

Welfare State Retrenchment  
and  
Redistribution Strategies

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# Welfare State Retrenchment and Redistribution Strategies

## Abstract

It is common for political scientists to investigate the degree to which partisanship affects public policy. Less common is consideration of the effect of parties maximising policy preferences through time. This paper builds on Pierson's (1996) "new politics of the welfare state" thesis by arguing that the mode of redistribution — cash transfers versus welfare services and means-tested versus universal — has implications for the degree to which this redistribution can be 'rolled back' by a future government. Left-wing parties are seen as acting strategically to maximise the present value of a stream of future policy pay-offs. Ultimately, they are influenced by the probability of a future government reversing their policies. Quantitative analyses of data from 19 OECD countries for the period 1990–2004 support the claim that left-wing parties chose to spend on means-tested cash transfers when they expected future unwanted reforms were less likely, but more universal welfare services otherwise.

It is common for political scientists to investigate the degree to which partisanship affects the welfare state. Less common is consideration of the effect of parties maximising their utility from such policies *through time*. This paper builds on the 'new politics of the welfare state' thesis (Pierson, 1994, 1996) by arguing that the mode of redistribution has implications for the degree to which it can be 'rolled back' by a future government. Based on distinctions between three types of welfare expenditure, an argument is developed and tested in which left-wing parties are seen as acting strategically to maximise the present value of a stream of future policy pay-offs to a core constituency of theirs. This line of reasoning shares much with Moe's (1990) argument that 'political uncertainty' is of fundamental importance. In this way, this paper provides a theoretical bridge between influential literatures from comparative politics and American politics.

The claim is that distinguishing between means-tested cash transfers, non-means-tested cash transfers, and welfare services allows us to analyse their respective capacities to resist retrenchment on the one hand, and their redistributive effectiveness on the other. A trade-off

between the two characteristics is highlighted such that the most effective form of redistribution (means-tested cash transfers) is also the most politically vulnerable, while the least effective (welfare services) is the least vulnerable — non-means-tested cash transfers fall in the middle ground on both dimensions. Faced with the decision of which form of welfare state expenditure to invest in, left-wing parties resolve the dilemma based on their perceptions of the likelihood that future governments can be blocked from further retrenchment in the legislature. Thus, expectations about ‘checks and balances’ within the legislative process become the key conditioning variable.

A foundational assumption used to build this argument is that parties care about future outcomes for the constituencies that they represent. Some may find such an assumption questionable, but there are good reasons to maintain it. Investment in long term projects such as missile defence, nuclear power and the like are certainly suggestive that the relevant time horizon for political parties may stretch beyond the limits implied by a purely office-seeking logic of the next election. The switching of state pensions from wage- to inflation-indexing by the Thatcher government in the UK (Pierson, 1994) can only be seen as a policy with payoffs of a very long-term nature. More recently, Jacobs (2008) provides a comparative analysis of pension reforms in the USA and the UK that strongly emphasises long-run interests, albeit with an interest group focus. Furthermore, to the extent that the partisanship literature is premised on the notion that left-wing parties are seeking better outcomes for their constituencies, it is logical to expect that this interest extends beyond the instant at which policy is made. Indeed, it would surely be more questionable to advance a partisan theory that did not assume utility maximisation beyond the present day.

Building on the seminal work by Hibbs (1977), the political science literature is replete with quantitative empirical studies analysing the impact that partisanship has on policy outputs. Despite a voluminous literature, until relatively recently, there has been a tendency to ignore the context in which parties operate. Earlier researchers have implicitly assumed that left-wing parties seek the same policies in any political environment. This assumption is exhibited in the plethora of time-series cross-section (TSCS) studies, pooling across OECD

countries, that model welfare expenditure (e.g. Pampel and Williamson, 1988; Hicks and Swank, 1992; Huber and Stephens, 2001; Iversen and Cusack, 2000; Franzese, 2002; Swank, 2002; Allan and Scruggs, 2004).

The work cited above has given little consideration to the idea that different types of welfare expenditure can have different redistributive effects — and therefore have different political dynamics associated with them (although see Rosenberry, 1982).<sup>1</sup> Social policy scholars have been far less remiss in this respect, but this literature, in turn, suffers from its own drawbacks. Research in this tradition has tended towards ‘policy analysis’, whereby the effects of different types of social policy are evaluated with respect to criteria such as redistribution or poverty alleviation (e.g. Sainsbury and Morissens, 2002; Hölsch and Kraus, 2004, 2006), rather than explaining how the policies themselves arose. While a recent study by Nelson (2007) does come close to the kind of comparison of the development of different types of social expenditure set out here, the political dynamics remain under-theorised.

Despite ignoring the theoretical significance of distinctions between types of welfare expenditure, some political scientists have emphasised the importance of context in mediating political decisions. For example, Garrett (1998, Chapter 4) investigates how and why left-wing and right-wing parties react differently to the onset of globalisation. His theoretical position, though, is one in which the prevailing politico-economic environment only tempers or enhances partisan differences, rather than influencing chosen modes of redistribution. Rueda (2005, 2007) argues that the division between ‘insider’ and ‘outsider’ labour can have important consequences for the kinds of policies pursued by left-wing parties, which, in turn, can have important consequences for inequality. His argument rests on economic preferences of particular sections of society, not party strategy, though.

Largely separate from the partisanship literature, another branch of research has focused on the influence of institutions of a constitutional nature — most relevantly, work on the implications of credible commitment mechanisms for the nature and structure of public sectors. Moe (1990) proposes that ‘political uncertainty’ should be considered an important factor in policy-making, with Horn and Shepsle (1989) making a similar point. Essentially, they

argue that protection of policy gains is an inherent part of the political process. Formalising the theory, de Figueiredo (2002) shows when politicians will choose to insulate their policies. In a similar vein, Acemoglu and Robinson (2001) provide a model showing that an absence of credible commitment mechanisms will lead governments to adopt policies that increase the likelihood of them winning future elections — with inefficiencies in public policy as the by-product. However, those earlier papers were largely concerned with US congressional politics. While Moe (1990, 238-248) provides some theoretical analysis for how the impact of ‘political uncertainty’ will vary from presidential to parliamentary systems, there is generally a dearth of empirically-grounded comparative work that applies the theoretical insight. Furthermore, none of these authors pay attention to how their theories will interact with partisanship, and thus they fail to draw conclusions about why parties of similar ideological origin will pursue different policies across countries.

This paper follows the lead offered by those authors who emphasise the importance of political context on partisanship, but the emphasis here is more explicitly party-political. The incentives of parties are seen to be conditioned by the party system and its associated institutional structures in which they operate. To make this theoretical case, the insights of the more recent political economy literature regarding institutions are used — especially in the area of commitment mechanisms.

## 1 The Argument

The argument is developed in three steps. First, it is claimed that the ease with which welfare expenditure can be rolled back — its ‘stickiness’ — varies with the type of policy that it funds. This is so both because of the protection afforded to some expenditure by large bodies of organised public sector labour and because of different patterns of public opinion regarding the policies. Second, it is claimed that those same different types of expenditure provide for varying degrees of redistribution per unit of expenditure. In the prevailing climate of retrenchment pressure seen over the past 30 years, this redistributive

effectiveness becomes important. Third, a resolution to which policy left-wing parties will choose is presented based on expectations about the future political environment.

## 1.1 The ‘Stickiness’ of Welfare Spending

One of the central claims of the ‘new politics of the welfare state’ espoused by Pierson (1994, 1996, 2001) is that welfare state expenditure is extremely difficult to roll back. A large part of the ‘new politics’ claim is based on the idea that welfare policies are characterised by concentrated benefits and dispersed costs. This pattern makes it far more likely that those who benefit will organise to defend the *status quo* than that those who pay will organise to change it.

However, there are strong reasons to think that not all welfare expenditure is created equal — that the politics surrounding different types of welfare expenditure can be very different. Indeed, this is apparent from Pierson’s early study, which provided detailed comparative analysis of the differing retrenchment experiences in pensions, housing, and income-support policies under Reagan and Thatcher (Pierson, 1994). He even briefly discussed the possibility of important distinctions that could be drawn between means-testing and universalism, or between in-kind services and cash transfers, but ultimately argued against such parsimonious typologies as these (Pierson, 1994, 170). His grounds for rejection were both the complexity of the causal processes involved in welfare state policy-making and a questioning of the empirical relevance of the latter dichotomy. On his first objection, the approach here differs largely due to a stronger desire to pursue the possibilities of parsimonious explanation. On his second objection, it has been noted by Clayton and Pontusson (1998, 70) that Pierson’s focus was largely on cash-based welfare programmes, thus drawing into question the conclusions that can be drawn regarding in-kind services.

### 1.1.1 The Power of Organised Labour

This section advances the claim that expenditure that redistributes via investment in welfare services will tend to have two distinctive characteristics. First, the provision of services in

general, and certainly public welfare services, is nearly always very labour intensive. Health care, education, care for the elderly, pre-school, and any number of other welfare services that are provided by the state all embody large amounts of labour. This is true in a way that is not so for cash transfers. While a bureaucracy is required to process cash transfers, an equivalent bureaucracy is needed to administer the provision of public services. Education and health ministries are hardly noted for their small size. The point is that public services require large amounts of labour over and above that for pure administration. Public services, then, will embody a far larger amount of labour than will cash transfer systems.

Recent data for the UK bears out this claim when comparing government expenditure on social security and health care. In 2004/5, social security expenditure was £135.36 billion<sup>2</sup> and expenditure on the National Health Service (NHS) was £82.27 billion<sup>3</sup>. By contrast, the Department for Work and Pensions (DWP) employed a total of 117,100 staff<sup>4</sup> while NHS employment was estimated at 1.37 million<sup>5</sup>. NHS employment is more than 11 times the size of DWP employment, which itself is constituted from expenditure at around 1.6 times the level for the NHS. To rephrase, expenditure on the NHS — a service — comes with nearly 20 times more public sector employment per pound as compared to the primary cash transfer system in the UK.

Furthermore, using the terminology of Baumol (1967, 416), the labour administering a cash transfer system is “an incidental requisite for the attainment of the final product”, while that involved in the provision of services “is itself the end product”. Not only does the logic underpinning Baumol’s “cost disease” suggest that productivity improvements will tend to diminish the requirement for labour of the former kind,<sup>6</sup> but the political support that such a group is likely to receive from the general public is minimal. Rightly or wrongly, people campaign for more nurses, not more bureaucrats.

The first point that services embody a far larger portion of labour than do cash transfers is strengthened by a second consideration. Public sector workers are particularly likely to be unionised. Freeman (1986) passed an early commentary on how “unionism comes to the public sector”. He noted the rise of public sector unionism in the USA over the post war era

to the early 1980s. Also focusing on the USA, Farber (2005) presents data suggesting that since the mid 1970s, when both public and private sector union density stood at around 25%, the two sectors have diverged dramatically. By 2004, the private sector figure had shrunk to only around 8% while the public sector figure had swollen to around 35%. Draper (2000) presents evidence that this trend is far from particular to the USA. His data show that across 12 OECD countries, while aggregate union density figures fell in most countries between the 1970s and the 1990s, the proportion of union membership being composed of public sector workers has risen — markedly so in several cases. Taking a snapshot of public and private union density figures for a similar selection of countries at the end of the 1990s, Blanchflower (2007, 6) shows that the difference between the two figures was of the order of 30 percentage points for most countries, and notably more for several. The evidence suggests, then, that while private sector unionism has been on the decline across most of the OECD countries (Ebbinghaus and Visser, 1999; Visser, 2006), public sector unionism has, in both relative and absolute terms, been thriving.

The provision of public services, then, implies the presence of large bodies of highly organised labour — labour that will have a strong interest in maintaining or increasing funding for the services it provides. This is in contrast to those cases where there are bureaucracies engaged in the distribution of cash transfers. In the transfer case, not only is the amount of labour constituting the bureaucracy far less than that for the services, but it also has little to gain from forcing increases in welfare payments. The level of wages and employment within the bureaucracy are unlikely to be directly related to this aspect of the policy. Processing payments of £100 will be essentially the same as processing payments of £120.

Based on the preceding discussion, redistribution of the welfare services sort should, therefore, be protected by the pattern of concentrated and dispersed interests underlying the ‘new politics’ thesis to an even *greater* extent than systems of cash transfers. To clarify, the claim is not that the ‘new politics’ thesis does not apply to cash transfers. They clearly fit the standard description of concentrated benefits and dispersed costs, with taxes collected

from a large portion of a population and then (re)distributed to a subset of that population in the form of cash. The claim is that there is a *difference* in the ‘stickiness’ of this cash and service expenditure. It is this difference that the theoretical claims rely on below.

### **1.1.2 Middle-Class Buy-In**

Another line of reasoning regarding the politics of welfare expenditure has been pursued in the literature. Several scholars have argued that universalism in a welfare state is an important source of strength against retrenchment as it creates middle-class buy-in (e.g. Korpi, 1980; Esping-Andersen, 1985; Korpi and Palme, 1998, 2003).

The essence of this middle-class buy-in argument can be summarised in the following way. By adopting universal welfare policies that, by definition, all sections of society use, the preferences of the middle classes are more likely to be aligned with those of the poor for the purposes of welfare policy. This is so because, if the middle classes demand better welfare provision, universalism guarantees that these demands are to benefit the poor, as well.

Of course, in a world of retrenchment, the reverse is also the case. The electorally essential middle classes are beneficiaries of universal welfare provisions and, consequently, retrenchment is politically far more difficult. Withdrawing benefits that are targeted specifically at the poorer sections of society are far more politically palatable. For these reasons, the expectation is that universal welfare policies are more ‘sticky’ than means-tested policies.

## **1.2 Redistributive Effectiveness**

In choosing how to spend on the welfare state, one factor of importance for a redistribution-seeking government will be which of the two forms of cash transfer or welfare service will have the larger redistributive effect. That is, which will give the bigger payoff in the current period? The argument in this section is that the ranking of redistributive effectiveness of the three expenditure types, from high to low, is: (1) means-tested cash transfers; (2) non-means-tested cash transfers, and; (3) services. Why should this be?

First, basic economic theory shows that the provision of benefits in-kind should be pareto-dominated by provision of cash benefits to the same value. This is because cash benefits can be used to purchase the same bundle of services that would have been offered or, alternatively, some other consumption bundle instead. In-kind provision is only of equal utility to a consumer if the provider is able to exactly determine the consumer's optimally-desired level of service consumption. All other levels entail either an over- or an under-supply of the service. Obtaining sufficient information for a government to determine this optimal level of supply is likely to be extremely difficult. Further, while governments tend to supply services of a fairly uniform level, consumers are likely to be heterogeneous in their preferences. Cash benefits allow each consumer to optimise her consumption bundle, while in-kind benefits do not.<sup>7</sup>

Second, empirically, it appears that public services tend to be used to a large extent by the middle classes (e.g. Le Grand, 1982; Goodin and Le Grand, 1987; Gal, 1998) — what Gal (1998, 43–44) referred to as “the Matthew Principle” in which the ‘have nots’ pay for the ‘haves’. Beyond the empirical evidence to this effect, there are prominent theoretical explanations. Stigler (1970, 1) outlined what he termed “Director’s Law”, which states that “[p]ublic expenditures are made for the primary benefit of the middle classes”, and showed that it had foundations in a model of voting over taxes and public expenditures. The swing-voter model developed by Dixit and Londregan (1998) can also be interpreted as an expression of Director’s Law. It predicts that swing voters will benefit disproportionately from redistribution as their votes are more sensitive to policy benefits. To the extent that the middle classes have a higher propensity for swing-voter status than other classes — and a one-dimensional policy space based on redistribution suggests that they would — the model predicts the middle classes should do particularly well. Explicitly dealing with a public service, Fernandez and Rogerson (1995) provide a model which predicts that public funding for higher education will be regressive in the case in which voters choose a level of public subsidy for the service. Less formally, Gal (1998) enumerated several mechanisms through which the middle classes can be privileged both by influencing policy decisions<sup>8</sup> and

extracting the maximum benefits from implemented policies.<sup>9</sup>

That is, by design or not, services appear to have a universal character that inherently limits their redistributive capacity. Some scholars contest this sort of reasoning that universal welfare states are less effective at redistribution than the selective variety. However, their argument rests on the observation that universal welfare states tend to be more popular and, therefore, larger (e.g. Rothstein, 1998; Korpi and Palme, 1998). This amounts to a version of the middle-class buy-in argument outlined above. Such scholars do not (and cannot) advance a claim that universal policies are more redistributive than targeted policies for a given level of expenditure. Where funds are short, means-tested transfers offer a greater redistributive payoff than universal policies.

The preceding discussion suggests a ranking of redistributive effectiveness that is (from high to low): means-tested cash transfers; non-means-tested cash transfers; (universal) welfare services. Means-tested cash transfers are the most effective because they allow recipients to tailor their consumption bundle and allow for greater redistribution per unit of government expenditure. Non-means-tested cash transfers are more effective than services because they at least have the benefit of allowing consumption bundle tailoring.

### 1.3 Strategic Policy-Seeking

What does the theoretical framework developed above mean for policy choices? To help see this, *Table 1* summarises the arguments so far. As can be seen, means-tested cash transfers have the characteristics of low retrenchment difficulty and high redistributive efficiency. By contrast, services have the characteristics of medium-high retrenchment difficulty and low redistributive efficiency. Non-means-tested cash transfers fall between the other two policies in both respects.

[Table 1 about here.]

In light of these characteristics, how would left-wing parties decide which is their preferred policy? The argument advanced here is that it is the left-wing party's expectations

about the likelihood of future unwanted reforms that determines its relative preferences over the three welfare policies. This is because the relative ease with which means-tested transfers can be retrenched loses its importance if left-wing parties expect that right-wing parties will be ineffective at passing such future reforms. In this case, the high redistributive effectiveness of such policies are highly desirable to left-wing parties facing tight budget constraints as they can maximise redistribution with minimal expenditure. Consequently, left-wing retrenchment of services and, to a lesser extent, non-means-tested cash transfers, will be more likely.

The decision is rather different when the left-wing party anticipates that it will not be able to block unwanted future reforms (from opposition). In this case, they will anticipate that a future right-wing government will wish to retrench further than the left-wing party prefers. Choosing today what package of policies to leave the right-wing government to attempt to retrench, the left-wing party will prefer to leave stronger welfare services and, to a lesser extent, non-means-tested cash transfers. The reason being that the future right-wing party will find it harder to retrench such policies.

Another way to think of this is that the decision over which welfare policy to favour for a left-wing party is effectively a decision over which mechanism of checks they wish to rely upon. Choosing means-tested cash transfers implies a relatively greater reliance on the checks institutionalised by the legislative process. Choosing service expenditure implies reliance upon checks in the form of organised public sector labour and middle-class opinion. Choosing non-means-tested cash transfers implies reliance upon middle-class opinion. Where a left-wing party is satisfied that future right-wing governments will be sufficiently divided and institutionally constrained so that their preferred welfare policies are less likely to be reformed, means-tested cash transfers become more attractive due to their higher pay-off. Where a strong, united right-wing government is expected — making unwanted future reforms more likely — then recourse to union checks via service expenditure becomes more attractive. Finally, the strategic position of non-means-tested cash transfers is less clear-cut, with the theoretical expectation being that left-wing decision-making regarding them will

be in a middle-ground between the other two more extreme choices.

## 2 Empirical Analysis

In this section, tests are conducted of the theoretical prediction that the effect of partisanship on the different types of welfare expenditure will be conditional on expectations about the strength of future right-wing governments.

### 2.1 The Dependent Variables

The decision about how to approach the testing of the theory set out above is not a simple one. On the face of it, the theoretical position taken here is one that makes claims about the relative amounts of each type of welfare expenditure. No explicit predictions about the magnitudes of expenditure are made, only about the way in which they will covary with the political process. As such, the relevant dependent variables to test the theoretical claim would appear to be ratios of each.

However, such measures are actually rather problematic: an example is the easiest way to show why. Consider a case where a strong right-wing party has been in power for a long period. The model suggests that means-tested cash transfers, which are more easily rolled-back, would be at a relatively low level. In this situation, we might expect an incoming left-wing party to, at least initially, invest in those cash transfers in order to get them up to a reasonable level.<sup>10</sup> However, as set out above, the theoretical claim is that an incoming left-wing party, seeking to secure future redistribution, will choose to invest in services rather than cash transfers. Thus, the logic underlying the theory generates ambiguous predictions when the dependent variable is taken as a ratio of spending.

The same issue is present when modelling the expenditure types separately, but there is reason to think it will be more muted. This is because modelling them separately makes it possible to estimate the strategic expenditure shift in one measure — services in the example above — without it being swamped by an expenditure shift in the other. Thus, while the

estimated strategic partisan expenditure effect will be biased downwards for one category (cash), it will be correctly estimated for the other (services). The direction of the bias is less clear where a ratio is employed — especially where one of the components of the ratio is expected to exhibit higher variance than the other component. Finally, it should be noted that this issue induces bias against the theory under test, making any support found from the estimates all the more credible. Thus, separate models are estimated for each of the proxies for means-tested cash transfers ( $CashMT_{i,t}$ ), universal cash transfers ( $CashUU_{i,t}$ ), and service expenditure ( $Serv_{i,t}$ ).

The dependent variables are sourced separately. Data for  $CashMT_{i,t}$  are taken from Nelson (2007), which provides data on means-tested benefits for different types of individual earning an ‘average production worker’s wage’ — data for ‘family’ benefits are used here.<sup>11</sup> It covers old-age pensions, unemployment insurance, and sickness insurance for 21 countries over the period 1990–2005.<sup>12</sup> The actual variable employed is the level of means-tested benefits available to the ‘family’ category of recipient(s) as a percentage of average national income.<sup>13</sup> In this way, the relative generosity of each means-tested benefit system can easily be compared across countries. Low ratios indicate instances where means-tested benefits fail to raise the income of recipients to somewhere close to the mean level of income in the country.

Data for  $CashUU_{i,t}$  are taken from Scruggs (2004). This provides unemployment benefit replacement rates as a percentage of the average production worker wage that are paid to a family. As such, the variable provides a close analog to the  $CashMT_{i,t}$ . The data cover 18 countries for the period 1971–2002.<sup>14</sup> In order to ensure that the comparisons with the  $CashMT_{i,t}$  models are valid, the sample is limited to 1990–2002 data.

Data for  $Serv_{i,t}$  are taken from the OECD Detailed General Government Accounts. Specifically, the sum is taken of three variables capturing the level of expenditure on welfare wages in different sectors: ‘social protection’, ‘housing’, and ‘health’.<sup>15</sup> This sum is then divided by GDP, thus giving ‘social wages’ as a percentage of GDP as the proxy for service expenditure,  $Serv_{i,t}$ . This variable is used because, by focusing specifically on wages, it stays

closer to the underlying theoretical stance advanced here regarding the importance of large bodies of public sector labour to the strategic decisions of parties. Again, the sample is restricted to post-1990 to maintain comparability.<sup>16</sup>

*Table 2* provides a summary of the dependent variables. In particular, *Table 2* shows that there are differing trends and differing levels in all of the variables across countries. Commensurate with the data being for the retrenchment period, means-tested cash transfers show signs of decline in several countries — most notably in Canada, Finland, Ireland, and Sweden. The very difference in these cash-retrenching countries suggests that the explanation for such changes must go beyond the ‘liberalisation’ of ‘social democratic welfare states’. Meanwhile, other countries hold means-tested cash payments broadly steady. For non-means-tested cash transfers, there is a largely different set of countries exhibiting higher variability — such as Ireland (decreasing), Italy (increasing), New Zealand (decreasing), and the UK (increasing). The data for *Serv* make plain that the Nordic countries operate notably higher levels of welfare services than do the other countries in the sample. Several countries exhibit increases in *Serv* across the period (e.g. Denmark, Greece, and Portugal), while others maintain a fairly consistent level (e.g. France, Germany, and the Netherlands). The data for Austria suggest that service retrenchment there was the deepest in the sample. Notably, this did not appear to coincide with such deep cuts in either of the cash transfer measures.

[Table 2 about here.]

## 2.2 Explanatory Variables

As a partisanship variable, the proportion of cabinet seats held by a left-wing party for a given country-year ( $Left_{i,t}$ ) is used.<sup>17</sup> This is interacted with a proxy for expectations regarding the future strength of government. Measuring expectations is a challenge, but the proxy I propose here has the merit of being readily accessible and objectively measurable. The variable is opposition fractionalisation ( $OppFrac_{i,t}$ ), calculated as the probability that

two randomly drawn opposition legislators will be from different parties.<sup>18</sup> The logic for using this measure is that greater fractionalisation of the opposition parties will be correlated with an expectation that those parties will find it more difficult to agree on legislation if they form a government in the future. This builds directly from the veto player argument associated with Tsebelis (2002), in which increases in the number of veto players is held to make the policy status quo more likely to prevail. A more fractionalised opposition will yield a more fractionalised future government — that is, one with more party-based veto players.

If the theoretical claim here is correct, we should expect to see the interaction between *Left* and *OppFrac* work in opposite directions for means-tested cash transfers (positive) and services (negative), with an ambiguous effect between the other two for non-means-tested cash transfers. Greater opposition fractionalisation should reduce the fear that a future government will be able to make cuts, leading to a stronger preference for means-tested cash transfers and a weaker preference for welfare services. Reduced opposition fractionalisation should increase fears about the strength of future governments, and thus have the reverse effect.

In addition to those explanatory variables used to test the theory proposed here, a number of control variables are employed across both cash and services models. The unemployment rate (*Unemp*) is included because two of the dependent variables (*CashMT* and *CashUU*) are explicitly unemployment policies. For the services models, its inclusion can be justified by the expectation that governments may raise welfare state employment in response to greater unemployment levels — both because of a greater need for the services themselves and a desire to increase employment levels. The state of public finances is controlled for by including measures of public debt (*PublicDebt*) and the budget deficit (*PublicDeficit*). Tighter finances would be expected to constrain welfare spending, all other things being equal. A measure of ‘unexpected GDP growth’ (*UnexpGrowth*) is also included as a control (c.f. Roubini and Sachs, 1989; Iversen and Cusack, 2000). The reasoning is that if, say, higher GDP growth were truly a surprise to policy-makers, their earlier decisions regarding the level of welfare benefits would appear to be less generous because the measurement of

those benefits are normalised by GDP measures in the analysis below. Following Iversen and Cusack (2000), a measure of deindustrialisation (*Deind*) is included, based on the argument that this process leads to greater demands for the insurance provided by welfare expenditure. Finally, for the services models, a measure of the ‘dependency ratio’ (*DepRatio*) is also included to try to capture the demand side for services.<sup>1920</sup>

[Table 3 about here.]

## 2.3 The Samples and Estimation

Based on data availability, the samples that result from these specifications are 248 observations (for 19 countries) for the *CashMT* models, 192 observations (for 17 countries) for *CashUU*, and 168 observations (for 17 countries) for the services models.

In modeling the dependent variables, error correction models (ECMs) are used. This allows for greater flexibility in the modeling of short- and long-run effects of the explanatory variables. Such an approach is increasingly common in the empirical comparative political economy literature (e.g. Iversen and Cusack, 2000; Franzese, 2002; Kelly, 2005; Swank, 2006) and, while it was developed to model cointegrated relationships, Keele and De Boef (2004) show that the specification can be fruitfully applied to TSCS data more generally.<sup>21</sup>

Following Tsebelis and Chang (2004, 457), the assumption is made that the effects of any agents on expenditure will be felt without a lag. That is, when a political party is in power in a given year, they are able to determine the spending in that same year. While agency effects are assumed to be contemporaneous, an extra lag for most of the control variables is used, with the aim being to escape the biases induced by endogeneity.

In estimating empirical models, country fixed effects (FE) are used to account for time-invariant differences across countries. This is a standard approach in the comparative political economy literature, but it does introduce a potential problem when combined with the use of a lagged dependent variable (LDV). The so-called ‘Nickell bias’ stems from correlation between the LDV and the error term in the presence of fixed effects. Nickell (1981) showed

that the bias associated with this problem is of the order  $1/T$  and thus of diminishing significance as the number of time periods increases. The data employed here has a maximum  $T$  of 14, with many panels dropping to far smaller numbers of periods. The bias, then, is potentially a significant problem.

Following Wawro (2002), a series of models is estimated utilising the Generalised Method of Moments (GMM) procedure set out by Arellano and Bond (1991). The combination of first-differencing and instrumenting entailed in this method yields unbiased parameter estimates, but Monte Carlo work by Beck and Katz (2004) suggests that the benefits from this more complicated estimation technique may be out-weighed by their efficiency costs. Thus, following Bawn and Rosenbluth (2006), the results are presented for both GMM and the more usual OLS/PCSE method advocated by Beck and Katz (1995).

## 2.4 Results & Discussion

The results of estimating the models described above are presented below. A series of OLS/PCSE and GMM models are shown.<sup>22</sup> Unreported results of Lagrange Multiplier tests for residual autocorrelation indicate that the estimated models do not suffer from this problem once the lagged dependent variables are included.<sup>23</sup>

*Table 4* presents the results from estimating a series of models for *CashMT*. *Models 1* and *2* are estimated by OLS/PCSE and GMM, respectively.<sup>24</sup> *Model (3)* re-estimates by OLS/PCSE, but with all ‘control’ variables except *Unemp* removed: the aim being to show that the core findings of conditional partisanship are robust to the exclusion of controls (Achen, 2003).

[Table 4 about here.]

Analysis of control variable results is not the primary interest, here. In brief, unemployment appears to lead to lower means-tested cash transfers in the long run and there is some evidence that the state of public finances and the level of GDP also provide a drag on the dependent variable, albeit only in the short-run. The evidence for the deindustrialisation

hypothesis is very mixed. On the core findings relating to the hypothesised partisanship effect, conditional on the level of *OppFrac*, the results are very encouraging. The first two models employing a full battery of controls appear to show a statistically significant positive long-run interaction effect. The third model shows that this interaction survives in even a very sparse model.

*Table 5* presents the results from estimating a series of models for *CashUU*. *Models 4* and *5* are estimated by OLS/PCSE and GMM, respectively. *Model (6)* re-estimates by OLS/PCSE, but again with all ‘control’ variables except *Unemp* removed.

[Table 5 about here.]

Briefly on the controls, there is some weak evidence that unemployment may lead to lower unemployment benefits in the long run. Public debt shows some signs of being positively correlated with *CashUU*, but this does not hold across models. The public deficit appears to have no impact, however. Again, deindustrialisation shows little explanatory power. Looking at the interaction effect between *Left* and *OppFrac*, the results are promising. The evidence across the models is that the conditional nature of partisanship negative, if somewhat muted — just as the theory outlined above predicted.

*Table 6* presents the results from estimating a series of models for *ExpServ*. *Models (7)* and *(8)* are OLS/PCSE and GMM estimations, respectively.<sup>25</sup> *Model (9)* re-estimates by OLS/PCSE with only *Unemp* as a control.

[Table 6 about here.]

On the control variables, the results are mixed for unemployment — dependent upon specification. There is a suggestion that higher public debt is negatively related to *Serv* (in the short-run). Deindustrialisation shows limited explanatory power, while the dependency ratio and union density both also have specification-contingent effects. With respect to the primary explanatory variables of interest here, the partisanship interaction shows a negative effect. Left-wing parties appear to give greater priority to social wages, but this

effect diminishes as the level of opposition fractionalisation gets larger — as the theoretical account provided above would suggest. Re-estimation with minimal controls shows that the interaction effect to be rather weaker, though.

While the statistical significance on the partisan interaction terms for the various cash and service models are very encouraging in terms of support of the theoretical position advanced here, it is necessary to determine the true statistical significance of partisanship conditional on the level of *OppFrac*. *Figure 1* depicts this long-run conditional effect as estimated by OLS/PCSE in Model (1) for *CashMT*. *Figure 2* depicts this long-run conditional effect as estimated by OLS/PCSE in Model (4) for *CashUU*. Similarly, *Figure 3* plots the long-run conditional effect estimated by the same technique for the *Serv* in Model (7). The plots are provided with 95% confidence intervals.

[Figure 1 about here.]

[Figure 2 about here.]

[Figure 3 about here.]

The figures are useful to highlight the effect that the level of opposition fractionalisation has in a political system. As opposition fractionalisation increases, left-wing parties are seen to have an increasing preference for means-tested cash transfers and a decreasing preference for welfare services. Both effects are significant at the 95% confidence level for values of *OppFrac* in its sample range (0.01, 0.83). Completing the picture, there is very weak evidence of conditional partisan influence on non-means-tested cash transfers. This changing pattern of partisanship accords very well with the theory set out above. Means-tested cash transfers and welfare services are the most dissimilar in terms of both ease of retrenchment and redistributive effectiveness, with non-means-tested transfers falling between the other two on both dimensions. As such, the conditional partisanship predictions are sharpest for the two ‘polar’ policies and merely point to findings between these policies for non-means-tested transfers.

More substantive interpretations of the results are possible. For example, the point estimates from the models suggest that the shift of *OppFrac* in New Zealand between 2002 and 2003 (0.45 to 0.75) led the governing Labour Party to shift from a pattern of relative opposition to means-tested cash transfers<sup>26</sup> coupled with relative favourability to welfare service expenditure<sup>27</sup> to the reverse policy preferences.<sup>28</sup> In 2004, the party made a package of cash transfers with a large means-tested component, known as ‘Working For Families’, “its flagship of social policy in the [... parliamentary] term” (McClelland and St John, 2006, 187).

One feature that emerges from the figures plotting conditional partisanship effects is that a low level of opposition fractionalisation actually leads to a negative partisanship effect on means-tested cash transfers, while the reverse is true for services, which see a positive partisanship effect in this case. On the face of it, this may appear surprising. However, it is actually in accordance with the theoretical argument advanced here. Taking the estimated conditional partisanship effects for both means-tested cash and services together, it becomes clear that the negative effects for one dependent variable correspond with positive effects for the other. Effectively, then, the conditional effects plots support the contention that the two types of expenditure are (at least partially) substitutes and that governments face a budget constraint when choosing what to spend on. Higher service expenditure will often come at the cost of lower cash transfers, and vice versa.

### 3 Conclusion

The theory presented here has suggested that it is valuable to split welfare effort along two dimensions: means-tested versus non-means-tested and cash versus services. Doing so yields three empirically relevant types of welfare expenditure: means-tested cash transfers, non-means-tested cash transfers, and welfare services. Underpinning these distinctions is a theory of the differing political and redistributive consequences of each type of policy. Furthermore, it has been argued that left-wing parties are rational actors and choose an optimal bundle of

cash and service redistribution so as to maximise their expected utility into future periods. Expectations of being able to veto changes in policy in the future make it less likely that right-wing parties will be able to (further) retrench means-tested cash transfers. Consequently, left-wing parties will prefer this more efficient form of redistribution where there is a high number of checks in the system. By contrast, a low likelihood of future left-wing blocking power will lead to a preference for service-based redistribution which is inherently more difficult to roll back. Left-wing parties effectively opt for insurance at the cost of reduced efficiency.

The empirical evidence presented above provides support for this theory. Results appear robust to different estimation techniques, the exclusion of common controls, and exclusion of country fixed effects. The findings here extend the logic of the prevailing ‘new politics’ view both by establishing the theoretical value of drawing distinctions between different types of welfare expenditure, and by showing that expectations regarding the future political context strategically shape policy choices by left-wing parties.

The results should also lead us to be sceptical of some of the recent theoretical work in the historical institutionalism school which argues that ‘history’ and ‘time’ are of great importance in explaining policy change, but that there is an inherent randomness to this process that means explanation by political scientists can only, at best, be post hoc (e.g. Pierson, 2004). In the alternative view presented here, time is again taken to be of crucial importance, but it is shown that we can posit rational, strategic, actors as operating within the sorts of processes outlined by historical institutionalists. Those rational actors are political parties in the argument advanced here. In recent work by Jacobs (2008), they are interest groups. It would appear likely that there are other such actors that we could usefully apply rational foresight to, as well as other policy areas.

# Notes

<sup>1</sup>Rickard (2009) distinguishes between ‘broad’ and ‘narrow’ distributive transfers, but her empirical focus is in the realm of industrial subsidies, rather than the welfare state.

<sup>2</sup>Source: Office for National Statistics, Social Trends 39.

<sup>3</sup>Source: Public Expenditure Statistical Analyses 2009, HM Treasury.

<sup>4</sup>Source: Table A, Civil Service Statistics 2005, Cabinet Office. This figure includes the Child Support Agency, the Disability and Carers Service, Jobcentre Plus, the Pension Service, and the Rent Service.

<sup>5</sup>Source: Staff in the NHS 2005, Department of Health.

<sup>6</sup>The advent of computer technology to automate bureaucratic tasks like the distribution of cash transfers implies productivity growth in this area would have been relatively strong.

<sup>7</sup>See Munro (1992) for a more sophisticated theoretical treatment that comes to a similar conclusion.

<sup>8</sup>These are: a “pivotal electoral position”; organisational strength; knowledge and policy expertise; dominance of the mass media; threats to use the ‘exit option’ from welfare policies; and strong class representation amongst the policy-making bureaucracy.

<sup>9</sup>These are: greater social and economic status “with which they are able to influence the decisions of bureaucrats and practitioners charged with distributing goods and services” (Gal, 1998, 48–49); better information about welfare systems; and “more personal contacts with middle-class members of the bureaucracy” (Gal, 1998, 49).

<sup>10</sup>There is an implicit assumption here that the cash transfers and services are not perfect substitutes.

<sup>11</sup>The other types are a single person and a lone parent.

<sup>12</sup>The data set includes Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, the United States, Spain, Portugal (with some missing data), Greece, and the Czech Republic. The Czech Republic is excluded so as to stay with the more standard sample for research on ‘developed democracies’.

<sup>13</sup>The average income data is gross national income per capita, taken from the *World Development Indicators* (WDI) produced by *The World Bank*.

<sup>14</sup>The countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

<sup>15</sup>To be precise, “Total compensation of employees paid by the government: Social protection”, “Total compensation of employees paid by the government: Housing”, and “Total compensation of employees paid by the government: Health”. Missing data for education expenditure and wages means that it is not possible to include this component of the welfare state in the measure.

<sup>16</sup>It might be argued that the two proxies for cash are not commensurate with that for service expenditure. The former are per capita expenditures while the latter is a total expenditure measure. In fact, this does not pose a problem and is in accordance with the theory advanced here. The benefits of welfare services are difficult to ascribe to individuals due to their universal nature. As such, total expenditure (normalised by GDP) provides an appropriate measure of redistributive effort through services. For the cash models, the more detailed individual data affords the possibility to gauge redistributive effort more precisely, but conceptual comparability across the different measures remains.

<sup>17</sup>The data is taken from Armingeon et al. (2007), with the Democrats in the USA and the Liberals in Canada recoded from ‘centre’ to left-wing.

<sup>18</sup>The variable is taken from Armingeon et al. (2007).

<sup>19</sup>Calculated as under-15s and over-65s as a percentage of the population.

<sup>20</sup>Table 3 provides a summary of all variables used in the analysis, together with their sources.

<sup>21</sup>It is worth noting that the theoretical position outlined above implies that estimating models of the three dependent variables as a system of simultaneous equations. Unfortunately, missing values cut the joint sample to a large extent, making such an approach of dubious value to implement. As a result, the models are estimated separately, with the added benefit that the calculation of panel-corrected standard errors (Beck and Katz, 1995) is possible.

<sup>22</sup>Following Roodman (2006), year fixed effects are used for the GMM models as post-estimation diagnostic tests assume that errors are not correlated across countries — which year dummies make more likely to be the case. The results presented for OLS/PCSE models do not include year fixed effects so as to minimise estimated parameters, although unreported estimates show that results are robust to their inclusion.

<sup>23</sup>The tests were carried out as described by Podestà (2006, Endnote 4).

<sup>24</sup>Model (2) is estimated using instruments beginning at the fourth (rather than the second) lag as Arellano/Bond tests for serial correlation in the estimated models suggests that this is appropriate. This is something of a surprise given the rejection of serial correlation for the OLS/PCSE models. Despite these conflicting results, the most appropriate course of action would seem to be to follow the directions of the pertinent tests for each type of model.

<sup>25</sup>Model (8) is estimated using instruments at the fourth and fifth lags. While Arellano/Bond tests for serial correlation suggest the second lag would be appropriate, the Sargan/Hansen-J test rejects inclusion of these earlier lags as instruments. Lags are constrained to the fourth and fifth to avoid the problems associated with ‘too many instruments’ (c.f. Roodman, 2007).

<sup>26</sup>Estimated conditional *Left* effect of  $-3$  dependent variable percentage points; calculated as  $-0.03 \times 100$ .

<sup>27</sup>Estimated conditional *Left* effect of  $+0.13$  dependent variable percentage points.

<sup>28</sup>Estimated conditional *Left* effect of  $+11$  *CashMT* percentage points and  $-0.35$  *Serv* percentage points.

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	Means-tested cash	Non-means-tested cash	Services
Retrenchment difficulty	Low	Low/Medium	Medium/High
<i>Union support</i>	<i>Low</i>	<i>Low</i>	<i>High</i>
<i>Public opinion support</i>	<i>Low</i>	<i>Medium</i>	<i>Medium</i>
Redistributive efficiency	High	Medium	Low

Table 1: Welfare state expenditure political and policy characteristics.

Country	<i>CashMT</i>			<i>CashUU</i>			<i>Serv</i>		
	1990	1995	2000	1990	1995	2000	1990	1995	2000
Australia	61.1	61.7	54.5	66	66	60			2.65
Austria	50.9	50.8	47.0	71.7	72.6	72.2		2.91	2.13
Belgium	57.1	52.3	45.5	60.5	60.7	59.0	0.80	0.86	0.88
Canada	81.4	77.2	51.7	70.2	70.0	76.2			
Denmark	87.9	85.6	82.3	72.5	68.4	66.0	7.96	7.99	8.23
Finland	88.2	94.3	71.9	73.2	74.2	67.6	6.22	6.68	5.66
France	47.6	46.9	45.2	73.1	73.9	71.5		3.33	3.30
Germany	76.7	78.2	73.5	69.8	68.9	71.3		1.50	1.39
Greece							2.20	3.71	4.09
Ireland	109.8	92.1	58.7	63.5	62.5	50.4		2.87	2.72
Italy	66.0	62.8	67.3	28.6	34.5	49.1	2.85	2.60	2.67
Japan	66.2	66.4	68.0	53.5	56.8	59.6	0.61	0.66	0.70
Netherlands	62.3	59.8	50.3	81.9	78.3	78.2		1.73	1.62
New Zealand	81.3	77.6	74.4	72.2	64.7	57.4			
Norway	60.5	63.8	68.2	73.2	73.6	72.5	5.26	6.09	5.66
Portugal			42.1				2.55	3.18	3.60
Spain	52.6	39.2	31.4						3.05
Sweden	85.3	90.6	67.1	80.7	82.2	71.6		7.66	7.30
Switzerland	70.5	80.8	72.0	82.2	85.0	82.2			
UK	65.3	67.4	65.7	35.9	38.2	54.2	3.67	4.01	3.79
USA	43.3	39.1	32.2	60.0	59.3	57.1	1.38	1.36	1.16

Table 2: Summary of dependent variables for means-tested cash transfers (*CashMT*), non-means-tested cash transfers (*CashUU*), and welfare services (*Serv*) for each country in 1990, 1995, and 2000.

Description	Variable	Data Source
<i>Dependent variables</i>		
Means-tested cash	$CashMT_{i,t}$	Nelson (2007)
Non-means-tested cash	$CashUU_{i,t}$	Scruggs (2004)
Welfare services	$Serv_{i,t}$	OECD Detailed General Government Accounts
<i>Core explanatory variables</i>		
Left share of cabinet seats (%)	$Left_{i,t}$	Armingeon et al. (2007)
Opposition fractionalisation	$OppFrac_{i,t}$	Armingeon et al. (2007)
<i>'Control' variables</i>		
Unemployment rate	$Unemp_{i,t}$	Armingeon et al. (2007)
Public debt	$PublicDebt_{i,t}$	Armingeon et al. (2007)
Public deficit	$PublicDeficit_{i,t}$	Armingeon et al. (2007)
Deindustrialisation	$Deind_{i,t}$	Armingeon et al. (2007)
Unexpected GDP growth	$UnexpGrowth_{i,t}$	World Development Indicators
Dependency ratio	$DepRatio_{i,t}$	Armingeon et al. (2007)

Table 3: Variable descriptions.

	(1)		(2)		(3)	
	b	z	b	z	b	z
$CashMT_{i,t-1}$	-0.0915**	-2.57	-0.222***	-2.59	-0.0613*	-1.70
$\Delta Unemp_{i,t-1}$	-0.161	-0.89	-0.0992	-0.23		
$Unemp_{i,t-2}$	-0.234**	-2.56	-0.587***	-2.75		
$\Delta PublicDebt_{i,t-1}$	-0.0300	-0.61	-0.0511	-0.85		
$PublicDebt_{i,t-2}$	0.0351***	2.78	0.0418	0.99		
$\Delta PublicDeficit_{i,t-1}$	-0.359**	-2.48	-0.403***	-3.19		
$PublicDeficit_{i,t-2}$	-0.0380	-0.35	-0.142	-1.08		
$UnexpGrowth_{i,t}$	-27.25***	-4.18	-19.36*	-1.87		
$\Delta Deind_{i,t}$	20.51	1.09	60.76*	1.81		
$Deind_{i,t-1}$	-41.53***	-4.25	60.32	1.49		
$\Delta Left_{i,t}$	-0.0163*	-1.87	-0.00890	-0.58	-0.0250***	-2.65
$Left_{i,t-1}$	-0.0241***	-3.33	-0.0204	-1.46	-0.0351***	-5.34
$\Delta OppFrac_{i,t}$	-0.485	-0.30	-0.702	-0.29	2.225	1.14
$OppFrac_{i,t-1}$	-0.134	-0.10	-1.046	-0.36	1.263	0.89
$\Delta (Left \cdot OppFrac)_{i,t}$	0.0315	1.44	0.0412	1.45	0.0106	0.39
$(Left \cdot OppFrac)_{i,t-1}$	0.0454***	3.04	0.0453	1.53	0.0347**	2.05
Estimation	OLS/PCSE		GMM		OLS/PCSE	
$R^2$	0.470				0.191	
N	269		249		274	
Countries	20		20		20	
Sargan Test (p-value)			0.351			
Instrument Count			70			

Notes: Z-statistics in parallel columns. \*, \*\*, and \*\*\* denote p-values of 0.1, 0.05, and 0.01, respectively.

Table 4: Determinants of means-tested income support (as a percentage of GDP per capita).

	(4)		(5)		(6)	
	b	z	b	z	b	z
$CashUU_{i,t-1}$	-0.254***	-7.62	-1.053**	-2.25	-0.203**	-2.08
$\Delta Unemp_{i,t-1}$	0.352	0.80	-0.849	-0.81		
$Unemp_{i,t-2}$	-0.240*	-1.75	-1.730	-1.39		
$\Delta PublicDebt_{i,t-1}$	-0.00470	-0.11	-0.144	-0.52		
$PublicDebt_{i,t-2}$	0.0561***	3.71	0.342	1.01		
$\Delta PublicDeficit_{i,t-1}$	-0.182	-1.23	-0.0365	-0.13		
$PublicDeficit_{i,t-2}$	0.0698	0.82	0.280	0.81		
$UnexpGrowth_{i,t}$	2.490	0.17	18.65	0.28		
$\Delta Deind_{i,t}$	-7.367	-0.16	319.9	1.03		
$Deind_{i,t-1}$	-18.85	-1.25	440.5	1.43		
$\Delta Left_{i,t}$	0.0223***	2.95	0.0108	0.52	0.0237**	2.54
$Left_{i,t-1}$	0.0144*	1.65	0.0303	1.38	0.0113*	1.86
$\Delta OppFrac_{i,t}$	-2.025	-1.39	-5.653	-1.15	-1.548	-0.64
$OppFrac_{i,t-1}$	0.758	0.48	-7.681	-1.39	1.000	0.74
$\Delta (Left \cdot OppFrac)_{i,t}$	-0.0126	-1.15	0.0138	0.35	-0.0353*	-1.75
$(Left \cdot OppFrac)_{i,t-1}$	-0.0181*	-1.89	-0.00116	-0.02	-0.0277**	-1.99
Estimation	OLS/PCSE		GMM		OLS/PCSE	
$R^2$	0.243				0.200	
N	204		201		208	
Countries	18		18		18	
Sargan Test (p-value)			0.109			
Instrument Count			36			

Notes: Z-statistics in parallel columns. \*, \*\*, and \*\*\* denote p-values of 0.1, 0.05, and 0.01, respectively.

Table 5: Determinants of universal unemployment benefit (as a percentage of average production worker wage).

	(7)		(8)		(9)	
	b	z	b	z	b	z
$Serv_{i,t-1}$	-0.318***	-6.01	-0.824***	-3.38	-0.281***	-7.15
$\Delta Unemp_{i,t-1}$	-0.0233	-1.01	-0.00570	-0.11		
$Unemp_{i,t-2}$	-0.00699	-0.95	-0.0249	-0.63		
$\Delta PublicDebt_{i,t-1}$	-0.0215***	-5.85	-0.00794	-0.82		
$PublicDebt_{i,t-2}$	-0.00161	-1.34	-0.00427	-0.57		
$\Delta PublicDeficit_{i,t-1}$	-0.00696	-0.57	0.0107	0.48		
$PublicDeficit_{i,t-2}$	-0.0187**	-2.16	-0.00290	-0.14		
$UnexpGrowth_{i,t}$	-2.520***	-4.81	1.262	0.47		
$\Delta DepRatio_{i,t}$	8.175	0.75	89.99	1.04		
$DepRatio_{i,t-1}$	-12.22***	-6.06	25.82	1.30		
$\Delta Deind_{i,t-1}$	0.300	0.13	4.647	1.11		
$Deind_{i,t-2}$	2.634***	3.11	9.733**	2.09		
$\Delta Left_{i,t}$	0.00203**	2.46	0.00198	0.89	0.000341	0.64
$Left_{i,t-1}$	0.00273***	4.94	0.00700***	2.93	0.00133***	3.25
$\Delta OppFrac_{i,t}$	0.609***	3.05	0.145	0.42	0.461**	2.51
$OppFrac_{i,t-1}$	0.610***	4.20	0.609*	1.71	0.442***	3.54
$\Delta (Left \cdot OppFrac)_{i,t}$	-0.00784***	-3.91	-0.00623	-1.55	-0.00415**	-2.46
$(Left \cdot OppFrac)_{i,t-1}$	-0.00513***	-3.96	-0.0113***	-2.66	-0.00201*	-1.89
Estimation	OLS/PCSE		GMM		OLS/PCSE	
$R^2$	0.354				0.230	
N	210		203		230	
Countries	20		20		20	
Sargan Test (p-value)			0.580			
Instrument Count			53			

Notes: Z-statistics in parallel columns. \*, \*\*, and \*\*\* denote p-values of 0.1, 0.05, and 0.01, respectively.

Table 6: Determinants of expenditure on wages for the provision of social welfare (as a percentage of government expenditure).



Figure 1: Long-run partisanship effect on  $CashMT^{Fa}$ , conditional on  $OppFrac$ , estimated from Model (1). 95% confidence intervals shown.

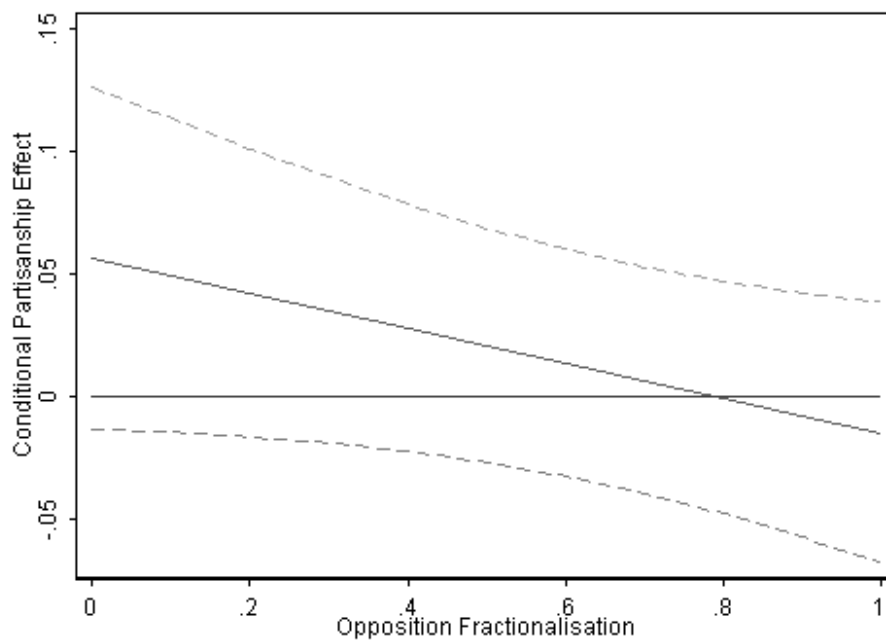


Figure 2: Long-run partisanship effect on *CashUU*, conditional on *OppFrac*, estimated from Model (4). 95% confidence intervals shown.

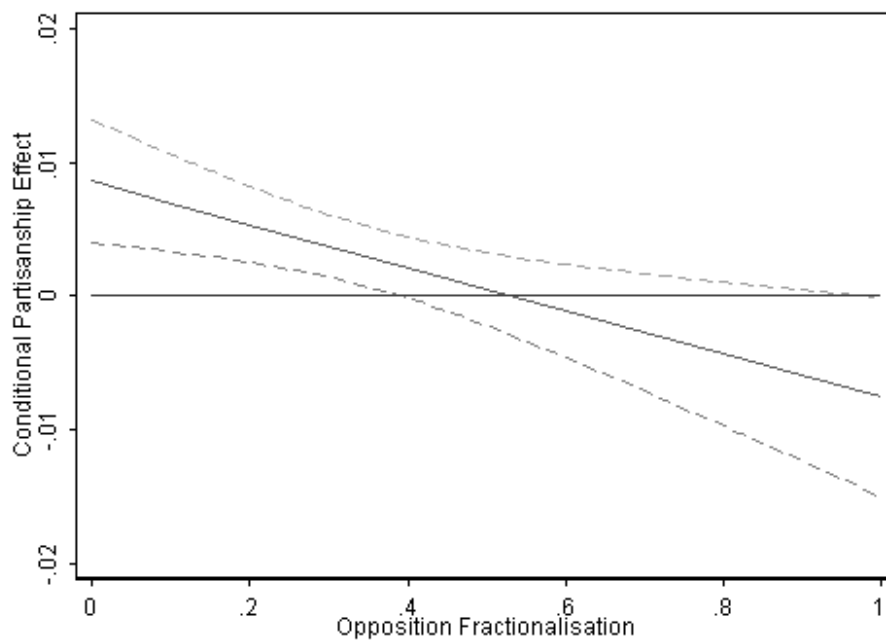


Figure 3: Long-run partisanship effect on  $Serv$ , conditional on  $OppFrac$ , estimated from Model (7). 95% confidence intervals shown.