRDB) and the Institute for the Study of Labor (IZA), both research institutes focussed on labour markets (fRDB, 2013).

On the other hand, it also makes sense theoretically to take this sample. The year 1989 (with the end of the Cold War) is often considered as the beginning of an era of neo-liberalism which is connected to the idea of welfare state retrenchment. Moreover, most countries (except for Scandinavia) did not introduce significant activation policies before the 1990s (Vlandas, 2013, p. 11). The period from 1989 until 2007 seems to be long enough to cover a significant number of reforms which can be studied.

With 14 EU countries, the sample includes almost all Western European countries. The newer EU member states (Central and Eastern European countries) are not included, because their transition from a communist towards a capitalist system started in or after 1989 – the theories on welfare state expansion and retrenchment can therefore not easily be applied to them and the results of this study will not be generalizable to Eastern Europe. As non-European welfare states such as the USA or Japan are not included either (and as party systems often differ considerably), external validity beyond Western Europe is not fulfilled. Therefore, results will only be generalizable to Western Europe.

3.3. DATA COLLECTION

3.3.1. The Dependent Variable: Direction of Welfare State Reforms

For the dependent variable 'direction of welfare state reforms', I use data from the fRDB-IZA database on welfare state reforms in the field of non-employment benefits (Debenedetti, 2012). Non-employment benefits can be expected to be a central policy area for both retrenchment and activation reforms. Retrenchment measures take e.g. the form of cuts in unemployment, sickness or disability benefits. Active labour market policies include amongst others training measures, job creation schemes and measures which introduce a duty to actively seek a job.[3]

Before conducting statistical analyses, I divide all reform measures included in the database into activation measures and non-activation measures. All measures classified under the topic ALMP (active labour market policies) are used for the analysis of activation and all others for retrenchment.

For each of these two dimensions (retrenchment and activation), I construct an index which gives an indication of the direction of welfare state reforms in a specific country and year. The

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[3] The distinction between retrenchment and activation reforms is not always as clear-cut as suggested here. Increasing the conditionality for unemployment benefits for instance contains elements of both retrenchment and activation.

fRDB-IZA database includes the dichotomous variable 'sign' for each reform measure. ALMPs are categorized as 'increasing' if they increase the rewards from work i.e. if they aim at activation, and as 'decreasing' if they reduce activation (Debenedetti, 2012). For other reform measures, 'increasing' means increasing flexibility of the labour market, which I define as retrenchment, and 'decreasing' denotes reforms that decrease the flexibility of the labour market (extension of the welfare state).

For the first dimension of the dependent variable, 'welfare state retrenchment', the index is calculated by subtracting the number of expansion reforms from the number of retrenchment reforms in year t and country c:

$$\text{Retrenchment index}_{tc} = N_{tc \text{ reforms 'increasing' flexibility}} - N_{tc \text{ reforms 'decreasing' flexibility}}$$

Thus, the index takes the value 0 if there has been an equal number of retrenchment and expansion reforms or none at all, a positive value if there have predominantly been retrenchment reforms and a negative value if there have been more expansion than retrenchment reforms. This is certainly only a crude measure of the direction of reforms in a governing year. Especially expansion reforms may be invisible because they often happen through indexation (automatic adjustment of welfare benefits to current price levels). Moreover, reforms are quite different in their impact. The index may thus be problematic for descriptive purposes as it might overestimate the extent of retrenchment, but I consider it appropriate for causal analysis as there is no reason to suspect that the error is systematically related to the independent variable 'partisanship'.

The index for the second dimension of welfare state reforms, activation, is calculated in the same way: for year t in country c the number of ALMPs decreasing the rewards from work are subtracted from the number of ALMPs increasing the rewards from work:

$$\text{Activation index}_{tc} = N_{tc \text{ ALMPs 'increasing' rewards from work}} - N_{tc \text{ ALMPs 'decreasing' rewards from work}}$$

The higher the value of this index, the more activation there has been in a governing year. The limitations of the retrenchment index apply similarly to this index, but as outlined above I consider it appropriate for the purposes of an explanatory study.

What distinguishes this research design from many of the existing studies on similar research questions is the conceptualization and operationalization of the dependent variable 'welfare state change'. Welfare state reform is often studied through data either on public welfare spending or on net replacement rates – the authors calculate which percentage of regular earnings people get through welfare benefits in case of unemployment, sickness etc. (Allan & Scruggs, 2004; Korpi & Palme, 2003; Schumacher et al., 2013). Both of these operationalizations do often only have a weak link with the theory on welfare state retrenchment – this is what several authors call 'the dependent variable problem' (Green-Pedersen, 2004). Most studies measure the extent of retrenchment through indicators on the outcome i.e. the consequence of the political decision (Klitgaard & Elmelund-Praestekaer, 2013, p. 51; Siegel, 2007, p. 55). However, in order to measure directly what influence the

partisanship of government has on the introduction of welfare state reforms, I use data on the direction of the reforms/laws themselves, not of the outcome.

3.3.2. The Independent Variable: Partisanship

The independent variable 'partisanship of the government' is measured by an updated version of the Schmidt-Index taken from the *Comparative Political Data Set I, 1960-2010* (Armingeon, Weisstanner, Engler, Potolidis, & Gerber, 2012). It calculates the partisan composition of the cabinet per year and country and is based on the proportions of cabinet seats allocated to right, centre (e.g. Christian democratic) and left parties, weighted by days (Schmidt, 1992). The index can take values from 1 to 5, but for the purposes of this study it is rescaled to take values from -2 to 2: (-2) hegemony of social democratic and other left parties, (-1) dominance of social democratic and other left parties, (0) balance of power between left and right, (1) dominance of right-wing (and centre) parties, (2) hegemony of right-wing (and centre) parties (Armingeon, Gerber, Leimgruber, Beyeler, & Menegale, 2008). This index has been used before for similar studies which also test the influence of partisanship on welfare state reforms (cf. Tepe & Vanhuysse, 2010; Vlandas, 2013). The Comparative Political Data Set, set up by the University of Bern, includes data on all 14 countries in my sample in the whole time period considered.

3.3.3. Other Factors

As outlined before, I control statistically for some potential confounders. Almost all of the following indicators (if not otherwise stated below) are included in the *Comparative Political Data Set I, 1960-2010* which I also use for measuring the independent variable 'partisanship' (Armingeon et al., 2012). It includes data on all countries and years included in my study. Most of these indicators have also been used in a recent study by Vlandas (2013) on the relationship between partisanship and activation policies. The following variables are included:

The *welfare state regime* according to Esping-Andersen (1990) is measured through two dummy variables. The dummy 'liberal welfare state' takes the value 1 for liberal welfare states and 0 for others. The dummy variable 'continental welfare state' is equal to 1 for continental welfare states and 0 otherwise. When both are zero, it is a social democratic welfare state regime (cf. Vlandas, 2013).

The institutional set-up of a country is measured through Lijphart's first dimension of the constitutional arrangement of a state: the executives-parties dimension. This measure is a scale from consensual to majoritarian democracies. The Comparative Political Data Set includes a proxy variable for Lijphart's first dimension calculated per year and country.

Based on the annual harmonized unemployment rate, I calculate the *change in unemployment* from the year before to the year studied. I use the change rate instead of the annual unemployment rate based on Vis' argument that governments will only enact unpopular reforms if a considerable change for the worse is taking place (Vis, 2010).

Economic growth is measured by annual GDP growth in percentages.

Economic Globalization is measured by an indicator of trade openness – the sum of import and export as a percentage of GDP.

The budgetary deficit of a country is measured through the annual deficit as a percentage of GDP.

The demographic situation is measured through the percentage of people aged 65 or older of the total population.

Europeanization is measured through dummy variables on important events in the development of the EU: EU membership of the country, the Maastricht and Amsterdam Treaties and EMU membership. The variables are scored 1 if the country has been member/signatory in the specific year and 0 otherwise (cf. Paetzold & Van Vliet, 2012, p. 8).

3.4. DATA ANALYSIS

The data are analysed statistically through multiple regression analysis. More specifically two regression analyses for the two dimensions of the dependent variable are conducted: retrenchment and activation. For both regression analyses, the independent variable is partisanship. In further regression models, the other variables (see above) will be included.

Based on the results, I estimate the influence of partisanship on welfare state reforms regarding retrenchment and activation. Thereby, I take account of the other potentially confounding variables.

4. DATA AND ANALYSIS

In this section, I discuss the results of the statistical analyses and assess whether the expected relationships can be confirmed. In brief, I test the following relationships between partisanship of the government and the direction of welfare state reforms. The more to the right of the political spectrum a party is, the more I expect it to enact retrenchment reforms and the less I expect it to enact activation policies. The diagram below summarizes the hypothesized relationships.

Figure 3. Expected relationships
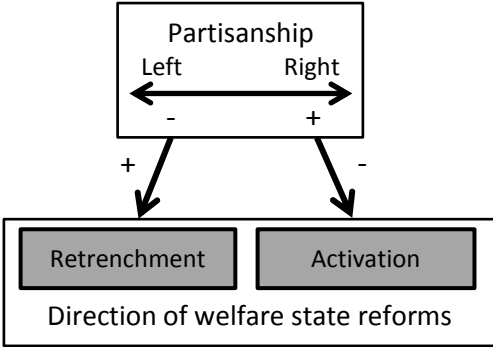
4.1. WELFARE STATE RESTRUCTURING IN 14 WESTERN EUROPEAN COUNTRIES

Before turning to the causal analyses, this section analyses the direction of welfare state reforms. Thereby, welfare state restructuring over time and across countries is assessed in order to answer the first research question: *What is the direction of welfare state reforms in Western European countries between 1989 and 2007?*
Welfare state restructuring has been an observable phenomenon in Western Europe in the last two decades. The data at hand suggest that the restructuring of social systems increased from the early or mid-1990s onwards. While welfare state retrenchment reached its peak in the mid-1990s, activation effort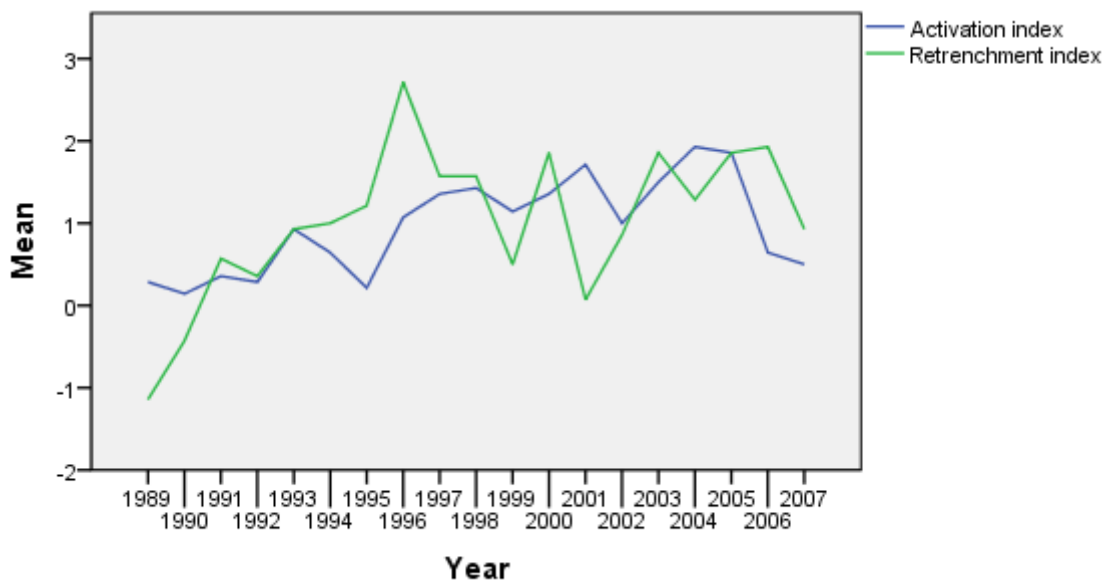s continue to increase in the first years of the new millennium. The figure below shows the mean retrenchment and activation indices per year.

Figure 4. Mean retrenchment index and mean activation index per year (Source: own elaboration on Debenedetti, 2012)

Turning to the first dimension of change, retrenchment, a trend can be observed (see Table 1). In the late 1980s and early 1990s, the number of expansion and retrenchment reforms was about equal: in 1989 and 1990, there was even still some expansion of welfare states (mean retrenchment index 1989: -1.14, 1990: -0.43). In the second half of the 1990s, this changed with a clear trend towards retrenchment. Between 1995 and 1997, there was a phase of intense retrenchment. The peak was reached in 1996 with 46 retrenchment reforms and only 8 expansion reforms in the 14 EU countries studied (mean retrenchment index 1996 = 2.71). In the first years of the new millennium, welfare state retrenchment remains a discernible phenomenon.
Welfare states have also been reformed through the introduction of active labour market policies (see Table 2). In the period from 1989 to 1995, only few activation policies were introduced in the 14 countries studied: on average, each country introduced less than one activation reform per year. Although the total numbers of activation reforms are relatively small, we can observe an increase in activation from the mid-1990s onwards. On average, each country introduced more than one activation reform per year from 1996 until 2005.

Activation reached its peak with a mean activation index of 1.93 in 2004. In 2006 and 2007, activation efforts decreased remarkably.

Table 1. Mean retrenchment index per year

Year	Mean	N	Std. deviation
1989	-1.14	14	1.562
1990	-0.43	14	0.646
1991	0.57	14	1.342
1992	0.36	14	0.633
1993	0.93	14	1.542
1994	1.00	14	2.449
1995	1.21	14	1.477
1996	2.71	14	2.867
1997	1.57	14	3.322
1998	0.50	14	1.697
1999	1.86	14	1.605
2000	0.07	14	2.627
2001	0.86	14	2.129
2002	1.86	14	2.107
2003	1.29	14	2.248
2004	1.86	14	1.978
2005	1.93	14	2.742
2006	0.93	14	2.464
2007	1.03	14	2.401
Total	1.03	266	2.224

Table 2. Mean activation index per year

Year	Mean	N	Std. deviation
1989	0.29	14	0.611
1990	0.14	14	0.363
1991	0.36	14	0.745
1992	0.29	14	0.611
1993	0.93	14	1.141
1994	0.64	14	1.216
1995	0.21	14	0.893
1996	1.07	14	1.141
1997	1.36	14	0.842
1998	1.43	14	1.158
1999	1.14	14	1.292
2000	1.36	14	1.946
2001	1.71	14	1.267
2002	1.00	14	0.877
2003	1.50	14	1.787
2004	1.93	14	0.997
2005	1.86	14	1.916
2006	0.64	14	0.929
2007	0.50	14	0.519
Total	0.97	266	1.248

(Source: own elaboration on Debenedetti, 2012)

Disaggregating the data for the 14 countries, it becomes clear that these overall trends hide a much broader variation in patterns. The figures below display the retrenchment and activation indices per country and year. The exact values for each country and year can be found in the appendix (see Table A1 and A2).

With regard to retrenchment (see Figure 5), we can observe that all countries implemented only little retrenchment or even welfare state expansion during the early 1990s. From the mid-1990s onwards, patterns start to diverge considerably. In several countries welfare state retrenchment reached its peak in the late 1990s and retrenchment efforts decreased in the new millennium. Examples include Germany, Finland, Austria and the UK. In some other countries, retrenchment efforts increased until the end of the observed period (the mid-2000s). These include Sweden and Belgium. Moreover, the data suggest that there was more retrenchment in some countries than in others. In Sweden and Germany, around 2.5 more reforms retrenching than reforms expanding the welfare state were introduced on average per year. The least retrenchment has been implemented in the Mediterranean countries Italy, Greece and Spain. The data at hand do, however, not allow for detailed analyses of the extent of retrenchment because they do not reveal the substantive content and size of the reforms. Thus, the only overall trend that is observable across countries is the trend towards more activation from around 1993 onwards.

Figure 5. Retrenchment index per country and year (Source: own elaboration on Debenedetti, 2012)
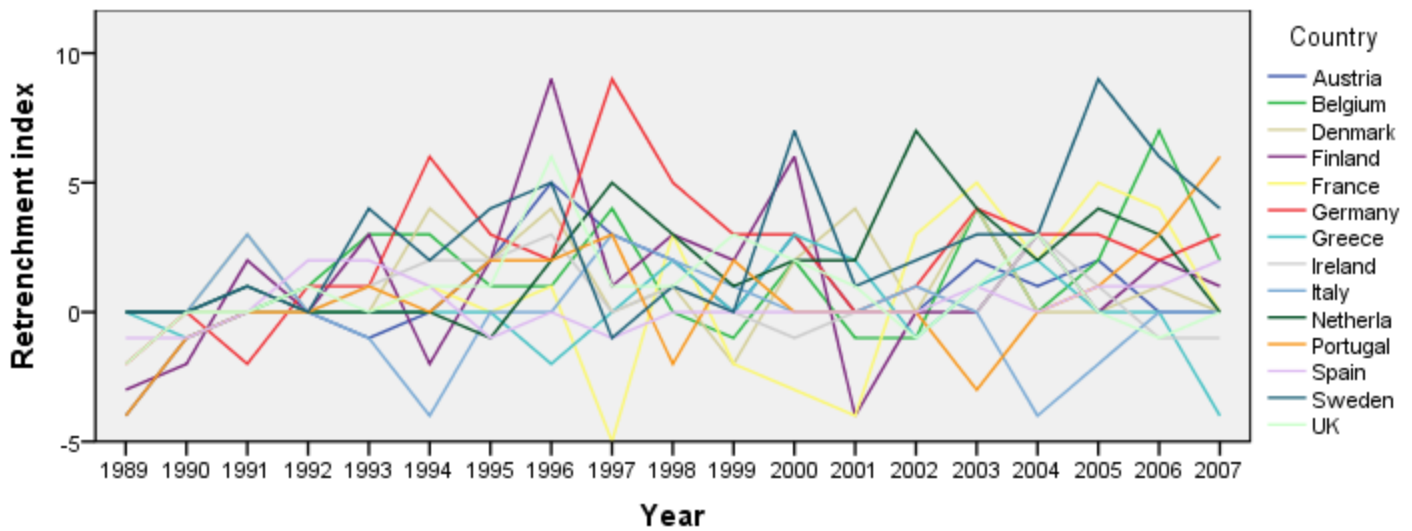
As regards activation (see Figure 6), we can observe two overall patterns. In one group of countries, activation efforts peak in the mid- or late 1990s and decrease again afterwards. These are for instance Ireland, Germany, the UK and the Netherlands. In several other countries such as Belgium, Finland, Denmark and Sweden, the number of enacted activation measures increases steadily. Differences in the numbers of reforms enacted per year are, however, very small. Therefore, comparisons of the total extent of reforms in the different countries seem inappropriate. We should also be careful with overstating the described patterns.

Figure 6. Activation index per country and year (Source: own elaboration on Debenedetti, 2012)
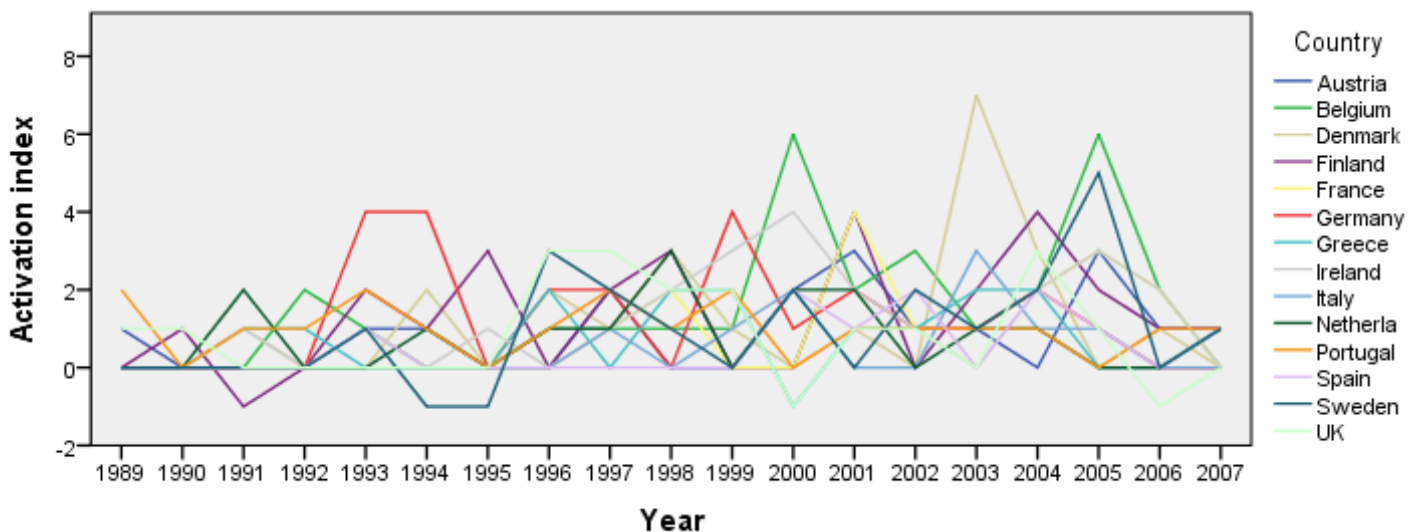
In conclusion, the first hypothesis can be confirmed: *Welfare state restructuring has been a significant phenomenon in Western European countries between 1989 and 2007.*
Despite of powerful pressures against retrenchment, all studied countries have seen a number of retrenchment reforms being introduced in the period from 1989 until 2007. Especially in

the late 1990s, considerable numbers of retrenchment reforms have been enacted. This leads us to the second research question: why have these reforms been implemented despite of pressures for resilience (Pierson, 1996)? Do political parties make a difference? Activation has been a discernible phenomenon as well. Who has implemented these reforms? I turn to these questions in the following parts.

4.2. PARTISAN EFFECTS ON RETRENCHMENT?

Based on multiple regression analysis[4], this section gives an answer to the second research question: *To what extent does the position of Western European governments on the left-right spectrum account for their likelihood of implementing reforms retrenching the welfare state between 1989 and 2007?*

The regression results for retrenchment are presented in Table 4. A regression for partisanship on retrenchment (Model 1) results in a coefficient of -0.143. This suggests that there is a negative relationship between government partisanship and retrenchment: left-wing governments are more likely to implement retrenchment reforms than right-wing governments. Taking a look at the mean retrenchment indices for the different categories of government partisanship, it becomes evident that there is a constant decrease in retrenchment, the more to the right of the political spectrum a government is (see Table 3). While complete left-wing cabinets have on average implemented 1.29 more retrenchment than expansion reforms per year, this rate is only 0.73 for cabinets with right-wing members only.

Table 3. Mean retrenchment index per government partisanship (Source: own elaboration on Armingeon et al., 2012; Debenedetti, 2012)

Government partisanship	Mean	N	Std. deviation
Hegemony of social democratic and other left parties (-2)	1.29	55	2.354
Dominance of social democratic and other left parties (-1)	1.17	23	1.922
Balance of power between left and right (0)	1.15	80	2.256
Dominance of right-wing (and centre) parties (1)	1.00	18	1.425
Hegemony of right-wing (and centre) parties (2)	0.73	89	2.168
Total	1.03	265	2.227

This is exactly the opposite of the expected relationship. Based on the 'old politics' approach, I have hypothesized that right-wing governments are more likely to retrench than left-wing governments. Apparently, this is not the case. In terms of theory, this finding lends support to the arguments of Green-Pedersen (2002) and Ross (2000). Leftist parties seem to be better able to retrench than rightist parties because they can more effectively avoid the blame connected to such unpopular policies. When leftist governments cut back on welfare, they are often even considered as acting responsibly, while retrenchment has a much more negative connotation when enacted by right-wing government.

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[4] Several regression analyses have been run. This paper includes three of them for each of the two dimensions of the dependent variable welfare state reform (retrenchment and activation). The models have been chosen based on theoretical and methodological (statistical) considerations.

The correlation between partisanship and retrenchment is, however, not statistically significant. Moreover, the regression for partisanship on retrenchment (Model 1) only accounts for 0.9% of cases: the large majority of variation in the data can thus not be attributed to the partisanship of the government. Therefore, we have not enough evidence to suppose that the found relation between partisanship and retrenchment is not due to mere chance. Other regression models which control for potential confounders produce the same results (see Model 2 and 3 in Table 4): the coefficient for government party is negative, but not statistically significant.

Table 4. Regression estimates for welfare state retrenchment (measured through retrenchment index) (Source: own elaboration on Armingeon et al., 2012; Debenedetti, 2012; Esping-Andersen, 1990)

Independent variables	Model 1	Model 2	Model 3
Government partisanship (from -2, left wing, to +2, right wing)	-0.143 [0.091]	-0.064 [0.111]	-0.135 [0.091]
Dummy variable for liberal welfare regime		-1.379* [0.608]	-0.554 [0.447]
Dummy variable for continental welfare regime		-0.916* [0.413]	-0.887** [0.135]
Proxy variable for Lijphart's first dimension		-0.218 [0.226]	
Change in unemployment rate		0.520* [0.255]	0.282* [0.135]
GDP growth		0.151 [0.120]	
Openness of the economy		0.015* [0.006]	0.014** [0.004]
Annual deficit as % of GDP		-0.055 [0.067]	
Population 65 and older in % of population		0.257* [0.117]	0.260** [0.087]
Dummy variable for EU membership		1.079 [0.814]	
Dummy variable for EMU membership		-0.720 [0.564]	
Dummy variable for Maastricht Treaty		1.425** [0.484]	
Dummy variable for Amsterdam Treaty		-0.444 [0.567]	
Constant	1.064** [0.138]	-5.184* [2.164]	-3.420* [1.484]
Observations (N)	*265*	*227*	*260*
Model fit (R²)	*0.009*	*0.173*	*0.108*

Notes: Std. error is given in brackets
**$p < 0.01$, *$p < 0.05$ levels of significance

If the partisanship of the government cannot explain the vast majority of differences in retrenchment efforts, what else can account for the direction of welfare state reforms

implemented? Regression Model 2 (see Table 4) includes several variables which are potential alternative explanations for retrenchment (as outlined in the theory and methods sections).

Compared to the first model, Model 2 has a much better fit: it accounts for 17.3 % of the variation in the data. It is, however, still a relatively low value – this might have several causes. First of all, many more variables can be assumed to influence the direction of welfare state reforms: these include for instance the individual motivations of leading politicians. The social world is complex and we cannot expect to find perfect relationships between variables. Moreover, a relationship between the analysed variables might exist, but not be sufficiently linear to be adequately modelled by a linear regression (Babbie, 2010, p. 475). In addition, my operationalizations of some variables might not be fully adequate: as mentioned before, the dependent variable 'direction of welfare state reforms' does not capture the size, but only the number of reforms and might therefore give a distorted picture of the overall direction. Despite of the low model fit, we can, however, draw some conclusions from the regression model as to which factors are influential.

Firstly, the most influential factor is the dummy variable on the Maastricht Treaty (P-value < 0.01). The positive coefficient of 1.425 indicates that after the entry into force of the Maastricht Treaty in 1993, there has been much more retrenchment than before. Almost all countries in the sample have ratified the Maastricht Treaty in 1993 and the remaining countries became signatories through their EU entry in 1995 (Austria, Finland and Sweden). Therefore, it is difficult to tell whether the observed effect is really due to the Maastricht Treaty or rather due to a general trend towards retrenchment in the mid-1990s. The least we can say is that we can observe a pan-European trend towards more retrenchment from around 1993 onwards: although social policies are a core field of national sovereignty, European countries seem to influence each other, learn from each other and act similarly either due to EU-membership or due to similar external pressures.

Secondly, the findings suggest that the direction of welfare state reform is conditional on the welfare state regime. Governments in liberal welfare states are, conditional on the other variables, less likely to enact retrenchment than non-liberal welfare states. For continental welfare states, there is also a negative correlation with retrenchment. Thus, the data suggest that governments in social democratic welfare states are most likely to enact retrenchment. This finding may seem counterintuitive. Social democratic welfare states are considered to be the most extensive welfare states after all; especially concerning non-employment benefits they are generous and comprehensive (Sapir, 2006, p. 377). The reason for the puzzling finding that liberal welfare states retrenched less than social democratic ones might be that liberal welfare states enacted the bulk of retrenchment reforms before the period under consideration (in the UK under Thatcher in the 1980s) and that there has never been such an extensive welfare state which could be retrenched later on. These speculations should, however, be taken carefully because the relationship between liberal welfare state regime and retrenchment does not hold across different model specifications (see Model 3). The finding that governments under conservative/continental regimes are less likely to retrench than social democratic ones is not surprising: conservative systems are considered as particularly resilient and status-quo oriented (Stiller, 2007, p. 14).

Thirdly, external pressures are found to have an influence on retrenchment. The variable 'openness of the economy' has a positive and statistically significant influence on

retrenchment. The opener the economy, the more retrenchment can be observed in a country and year. This finding confirms the idea that globalization triggers retrenchment. Also demographic change appears to be an influential factor for retrenchment. The higher the share of elderly people in the population, the more retrenchment is enacted by the government. Finally, a change in unemployment is found to contribute to retrenchment. If unemployment increases, governments enact more retrenchment reforms. This finding confirms Vis' argument (2010) that a worsening socio-economic situation – a 'losses domain' – leads to retrenchment because governments prefer potential gains over certain losses.

Regression Model 3 confirms these findings: additionally to partisanship, the variable of prime interest, only the variables found to be influential in a statistically significant way have been included. The dummy variable for the Maastricht Treaty has been excluded because of the above-mentioned problems with interpreting it. All included variables except for partisanship and a liberal welfare state regime are again found to be influential with statistically significant coefficients. The coefficients for continental welfare state regime, openness of the economy and the share of elderly people in the population are even significant at a lower level of significance in this model ($p < 0.01$).

Finally, I relate these findings back to the hypothesis developed in the beginning of this paper: *Partisanship of the government is related to the likelihood of implementing reforms retrenching the welfare state in Western European countries between 1989 and 2007, with right-wing governments being more likely to retrench than Christian democratic and centre governments and with Christian democratic and centre governments being more likely to retrench than left-wing governments.*
We have no evidence to confirm this hypothesis. In fact, the data even suggest that left-wing governments enact slightly more retrenchment than right-wing governments – exactly the opposite of the expected relationship. This might be due to the difficulties of right-wing parties to avoid the blame when cutting back the welfare state. When leftist governments enact retrenchment, on the contrary, citizens tend to believe that retrenchment efforts are justified because they associate social democratic parties with social justice (Green-Pedersen, 2002; Ross, 2000). We have, however, not enough statistical evidence to confirm the observed relationship between partisanship and retrenchment.
External factors are found to be more influential. Demographic change and a worsening socio-economic situation measured as the change in unemployment increase retrenchment efforts. Similarly, economic globalization (and possibly also Europeanization) contributes to an increase in retrenchment. Moreover, governments in liberal and continental welfare states retrench less than those in social democratic welfare states.

4.3. PARTISAN EFFECTS ON ACTIVATION?

After having analysed the determinants of welfare state retrenchment, this section gives an answer to the third research question which deals with activation: *To what extent does the position of Western European governments on the left-right spectrum account for their*

likelihood of implementing active labour market policies in the period between 1989 and 2007?

The results of the statistical analyses do not show any partisan effect on the introduction of activation reforms. The coefficient of government partisanship in a simple regression on retrenchment is almost equal to zero (0.008) and not statistically significant (see Model 1 in Table 6). The mean activation indices vary for different categories of governments, but we cannot observe any pattern in this variation (see Table 5).

Table 5. Mean activation index per government partisanship (Source: own elaboration on Armingeon et al., 2012; Debenedetti, 2012)

Government partisanship	Mean	N	Std. deviation
Hegemony of social democratic and other left parties (-2)	1.02	55	1.284
Dominance of social democratic and other left parties (-1)	0.78	23	0.902
Balance of power between left and right (0)	1.03	80	1.321
Dominance of right-wing (and centre) parties (1)	0.33	18	0.840
Hegemony of right-wing (and centre) parties (2)	1.07	89	1.286
Total	0.97	265	1.249

Running a multiple regression for activation with the inclusion of partisanship and other variables (those laid out in the theory and methods sections) we cannot observe an effect of partisanship either (see Model 2 in Table 6). The regression model does only have a relatively poor fit: it accounts for only 12.3 % of the variation in the data[5]. The only variable in this regression model with a considerable and statistically significant influence is the dummy variable 'Maastricht Treaty' which has a positive coefficient of 0.788. After the entry into force of the Maastricht Treaty in 1993, there has been considerably more activation than before. As I have outlined in the discussion on retrenchment, this probably reflects rather a general trend towards activation from the mid-1990s onwards than an influence of the Maastricht Treaty itself. Nevertheless, it is remarkable that the trend towards activation is a pan-European development that takes place during the same time period – be it due to Europeanization or common external factors.

An alternative regression model based on stepwise regression[6] (see Model 3 in Table 6) fits only slightly worse than Model 2: the combination of the Maastricht Treaty, openness of the economy and government partisanship accounts for 10.9 % of variation in the data. The Maastricht Treaty again comes out as the most influential factor. Next to it, the openness of the economy of a country in a certain year is positively related to activation policies: the more economic globalization there is in a country, the more likely is the government to enact active labour market policies.

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[5] For possible causes of a low model fit, see the outline above regarding retrenchment.
[6] As partisanship is the main variable of interest in this paper, it has been added to the variables obtained through stepwise regression.

Table 6. Regression estimates for the introduction of active labour market policies (measured through activation index) (Source: own elaboration on Armingeon et al., 2012; Debenedetti, 2012; Esping-Andersen, 1990)

Independent variables	Model 1	Model 2	Model 3
Government partisanship (from -2, left wing, to +2, right wing)	0.008 [0.051]	0.036 [0.065]	0.022 [0.050]
Dummy variable for liberal welfare regime		-0.233 [0.358]	
Dummy variable for continental welfare regime		-0.249 [0.244]	
Proxy variable for Lijphart's first dimension		-0.109 [0.133]	
Change in unemployment rate		0.062 [0.150]	
GDP growth		-0.010 [0.071]	
Openness of the economy		0.004 [0.003]	0.006** [0.002]
Annual deficit as % of GDP		0.053 [0.039]	
Population 65 and older in % of population		0.025 [0.069]	
Dummy variable for EU membership		-0.094 [0.479]	
Dummy variable for EMU membership		0.321 [0.332]	
Dummy variable for Maastricht Treaty		0.788** [0.285]	0.768** [0.179]
Dummy variable for Amsterdam Treaty		-0.110 [0.334]	
Constant	0.968 [0.078]	-0.181 [1.275]	-0.078 [0.209]
Observations (N)	*265*	*227*	*265*
Model fit (R²)	*0.000*	*0.123*	*0.109*

Notes: Std. error is given in brackets
**p < 0.01, *p < 0.05 levels of significance

In conclusion, these findings do not provide any evidence confirming the third hypothesis of this thesis: *Partisanship of the government is related to the likelihood of implementing active labour market policies in Western European countries between 1989 and 2007, with left-wing governments being more likely to introduce activation than Christian democratic and centre governments and with Christian democratic and centre governments being more likely than left-wing governments.*

The data suggest that there is no relationship between partisanship and the introduction of active labour market policies. This finding fits within the theories of Bonoli (2010) and Rueda (2007) who argue that social democratic parties are not more likely than rightist parties to enact activation. According to them, the interests of the insiders of the labour market are more

important to left-wing parties than those of the outsiders – therefore, they are not particularly interested in activation policies.

Instead of partisan effects, we can observe a general trend towards activation from the mid-1990s onwards – it is, however, not clear what causes this trend. Further research would be necessary to establish whether Europeanization, mutual learning etc. play a role here. In addition, the findings suggest that economic globalization triggers an increase in activation policies. This is consistent with the idea that European countries increasingly introduce activation policies in order to stay competitive in a globalized world. Active labour market policies contribute to the transformation of a country into a 'new knowledge economy' which can successfully compete to attract investment in global markets (Lundvall & Rodrigues, 2002).

4.4. DISCUSSION OF THE FINDINGS

In summary, the findings of this thesis differ considerably from the expected results based on previous research. Nevertheless or perhaps precisely because of it, the findings give us some interesting insights into the causes of welfare state reforms.

First of all, conforming to my prior expectations, there has been a considerable amount of welfare state reform in Western European countries between 1989 and 2007. These changes go into two directions: retrenchment of the welfare state and activation. These findings disconfirm the assumption of the 'new politics' approach that no or only very limited retrenchment will occur (Pierson, 1996).

Having found that there have been significant reform efforts, the question is: what accounts for the introduction of these changes? Contrary to my hypotheses, I find no evidence in line with the 'old politics' theory that right-wing governments enact more retrenchment than left-wing governments (Allan & Scruggs, 2004; Korpi & Palme, 2003). The data even suggest the opposite; this finding is, however, not statistically significant. Right-wing parties seem to be *less* likely to enact retrenchment than left-wing parties. This lends support to authors following the 'new politics' paradigm who state that parties continue to matter in an era of retrenchment, but in completely unexpected ways. According to Green-Pedersen (2002) and Ross (2000), left parties are better able to retrench than right parties because voters trust them to act appropriately: voters assume leftist parties to act in the common interest if they retrench, while rightist parties are considered to pursue an agenda of harsh reform.

With regard to activation, I cannot confirm the assumption that left-wing governments employ their power resources to enact activation policies, while right-wing governments are less interested in active labour market policies (Boix, 1998). There is no evidence that partisanship of the incumbent government matters for the introduction of active labour market policies. This is in line with theories by Bonoli (2010) and Rueda (2007) who argue that social democratic parties do not have a particular interest to activate the outsiders of the labour market because this social group is not part of their traditional constituency.

If partisanship does only slightly affect the likelihood of a government to implement retrenchment reforms and does apparently not have any relation with activation reforms, which other factors matter? For both retrenchment and activation, pressures which are external to the government have been found to have an impact – be they economic, socio-

economic or even political. For retrenchment, also welfare state institutions have been found to be influential. These determinants are presented schematically in Figure 7.

Figure 7. Determinants of the direction of welfare state reforms
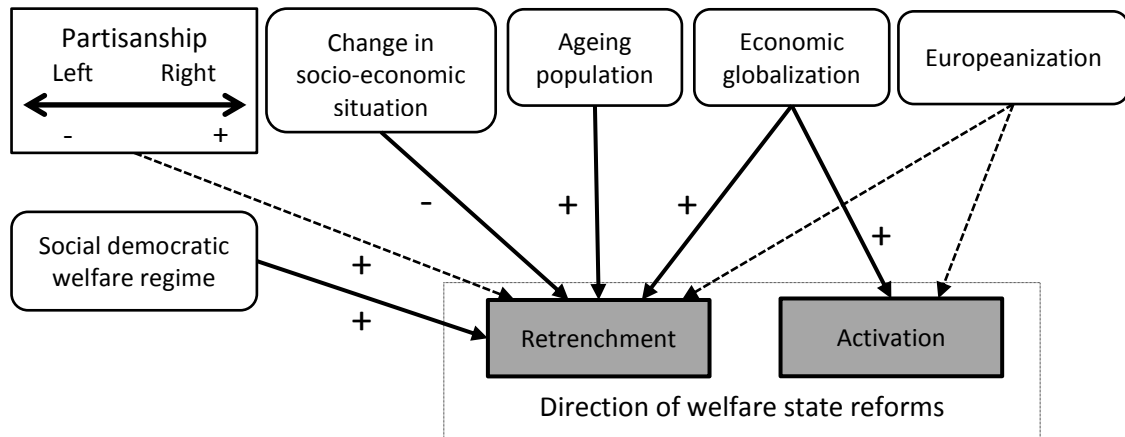
Economic globalization is a factor which contributes to increased retrenchment as well as activation. According to some authors the global integration of markets for capital, goods and services pressures governments to downsize the welfare state, because the costs of social security systems cannot simply be passed on to consumers anymore. This 'regulatory competition', they argue, leads to a 'downward spiral of competitive deregulation' or 'race to the bottom' (Scharpf, 1996, p. 256; Sinn, 2004; Tanzi, 2002). Other studies find that such a 'race to the bottom' has not taken place (Alber & Standing, 2000; Starke, Obinger, & Castles, 2008).

Based on this thesis, I suggest the following interpretation: globalization has caused the restructuring of welfare states, but this change is bi-directional. On the one hand, globalization pressures governments to downsize their welfare states in order to remain competitive. On the other hand, governments try to transform society from an industrial into a post-industrial knowledge economy. This entails much more than cutting costs: by enacting active labour market policies governments seek to encourage, pressure or equip individuals to enter the labour market (Lundvall & Rodrigues, 2002).

Moreover, a change in the socio-economic situation has been found to contribute to the introduction of retrenchment reforms (but not activation). A worsening socio-economic situation manifested in an increasing unemployment rate has been found to increase the likelihood of a government to enact retrenchment reforms. This finding confirms Vis' argument that a government will only take the risk of implementing unpopular cutbacks if the situation is worsening. If the government does not act, the situation will certainly continue to worsen; if it takes the risk of reforming the system, this creates at least the opportunity for gains (Vis, 2010).

Another pressure which induces governments to retrench the welfare state is demographic change: the higher the share of elderly/retired people in a country, the lower the share of employed people who bear the fiscal burden of the welfare state. In line with the arguments of Hicks and Zorn, this thesis finds evidence that these pressures trigger 'actions to roll back eligibility and benefit rates' (Hicks & Zorn, 2005, p. 631).

Furthermore, this thesis has found that in the 1990s, a decade of accelerating Europeanization, most Western European countries witnessed an increased amount of retrenchment and activation compared to the fore-going period. From the data at hand, it is not clear whether Europeanization is a cause of this or occurred simply simultaneously. Moreover, development patterns diverge from the late 1990s onwards – this increases doubts about an influence of Europeanization.

Finally, this paper has found evidence that governments in social democratic welfare states retrench more than those in both liberal and continental welfare states. Although continental (or 'conservative') welfare states are known for being particularly resilient (Stiller, 2007, p. 14), this finding is surprising with regard to liberal welfare states. One reason might be that there has simply not been such an extensive welfare state under liberal regimes which could be cut back later on.

5. CONCLUSION

In this thesis, I have analysed the impact of party politics on the direction of welfare state reforms. With growing economic pressures and rising budgetary deficits, governments have begun to restructure the welfare state in recent decades. Changes go into two directions: retrenchment and activation. There has been an on-going debate between social policy scholars as to the role of party politics in these changes.

Based on this debate, I have posed the following research question: *To what extent does political partisanship of the government account for the direction of welfare state reforms in Western European countries between 1989 and 2007?* In an attempt to answer this question I have statistically tested the influence of a broad range of variables, partisanship being one of them, on retrenchment and activation in the field of non-employment benefits in 14 EU countries. Contrary to prior expectations, there is some evidence that rightist governments are more likely to retrench the welfare state than leftist governments. This relation is, however, not statistically significant. For activation, no partisan effects can be found. The main factors determining the direction of reforms seem to be external to the government. A deteriorating socio-economic situation and the pressures of economic globalization and demographic change trigger retrenchment. In the same vein, globalization contributes to an increase in the number of active labour market policies. The results of this study also suggest that Europeanization might contribute to both increased retrenchment and activation. Due to a lack of variation on this variable (all studied countries are EU member states), this study can, however, not give a founded conclusion about the role of Europeanization. Further studies exploring the differences between EU members and non-members would be necessary to test this. Finally, welfare state institutions seem to matter for the direction of reforms: surprisingly, this study finds that governments in social democratic welfare states are most likely to cut back the welfare state.

In terms of theory, these findings do not confirm the expected relationships. They contradict the power resources theory which holds that right-wing parties are more likely to enact retrenchment and less likely to enact activation policies than left wing parties (Allan & Scruggs, 2004; Korpi & Palme, 2003). Neither are they fully consistent with Pierson's 'new

politics' theory (1996). Governments seem indeed to shy away from far-reaching retrenchment because such policies are unpopular, but changes are implemented nevertheless and welfare states are not as resilient as suggested. The puzzling finding that rightist parties are apparently *less* likely to retrench than leftist parties lends support to the idea that parties continue to matter in a phase of retrenchment, but in new ways. According to Green-Pedersen (2002) and Ross (2000), leftist parties are better able to retrench than rightist parties because they can more effectively avoid the blame connected to such unpopular policies. As voters assume left-wing parties to keep an eye on social justice, they trust them to act responsibly when cutting back on welfare. Right-wing parties, on the opposite, are eyed suspiciously when they enact retrenchment. With regard to activation, the findings of this study confirm the idea that different types of parties in government enact similar numbers of activation reforms (Bonoli, 2010; Rueda, 2007).

Having found that factors external to the government are more influential for the direction of reforms than partisanship of the government, how can we understand this theoretically? These empirical findings lend support to neo-functionalist approaches arguing that problem pressures such as globalization, an ageing population or increased unemployment trigger welfare state reform (Huber & Stephens, 2001; Scharpf, 1996; Schwartz, 2001). Reform does, however, not always entail retrenchment: globalization pressures governments to cut back on social spending in order to stay internationally competitive, but at the same time governments try to make society fit for the globalized and de-industrialized future through activation policies (Lundvall & Rodrigues, 2002). Moreover, the findings of this study lend some evidence to Vis' work on the causes for governments to pursue unpopular social policy reform. Vis bases her theory on neo-functionalist approaches but complements it by using insights from prospect theory: she argues that it is not a *bad*, but a *worsening* socio-economic situation which incites governments to act (Vis, 2009a). The positive relationship between increasing unemployment and retrenchment, which has been found in this study, confirms these ideas.

We should, however, not lose sight of one important point: reforms are always implemented by governments. There is nothing automatic or inescapable about them; external pressures can never 'cause' reforms directly without the intermediary of a government. Partisanship seems to have lost in importance in these processes since the fierce struggles in the phase of welfare state expansion, but governments continue to take decisions. The 'ideational leadership' approach offers an interesting view on this issue (Stiller, 2007). It focusses on individual politicians who are driven by ideas and take the risk of implementing them into practice. This approach might prove to be a worthwhile addition for the understanding of welfare state reform.

The novelty of this study in the debate on the causes of welfare state reform is that it looks at policies, not spending or other policy outcomes. It thus contributes to the debate on the causes of welfare state reform and the role of partisan effects by bringing in new empirical evidence for a coherent time period and sample of countries. By using data on the content of reforms as such and not on their consequences such as social spending or replacement rates, this paper has addressed the 'dependent variable problem' of welfare state research (Green-Pedersen, 2004). It has tried to provide the missing link between the causes of welfare state reform and the political outcomes, which is deplored by Klitgaard and Elmelund-Praestakaer (2013).

This study has made a first step towards the study of reforms as such. Thereby, some questions have been answered – at least preliminary – but at least three new questions arise. Firstly, this study does not look at the scope of reforms, but only at the direction. The retrenchment and activation indices employed in this study are based on the sheer number of enacted reforms which go into a certain direction (retrenchment, expansion, increased activation or decreased activation). This is a first step to address the dependent variable problem as the reforms as such are analysed. Further research should, however, improve on this measure by taking into account the size of reforms. Secondly, the findings of this thesis are based on regression models which account only for rather small proportions of variation in the data. Therefore, the findings should not be overstated. Further research could search for other, potentially more relevant variables for explaining welfare state change. The ideational leadership approach might prove useful in this regard (cf. Stiller, 2007). Thirdly, the findings of this study suggest that right-wing governments are slightly less likely than left-wing governments to enact reforms. This surprising relationship is, however, not statistically significant. Therefore, further research would be necessary to discern whether rightist governments do indeed retrench less than leftist governments. This finding, if it can indeed be confirmed, poses challenging questions for our understanding of class politics.

Table A1. Retrenchment index per country and year (Source: own elaboration on Debenedetti, 2012)

Year	Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Netherlands	Portugal	Spain	Sweden	UK	Mean
1989	-4	0	0	-3	0	-2	0	0	0	0	-4	-1	0	-2	-1.14
1990	-1	0	0	-2	0	0	-1	0	0	0	-1	-1	0	0	-0.43
1991	0	0	3	2	0	-2	0	0	3	1	0	0	1	0	0.57
1992	0	1	0	0	0	1	0	0	0	0	0	2	0	1	0.36
1993	-1	3	0	3	0	1	0	1	-1	0	1	2	4	0	0.93
1994	0	3	4	-2	1	6	0	2	-4	0	0	1	2	1	1.00
1995	2	1	2	2	0	3	0	2	0	-1	2	-1	4	1	1.21
1996	5	1	4	9	1	2	-2	3	0	2	2	0	5	6	2.71
1997	3	4	0	1	-5	9	0	0	3	5	3	-1	-1	1	1.57
1998	2	0	1	3	3	5	2	1	2	3	-2	0	1	1	1.57
1999	0	-1	-2	2	-2	3	0	0	1	1	2	0	0	3	0.50
2000	3	2	2	6	-3	3	3	-1	0	2	0	0	7	2	1.86
2001	0	-1	4	-4	-4	0	2	0	0	2	0	0	1	1	0.07
2002	0	-1	0	0	3	1	-1	1	1	7	0	0	2	-1	0.86
2003	2	4	4	0	5	4	1	0	0	4	-3	1	3	1	1.86
2004	1	0	0	3	2	3	2	3	-4	2	0	0	3	3	1.29
2005	2	2	0	0	5	3	0	1	-2	4	1	1	9	0	1.86
2006	0	7	1	2	4	2	0	-1	0	3	3	1	6	-1	1.93
2007	0	2	0	1	0	3	-4	-1	0	0	6	2	4	0	0.93
Mean	0.74	1.42	1.21	1.21	0.53	2.37	0.11	0.58	-0.05	1.84	0.53	0.32	2.68	0.89	1.03

Table A2. Activation index per country and year (Source: own elaboration on Debenedetti, 2012)

Year	Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Netherlands	Portugal	Spain	Sweden	UK	Mean
1989	1	0	0	0	0	0	0	0	0	0	2	0	0	1	0.29
1990	0	0	0	1	0	0	0	0	0	0	0	0	0	1	0.14
1991	0	0	1	-1	0	0	1	1	0	2	1	0	0	0	0.36
1992	0	2	0	0	0	0	1	0	0	0	1	0	0	0	0.29
1993	1	1	0	2	0	4	0	1	0	0	2	1	1	0	0.93
1994	1	0	2	1	0	4	0	0	0	1	1	0	-1	0	0.64
1995	0	0	0	3	0	0	0	1	0	0	0	0	-1	0	0.21
1996	0	1	2	0	0	2	2	0	0	1	1	0	3	3	1.07
1997	2	1	1	2	1	2	0	1	1	1	2	0	2	3	1.36
1998	0	1	3	3	2	0	2	2	0	3	1	0	1	2	1.43
1999	0	1	1	0	0	4	2	3	1	0	2	0	0	2	1.14
2000	2	6	0	0	0	1	-1	4	2	2	0	2	2	-1	1.36
2001	3	2	1	4	4	2	1	2	0	2	1	1	0	1	1.71
2002	1	3	0	0	1	1	1	1	0	0	1	2	2	1	1.00
2003	1	1	7	2	1	1	2	0	3	1	1	0	1	0	1.50
2004	0	2	3	4	2	2	2	2	1	1	1	2	2	3	1.93
2005	3	6	0	2	3	1	0	3	1	0	0	1	5	1	1.86
2006	1	2	1	1	2	0	0	2	0	0	1	0	0	-1	0.64
2007	1	0	0	1	0	0	1	0	0	1	1	1	1	0	0.50
Mean	0.89	1.53	1.61	1.32	0.84	1.26	0.74	1.21	0.47	0.79	1.00	0.53	0.95	0.84	0.97

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