

The Politics of Active Labor Market Policies in the OECD:

Insider-Outsider Challenges to Social Democracy

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To recognize the limitations facing social democratic governments since the early 1970s has become commonplace. The increasing internationalization of capital is often identified as the main culprit. Highly mobile capital, it is argued, powerfully constrains the ability of social democratic governments to promote policies that are significantly different from those implemented by conservative ones (for a review of the arguments as well as the evidence, see Simmons 1999). In an open economy, however, some options are still open to social democratic governments. Active labor market policy (ALMP) belongs within the group of supply-side policies that can be used by partisan governments to promote employment, growth and equality in an environment characterized by increasing levels of internationalization (see Garrett and Lange 1991 and Boix 1998). In spite of their relatively small presence in national budgets, ALMP levels have become one of the clearest exponents of a government's political choices in industrialized democracies greatly influenced by international forces (including European integration).¹ Yet we know comparatively little about the politics of ALMPs. The politics that determine ALMPs (unlike other government policies like demand management or the welfare state) have not received enough attention.²

Herbert Kitschelt has accurately pointed out that the study of social democratic party strategies requires a "bridge across the familiar divide between students of comparative political economy and parties and elections" (1999: 318). The model I present in the following pages attempts to do exactly that. Political economists often assume that the preferences of parties are exogenous and stable and that they are mediated by institutional configurations that produce differentiated political and economic outcomes.³ The analysis in this paper, however, focuses on the transformations in party strategies that result from new voter demands and political-economic conditions. In much of the political economy literature, social democratic governments are assumed to defend the interests of labor and conservative ones those of what some authors have defined as the "upscale groups." I argue that identifying social democratic governments with low unemployment policies is not always productive. This identification is based on the assumption that labor is disproportionately affected by unemployment and, for reasons that will become clear in the following pages, when analyzing economic policy in the post-1973 period, this assumption is inaccurate. The main thrust of my analysis is that labor is divided into those with secure employment and those without. I argue that the electoral goals of social democratic parties are sometimes best served by pursuing policies that

¹ For a more detailed analysis of the choices available to (and the constraints faced by) partisan governments in the open economy, see Scharpf and Schmidt (2000).

² Notable exceptions are Swank and Martin (2000), Boix (1998), Garrett and Lange (1991) and Janoski (1994, 1990).

³ See Kitschelt (1999) and Keech (1995) for a more detailed analysis of this argument.

benefit those enjoying secure employment while ignoring the interests of the unemployed and precariously employed.

As Moene and Wallerstein, among others, have argued the golden age of social democracy in Western Europe ended in the mid-1970s “with the first serious slump of the postwar period” (1999: 231). Up to that point, the social democratic strategy of reducing the inequality and insecurity of the most vulnerable sectors of the labor market while more generally promoting growth and employment had been very successful. With the first oil shock, however, a progressive decline in the political prominence of social democracy has been observed by a number of analysts (see Pontusson 1995, Kitschelt 1994 and Piven 1992). In this context, the arguments presented in this paper represent an attempt to answer three questions. The first one, as suggested in the previous paragraph, has to do with the political and economic changes experienced in the industrialized democracies since the 1970s and their effects over social democracy. Without overlooking other important factors, my argument emphasizes the significance of insider-outsider politics as a determinant of social democratic policy. The second question concerns the very nature of social democracy today. In the ensuing paragraphs, I essentially ask whether recent social democratic governments promote those policies we would expect from them. In many senses, our assumptions about the strategies of leftist parties have not substantially changed since the golden age of social democracy. By focusing on a limited number of increasingly relevant policies, my analysis contributes to a fuller understanding of the limitations and opportunities faced by social democrats in the post-oil crises era. The final question is one related to the goals of social democracy. Like most works on the subject, this paper cannot sidestep the debate about what social democracy should be. My analysis makes clear that in the presence of insider-outsider conflict, social democratic governments have failed to implement a set of policies that *a priori* would have seemed most adequate to the promotion of equality and employment. When the possibility of further electoral retreat seems strong in many OECD countries, the future of truly egalitarian social democracy may depend on the sort of critical analysis that this paper is an example of.

Although clearly limited in scope, the evidence that I present challenges one very influential interpretation of the political economy of advanced democracies. The following pages contradict some of the conclusions of the traditional partisanship arguments that maintain that social democratic governments will at all times promote the interests of labor—including the unemployed (see, for example, Hibbs 1987,

Alt 1985 and Garrett and Lange 1991). More specifically, my results question the relationship between social democracy and policies directed to increase the skills of the unemployed and precariously employed found by Boix (1998) and Swank and Martin (2000).

In the next sections, I will first describe the partisanship model I propose and place it within the existing literature. I will present an argument about the factors that may mitigate the influence of insider-outsider differences and analyze the nature of active labor market policies. The quantitative analysis of individual and macro-level data is preceded by an application of this paper's argument to the case of the UK. I will then provide an individual data analysis that validates my partisanship model's expectations about the preferences of insiders, outsiders and upscale groups. I will show that the macro-level effects of partisanship on policy are indeed the ones predicted by the model. The paper finally concludes with some observations about the implications of the insider-outsider model.

The Insider-Outsider Partisanship Model

Like much of the literature that explores the relationship between partisan government and economic policy, I understand political parties to be organizations of politicians who have commitments to ideology and to historically meaningful groups of voters in addition to election objectives. Like Garrett and Lange, I assume that "while all governments would prefer, *ceteris paribus*, to pursue their partisan preferences, they will only do so if this does not prejudice their prospects for reelection" (1991: 543). Economic policy is then considered an instrument that molds public support and helps construct the electoral coalitions on which political parties depend (Przeworski and Sprague 1986: 125-6).

Unlike most of the comparative political economy literature, I do not conceptualize labor as a homogeneous political actor. My analysis is based on two propositions: that labor is divided into insiders and outsiders, and that the interests of insiders and outsiders are fundamentally different.⁴ Insiders are defined as those workers with highly protected jobs. Several factors contribute to the level of protection that characterizes "insiderness:" a company's firing and job search costs; insiders' production-process skills and attained levels of company investment; the nature of employment protection legislation; and the behavior of unions. Insiders are sufficiently protected by the level of security in their jobs not to feel

⁴ There are two analytical frameworks that inspire the model that I propose. There is first the work of authors like Piore (1969), Doeringer and Piore (1971) and Berger and Piore (1980) on dual labor markets and an economic insider-outsider approach that emphasizes the differences between the employed and the unemployed (see Blanchard and Summers 1986, Lindbeck and Snower 1988 and 1990, Lindbeck 1993, and, more recently, Saint-Paul 1996 and 1997). My contribution to this framework is the introduction of

greatly threatened by increases in unemployment. Outsiders, on the other hand, are either unemployed or hold jobs characterized by low levels of protection and employment rights, lower salaries, and precarious levels of benefits and social security regulations. I consider the unemployed, the involuntary fixed-term employed and the involuntary part-time employed to be outsiders.⁵

The interests of these two groups are fundamentally different and, in some circumstances, contradictory. Insiders care about their own job security much more than about the unemployment of outsiders. Outsiders, on the other hand, care about unemployment and job precariousness much more than about the employment protection of insiders. Reducing the levels of “insiderness” so that more jobs are available for the unemployed and a lower level of precariousness is attained by part-timers and temporary workers is a positive outcome for outsiders.⁶

While dividing labor into insiders and outsiders could be considered to have some precedents in both the economics and political science literature, trying to integrate this division into a coherent conception of partisanship and exploring its possible effects on policy represents a completely new endeavor. Distinguishing between insiders and outsiders supports the following reconceptualization of labor as two groups with different policy interests: (1) there are insiders and their main interest is job protection, and (2) there are outsiders and their main interest is lower unemployment and job precariousness.

In this stylized framework, political parties are considered to have a core constituency whose support is needed to win elections. It is my contention that social democratic parties have strong incentives to consider insiders their core constituency. There are historical and ideological reasons for this but there is also the important fact that the other group within labor, outsiders, tends to be less politically active and electorally relevant (as well as less economically independent) than insiders. The main policy objective of social democratic parties therefore will be the continuation or increase of job security. Social democratic governments, on the other hand, have important reasons to refrain from promoting the interests of outsiders when the interests of insiders are harmed by policies that benefit outsiders. When faced with the choice

partisan politics into the analysis.

⁵ In relation to the involuntary nature of precarious work, most analysts agree that the majority of workers holding fixed-term contracts in the OECD do so involuntarily. It is often argued that some part-time workers, in particular women, are voluntary ones but, as Maier (1994: 180) points out, the fact that many working women do not want to work full-time does not imply that they prefer part-time jobs with precarious levels of protection and benefits.

⁶ This will be a desirable outcome for outsiders who are precariously employed as long as the remaining level of “insiderness” after the reduction provides better benefits and protection than their previous precarious jobs did.

between insiders and outsiders, social democratic governments will side with their core constituency.

More specifically, higher levels of active labor market policies benefit outsiders but not insiders. Outsiders are the unambiguous beneficiaries of ALMPs while insider interests may actually be hurt by the policies' effect on taxes and labor market competition.⁷ As was mentioned above, the immediate effect of an increase in the level of ALMPs is a higher tax burden for insiders. In the long run, insider taxes may decrease if ALMPs are successful at bringing new workers into employment but at least in the short run, insiders bear the brunt of the policies' costs. Additionally, ALMPs may, if successful, promote the entry into employment of individuals who can underbid insiders' wage demands. From an insider perspective, dedicating public resources to ALMPs may in fact result in low-wage competition. As Saint-Paul has argued, when insiders feel protected enough not to significantly fear unemployment, lack of support for ALMPs may result from the insiders' interest in being sheltered from this competition (1998: 162). The implication of my insider-outsider model therefore is that social democratic government will not be associated with higher levels of ALMP.

Dividing labor into insiders and outsiders also has implications for the strategies that conservative governments are likely to follow. Like many other authors, I consider conservative parties to depend on a core constituency that consists of upscale groups.⁸ Although there are policies that are favored by both the upscale groups and outsiders (lower employment protection may be one of them) and that therefore allow for partisan differences to exist, ALMPs are not one of them. Higher levels of ALMP represent higher taxes and a more intrusive role for government in the economy. Because of these two factors, upscale groups (and therefore conservative governments) are not interested in the promotion of ALMPs. Paradoxically, then, the disaggregation of labor into insiders and outsiders implies the absence of any partisan differences when looking at ALMPs. The existence of two distinct groups within labor only affects the strategies of partisan governments when there is a conflict between insiders and outsiders. Regarding some important policy areas, however, the coincidence of insider and outsider goals is very likely (social policy is a likely candidate). The important contribution of the insider-outsider model is the understanding that when the interests of insiders and outsiders differ, social democratic governments will promote the goals of insiders. My model drastically departs from the conventional interpretation of social democracy because of its surprising implication that government partisanship will not affect ALMP levels. Partisanship will not significantly affect ALMPs (an eminently pro-outsider policy) because conservative

⁷ The following observations about the effects of ALMPs follow Saint-Paul (1998) and Calmfors (1994).

governments are not interested in ALMPs (they do not want to antagonize upscale groups) but neither are social democratic governments (they do not want to antagonize insiders).

Integrating the Model into the Existing Literature

The main approach to the relationship between political parties and either economic policies or macroeconomic outcomes can be categorized as the traditional partisanship school. Its authors—Hibbs (1977 and 1987) and Alt (1985) being the most cited examples—believe that social democratic governments will promote the interests of labor while conservative ones will satisfy the demands of upscale groups. Labor is assumed to be disproportionately affected by unemployment and, as a consequence, social democratic governments are expected to organize political platforms and design economic policies that promote labor's support by reducing unemployment. Inflation is then assumed to affect upscale groups while not significantly influencing labor. Conservative governments therefore are expected to be more likely to elicit the support of the upscale groups and to reward them by reducing inflation. I would argue that this is the line that, with very minor transformations, has been reproduced by most analyses that have taken as their starting point the existence of party differences in the design of economic policy.⁹

The model proposed in this paper should be considered a transformation of the traditional partisan approach. I agree with the partisanship school authors in considering parties to have distinct interests as well as economic goals fundamentally related to those of their core constituencies. My insider-outsider analysis departs from their framework in its consideration of the likely coalitions that both parties are interested in attracting. It is important to emphasize here that Alesina and Roubini's rational partisan model (to many, the most convincing analysis of the relationship between partisanship and economic policy/outcomes) does not differ from the traditional partisanship approach in its consideration of party differences (see 1997: 51). The incorporation of rational expectations into the party difference framework, therefore, does not affect the presentation of my model as an alternative to the traditional partisanship assumptions.

The identification of social democratic parties as those interested in reducing unemployment depends on the assumption that unemployment disproportionately hurts labor. It is however misleading to categorize all labor as vulnerable to unemployment. Since the early 1970s, two factors have substantially

⁸ Also like many other authors, I consider upscale groups to be mainly interested in keeping inflation low.

⁹ Many could be mentioned but recent works by Garrett (1998), Boix (1998) and Alesina and Roubini (1997) are good examples.

decreased unemployment's threat to labor. First, because of the growth and stability of the late 1960s as well as the social unrest and union activism that characterized the early 1970s, firms accepted highly restrictive tenure and severance pay arrangements (see Blanchard *et al* 1986 and Bentolila and Bertola 1990). As a consequence, a considerable proportion of labor became significantly more protected from unemployment. Second, as "insiderness" emerged there was a substantial increase in the numbers of what I have called outsiders. The increase in unemployment experienced by many OECD countries during the post-Oil Shock crises is one of the important factors affecting this process. But, simultaneously, in a number of countries labor supply shocks caused by larger numbers of women entering the labor force applied further pressure on the labor market. Some authors have also argued that the intensification of international competition that has characterized most OECD economies since the mid-1970s resulted in a production change emphasizing working time flexibility.¹⁰ One of the consequences of these developments is a dramatic increase of part-time work and temporary contracts. The great majority of these part-time and temporary jobs, however, pay poorly, are concentrated in low-skilled activities, and possess minimal rights and benefits. In many cases, moreover, the precariously employed and the unemployed are the main group to suffer the consequences of economic fluctuations (being hired in good times and fired in downturns). To assume that unemployment disproportionately harms labor as a whole and that social democratic parties need to organize political platforms focusing on the problem of unemployment seems therefore clearly misleading when analyzing the post-1973 period.

Regarding the existing literature, therefore, the insider-outsider partisanship model suggested in this paper transforms those assumptions that do not seem to be accurate when analyzing the post-1973 period: that the core constituency of social democratic parties is labor as a whole and that their main objective is the decrease of unemployment. In doing so, it also challenges entrenched arguments about the nature of the relationship between politics and policy in advanced democracies.

Factors Mitigating the Effects of Insider-Outsider

As was pointed out in the introduction, the first objective of this paper is to show the relevance of insider-outsider differences on social democratic strategies. Once this is accomplished, however, it is equally important to inquire about the existence of factors that may moderate these effects. The question I am trying to answer is whether there are variables that may make it easier for social democratic

¹⁰ See, for example, Maier (1994: 151) and Dore (1994: 21-2).

governments to promote solidaristic policies. It is clear that insider-outsider differences promote the consideration of particularistic goals (more specifically the goals of insiders regardless of the consequences for outsiders) by social democrats. There are, however, some factors that can make the interests of insiders more similar to those of outsiders. These factors can reduce insider-outsider differences and weaken their influence on social democratic governments. I emphasize a set of variables that affect an insider's labor market vulnerability.

This paper's partisanship model is based on a fundamental difference in the way that insiders and outsiders are vulnerable to unemployment. I mentioned above that since the early 1970s, two factors had effectively insulated insiders from the threat of unemployment. First, there was the establishment of highly restrictive severance legislation. Then, there was the emergence of "outsiderness" (consisting of a significant increase in the number of those unemployed and precariously employed). To the extent that insiders are protected from unemployment, their interests will be significantly different from those of outsiders. The potential benefits for insiders of policies to promote employment, for example, are small while the actual costs (in terms of taxes and low-wage competition) are high. Factors that increase the insiders' vulnerability to unemployment, however, will align their interests with those of outsiders. There are two clear candidates: a decrease in the levels of employment protection and an increase in the instability of the unemployment rate.

Employment protection legislation affects "the rules governing unfair dismissal, lay-offs for economic reasons, severance payments, minimum notice periods, administrative authorization for dismissals and prior discussion with labor representatives" (OECD 1994: 69). It is clear that decreasing levels of employment protection directly increase the vulnerability of insiders to unemployment. If firing insiders becomes easier, it is reasonable to assume that the interests of insiders and those of outsiders will become more similar. The benefits of policies directed to promote employment become more attractive to insiders as they themselves become more likely to need them. Two hypotheses straightforwardly emerge from this analysis: the insider-outsider model implies that decreasing levels of employment protection should be associated with increasing levels of ALMP; it also implies, more importantly, that the interaction between decreasing levels of employment protection and stronger social democratic governments should be associated with increasing levels of ALMP. Both hypotheses relate to the fact that insiders are becoming more vulnerable to unemployment. The first one reflects an increase in the demand for employment

promoting policies regardless of government partisanship and the second one the increase in insider pressure towards social democrats.

The nature of unemployment can fundamentally affect the vulnerability of insiders. In the following sections, I will make a distinction between increasing unemployment and high but stable unemployment. The previous paragraphs have made clear that insiders are often not vulnerable to the threat of unemployment. I hypothesize that an insider who enjoys high employment protection will not be concerned about the level of unemployment if it is stable. This means that if unemployment is persistently high (even very high), insiders will not feel vulnerable and therefore they will be unlikely to pressure for higher ALMPs. Sudden increases in unemployment, however, promote uncertainty even from those enjoying high employment protection. The effects of this initial instability are difficult to predict in terms of who will lose jobs or what companies will be affected. In these circumstances, insider concerns about employment promoting policies will become more significant. There are three implications: the model predicts no association between levels of unemployment and levels of ALMP; but predicts an association between unemployment growth and ALMP levels; and also between ALMP levels and the interaction of unemployment growth with social democratic government. As unemployment becomes unstable, social democratic governments increase employment promotion policies to satisfy insiders.

[Table 1]

Table 1 summarizes the theoretical claims outlined in the previous sections. The main hypothesis is that cabinet partisanship is an insignificant determinant of ALMP levels. When we introduce other factors into our analysis, however, the effects of government partisanship are transformed. Increasing levels of employment protection insulate insiders from the threat of unemployment and are therefore associated with decreasing levels of ALMPs. The interaction of high levels of employment protection and cabinet partisanship is also expected to be associated with lower levels of ALMPs. The insignificance of unemployment levels reflects the fact that stable unemployment is not a concern to insiders. Unemployment growth, however, increases insider vulnerability and is therefore associated with increasing levels of ALMPs. The interaction of unemployment growth and social democratic government is also expected to be associated with lower levels of ALMPs.

Employment Protection and Employment Promotion in the UK

There are several reasons why a more detailed analysis of a significant case contributes to a better explanation of the insider-outsider model. First, a historical explanation of the British case (even if brief) illustrates in a more intuitive fashion many of the points made in previous sections. Since the early 1970s, the UK has experienced remarkable changes in terms of the employment protection levels enjoyed by insiders. In this respect, it is an ideal example of how employment protection affects insider demands for employment promotion as well as a social democratic government's likelihood to satisfy these demands. Second, a case study allows us to assess some of the causation processes that are sometimes difficult to capture in quantitative analyses.¹¹ The case analysis outlined in the following paragraphs hints at some of the sequencing and the motivations behind the switch in employment promotion priorities of the Labour Party in the 1990s. Third, the use of different methodologies and different kinds of evidence promotes a degree of "triangulation" (Tarrow 1995). Though limited by the restricted scope of the British case study, this paper's conclusions receive a significant amount of support because the analysis integrates quantitative and qualitative methodologies and explores historical, individual and macro-level data.

By the end of the 1960s, insiders in the UK were protected by a dismissal cost system that compared favorably with those in most other European countries. Redundancy payments had existed in the UK since 1965 when the Redundancy Payments Act was passed during Harold Wilson's Labour government. At this time, the average payment amounted to about 12 weeks' pay, although in real terms it was perhaps as much as 15 or 16 weeks' pay because redundancy payments were not taxed (Bosworth and Wilson 1980: 97-8).¹² Insiders were also looked after by influential unions that interacted with employers in a relatively unrestricted industrial relations context. Few limitations existed either on unions to strike or on employers to use lock-outs (Visser and Van Ruysseveldt 1996). Both in terms of dismissal costs and of union protection, the situation for insiders was to drastically worsen after 1979.¹³

¹¹ Especially if, as it is the case in this paper, the quantitative analyses are limited in terms of the restrictive nature of some variables or the time period for which the data is available. More on this below.

¹² The number of people entitled to redundancy, however, was small. Workers younger than 18 years of age and those who had been in the job for less than 2 years were automatically excluded. Even in 1971, during the recession, they amounted to about 12% of registered unemployment (Bosworth and Wilson 1980).

¹³ In 1971, the Conservative government had tried to implement legislation that would transform collective bargaining, industrial disputes and union behavior following the American model (see Weekes *et al* 1975). The effects of the 1971 Industrial Relations Act, however, were intensely and effectively resisted by unions (Smith 1980). When Labour returned to power in 1974, they produced policies that would reverse the 1971 Act. In fact, the Trade Union and Labour Relations Act of 1974 and the Employment Act of 1975 not only reversed the Industrial Relations Act but also strengthened unfair dismissal provisions (Bosworth and Wilson 1980: 110).

In 1979 Margaret Thatcher won the elections with a strongly anti-union message. The goals of the her administration have been explained by Charles Bellairs as follows: “to deal with abuse of the trade union ‘closed shop,’ to protect individual trade union members against exploitation by the trade union bureaucracy and generally to correct the imbalance of power in favour of trade unions in such matters as pay negotiations” (1985: 6). The Conservative Party election manifesto declared that “by heaping privilege without responsibility on the trade unions, Labour have given a minority of extremists the power to abuse individual liberties and to thwart Britain’s chances of success” (Conservative Party 1979). The Employment Act of 1980 represented the first step in the attack of unions and insiders by the Thatcher government. Fulfilling Thatcher’s election promises, the Act contained measures to restrict the closed shop, limit picketing and reduce dismissal costs. The reduction of employment protection was particularly important. As Edwards *et al* have argued, the Thatcher government “viewed employment protection provisions not as essential minimum standards but as ‘burdens on business’ (particularly in respect of small employers) which acted as a deterrent to the employment of more people” (1992: 13). The 1980 Employment Act reduced dismissal costs in three ways: it lowered the rights of employees that had been subject to unfair dismissals, removed the burden of proof for employers, and reduced maternity rights regarding reinstatement. The 1980 Act was soon followed by the 1982 Employment Act, which moved further in the anti-union direction. This act restricted the definition of lawful union action and further limited the closed shop (Visser and Van Ruysseveldt 1996). The second and third electoral victories of Mrs. Thatcher in 1983 and 1987 did not represent any change in labor market strategies. The power of unions and insiders continued to be attacked through the 1984 Trade Union Act (the government made it more difficult for unions to act) and the 1988 Employment Act (post-entry closed shop was made illegal and unions’ rights to discipline members for crossing a picket line during a lawful strike were abolished). After a new Thatcher electoral victory, the 1989 Employment Act also reduced the administrative costs of dismissals by making it unnecessary for employers to provide a reason for dismissals unless the employee had been continuously employed for 2 years (it had been 6 months before).

The arrival of John Major to 10 Downing Street in 1990 did not modify the labor market policy orientation of the Tory government. The 1990 Employment Act effectively abolished the pre-entry closed shop and made it legal to dismiss workers who had participated in any unlawful industrial action. In 1993, Major implemented the Trade Union Reform and Employment Rights Act. This Act made it legal for

employers to offer employees financial enticements not to join a union and stipulated that employers were to get seven days warning in case of industrial action.¹⁴

From the early 1970s, however, as long as there was insider protection there was an absence of emphasis on the employment promotion in the UK. The general approach towards active labor market policy by both parties can be described as consisting of programs that “emphasize the punitive experience of receiving public assistance while simultaneously failing to equip participants for effective labor-market entry” (King 1995: xii-xiii).¹⁵ It is in fact difficult to see how ALMPs could have received more attention. Employers did not want them, unions had incentives not to pay too much attention to them, and Conservative and Labour governments had no reason to favor them. The employer side of this story is clearly explained by King who argues that “(a)side from rhetorical flourishes about the value of training, in reality employers preferred firm-specific to general training, and willingly accepted a high proportion of semi- or unskilled workers (since these necessarily received lower wages than skilled workers)” (1997: 404-5). Unions, on the other hand, did call for improvements in ALMPs. But, as King (1997) points out, although they were increasingly excluded from training programs, unions were trapped in the workplace-based system. They had historically advanced the interests of already skilled workers and did not develop a strong commitment to a coherent system of active measures. As a consequence of these circumstances, governments (of any ideology) had few political incentives to address ALMPs. In the 1970s, Conservative and Labour governments facilitated some tripartism but did not fundamentally modify an unsuccessful system. For the Thatcher government, the development of effective training and public employment services was not a high priority. The conservative emphasis on low government spending and the reduction of the role of the state (as well as the decrease of union power and the hegemony of the financial sector) was not compatible with a high ALMP orientation. As argued by Crouch, conservative governments since 1979 preferred, and indeed generated, “a flexible, casualized labour force able to turn its hand to a rapidly changing variety of relatively low skilled tasks” (1995: 304).

The amount of resources dedicated to employment promotion did increase during the Thatcher

¹⁴ Major also implemented some measures that (although they did not fundamentally modify previous policies) slowed down the pace of anti-insider and anti-union measures. The 1993 Employment Rights Act extended maternity rights and protection against unfair dismissal for pregnant women and workers with health problems. The 1996 Employment Rights Act established a minimum notice period of a week for those who had been in the job for less than 2 years and a week per year worked (up to a maximum of 12 weeks) for other workers. The Act also recognized the right of every worker not to be unfairly dismissed, although it allowed for a very loose interpretation of what constitutes fair dismissals and did not apply to those employed for less than 2 continuous years or above the retirement age.

¹⁵ King uses this description for both the UK and the US.

governments (see Bellairs 1993: 43). A number of analysts have argued, however, that these government programs provided cheap labor without providing real training (see King 1997, Ainley and Corney 1990, and Finn 1987). It is true that in the early 1980s, the conservative government increased the budget dedicated to training and extended the number of active policy choices included. This was particularly the case when Lord Young was the chairman of the MSC and a number of new training programs (for young and long-term unemployed, for example) were introduced. The assistance to new labor market entrants was complemented by the development of technical education initiatives, the promotion of polytechnic centers, and the ensuing emergence of the Youth Training program uniting all previous employment policies (Finegold and Soskice 1988). New anti-unemployment initiatives like the New Job Training Scheme or the Youth Training Scheme were established and the budget for job formation policies increased from £1.1 billion in 1978-79 to £3.4 billion in 1987-88 (Boix 1998: 177).¹⁶ But this was to a great extent the consequence of the spectacular increase in unemployment experienced during this time. The old training problems remained. In 1989, a government study reported that training was directed to short-term necessities and that most workers had not experienced any vocational training (quoted by King 1997: 396).

With the arrival of Blair to power, there have been some substantial changes in employment promotion policy.¹⁷ The new attitude was highlighted in the 1997 manifesto as one of the points in the “Contract with the People.” It stated the Labour Party’s intention to get 250,000 young unemployed people into work (Labour Party 1997). As Moran and Alexander have pointed out, “Tony Blair’s incantation that Labour’s priorities were ‘education, education, education’ grew from the conviction that higher levels of skill, and the right mix of skills, were the keys to labour supply” (2000: 120). Labour’s approach to ALMPs is encapsulated in the Welfare to Work program (popularly know as the New Deal). In 1997, Blair established a windfall tax on profits of privatized utilities. It was estimated to provide £4.8 billion (over two years) which would be allocated to the New Deal (Burchardt and Hills 1999: 44). The New Deal initiative was aimed at young people, single parents, sick and disabled people, and the long-term unemployed. It included job subsidies for employers (£60 a week for participants in training programs), the establishment of “taster” employment (short placement spells), and the provision of counseling and advice (Cressey 1999: 177). There was a commitment from New Labour to guarantee work for all 18-24 year olds unemployed for six months or more (Grover and Stewart 1999). Young people had four options:

¹⁶ It did then go down to £3.2 billion in 1989-90.

¹⁷ Some authors would not agree that New Labour is more concerned about employment promotion than previous conservative governments. For more critical analyses, see Heffernan (2000), Crouch (1999) and

training, subsidized work in the private sector, voluntary sector work, or work with the new Environmental Taskforce. The Department for Education and Employment provided £58 million to start Employment Zones to attack long-term unemployment, committed to a £150 million investment on individual learning accounts and an initial £15 million to start a University for Industry (Coates 2000: 132).

Focusing on dismissal costs and union protection, my analysis of the British case has shown first how the protection of insiders steadily diminished since 1979. Then it analyzed how higher levels of insider protection were correlated with a general disinterest on the part of the Labour Party towards employment protection policies. Finally, this section has demonstrated that the decrease in insider protection promoted by the conservative governments of Thatcher and Major facilitated the emergence of Blair's Third Way (defined as a Labour strategy with employment promotion as a pre-eminent goal). The influence of Thatcherism proposed in this paper is in fact recognized by Anthony Giddens himself. Thatcher, he argues, "attacked established institutions and elites (...). The Labour Party and its intellectual sympathizers first of all responded largely by reaffirming old left views. The electoral setbacks the party suffered by so doing, however, necessarily stimulated a new orientation" (Giddens 1998: ix).¹⁸

Active Labor Market Policies

ALMPs have been generally defined as those labor market policies aimed at reducing unemployment by shaping the demand, supply and mobility of labor. In practice, most scholars agree that this means those government measures directed to training and rehabilitation; information, counseling, and financial support to find a job; and government job creation.¹⁹ The OECD data used in this paper's statistical analysis encompasses the following five areas: (1) public employment services and administration, (2) labor market training, (3) youth measures, (4) subsidized employment, and (5) measures for the disabled.²⁰

[Figure 1]

Figure 1 provides a graphic summary of the ALMP outcomes that my analysis seeks to explain. The figures reveal persistent variations in levels of active labor market policy among the sixteen OECD countries, but also considerable change over time. Starting with the persistence of cross-national

Gray (1998).

¹⁸ For a different but related argument about the influence of Thatcherism on New Labour, see Heffernan (2000).

¹⁹ See, among others, Janoski (1994), Jackman, Pissarides and Savouri (1990), Janoski (1990) and Wilensky and Turner (1987).

variations, there seem to be three differentiated groups. There is a set of countries that consistently dedicate the least amount of resources to ALMPs. They are Japan, Switzerland, the US, Australia, Canada and Austria. Then there is a group of middle-of-the-road performers: France, the UK, Canada and Norway (although at the end of the period Norway joins the upper group). Finally, there is a set of countries with the highest ALMP expenditures. They are Sweden (as the obvious leader), Belgium, Germany, Finland, Denmark, and Italy. While there is some movement between groups, the composition of these three bands remains remarkably stable over the 1980-95 period.

Looking at change over time, most countries experienced an increase in ALMP spending since 1980. The most notable cases are Sweden, Denmark, Norway, and France. Germany, Finland, and the Netherlands experienced a rise in the 1980s but then suffered a noticeable decline in the 1990s. An additional group of countries seems best characterized as cases of long-term stability. Japan, the US, Canada and Switzerland do not experience much change in their generally low levels of ALMP. The UK, finally, seems the only country to have experienced a general decline in ALMP spending.

Having looked at the great variance (both cross-sectional and over time) that is the focus of this paper's analysis, it is important to make the connection between my claims and ALMPs more explicit. In many respects ALMP levels are the ideal measure for testing the accuracy of my hypotheses. First, they are, in Janoski's words, "preponderantly discretionary" and can "be either a major recipient of fiscal resources (...) or relatively ignored by politicians and budget makers" (1994: 54). Second, the unambiguous objective of ALMPs is to benefit outsiders. Unlike other policies whose goals may be difficult to distinguish in insider-outsider terms, ALMPs are designed to produce stable employment for those who do not possess it. The economics literature provides us with some evidence that higher levels of ALMP promote lower levels of unemployment.²¹ The existence of scholarly analyses demonstrating the beneficial effects of ALMPs, however, is not as relevant as the general acceptance of ALMP as a tool against unemployment by policymakers. And this acceptance has been quite general. Transferring public resources into active labor market policies has been an objective repeatedly endorsed by OECD Labor Ministers in recent years. As Martin points out, it has also become part of the EU's official strategy to decrease unemployment since the Essen Summit in December 1994 (1998: 12).

In spite of both the recent popularity and the perceived importance of ALMPs, the relationship between these policies and government partisanship has not received enough attention. The economics

²⁰ See OECD Employment Outlook for details.

literature has been largely concerned about the economic effects of ALMPs and has generally ignored the role of partisanship. In political science, some authors have attempted to address the effect of partisanship on ALMPs but important questions have been left unanswered. Theoretically, the starting point for most authors is to consider ALMPs one more measure that social democratic parties will employ to benefit labor.²² But the empirical tests of whether this is in fact the case suffer from important limitations. Most analyses rely on a very limited number of observations—Boix’s regressions, for example, range from 18 to 21 observations (1998: 75-9) and Janoski’s from 36 to 38 (1994: 70-8). This severely limits the possibility of systematically testing alternative hypotheses while simultaneously controlling for other relevant factors (these regressions typically have no more than three variables), which in turn introduces great caveats into the significance of the results. Others do not systematically assess the validity of their claims across countries and through time, which limits the generalizability of their conclusions.²³ As the following sections will make clear, my analysis addresses these limitations.

In the framework proposed in this paper, outsiders are the unambiguous beneficiaries of ALMPs while insider interests may actually be hurt by the policies’ effect on taxes and labor market competition. As was mentioned above, the immediate effect of an increase in the level of ALMPs is a higher tax burden and low-wage competition. There is then a convincing logic for social democratic governments not to favor ALMPs if their objective is to satisfy the objectives of insiders. The insiders’ lack of concern for unemployment as well as the policies’ costs for insiders contribute to this outcome. Conservative governments, on the other hand, are also expected to be uninterested in pursuing ALMPs. This is because upscale groups do not favor them (since they represent higher taxes and an increase in the government’s participation in the economy). In short, my argument implies that there should be no relevant difference in the ALMP levels promoted by social democratic or conservative governments.

The Individual Analysis

As a first step in the testing of this paper’s hypotheses, it is important to provide evidence regarding the individual preferences assumed in the model. My argument is also concerned with the relationship between government partisanship and ALMPs and, consequently, this is the focus of the quantitative exploration to be developed in the pages following this section.

²¹ See Martin (1998), OECD (1994), OECD (1993), and Jackman, Pissarides and Savouri (1990).

²² This is the case in Boix (1998), and Janoski (1994, 1990).

²³ This applies to Janoski’s country-specific treatment of the determinants of ALMPs (1994, 1990).

The most important difficulty when trying to provide an initial test for the model's assumptions involves first the definition of insiders, outsiders and upscale groups and then finding surveys that ask questions related to these definitions. The emphasis on the importance of job stability in my definition of insiders (as opposed to fixed term or temporary contracts) and the need for questions related both to policy preferences and labor market status limits the data I use to one survey.²⁴ The Eurobarometer survey analyzed below does not provide yearly data for all OECD nations throughout the period of interest but it does allow me to develop insider-outsider codings and to assess preferences in a way that closely addresses the claims in the previous sections. Using Eurobarometer 44.3 (February-April, 1996), therefore, I define the upscale group category as those who are self-employed (professionals, owners of shops, business owners, farmers, and fishermen) and those who define themselves as managers.²⁵ Insiders are then defined as those employed full-time with a permanent job or those with part-time or fixed term jobs who do not want a full-time or permanent job. This group includes manual workers (skilled and unskilled) and those in employed positions (whether working at a desk, traveling, in services, or employed professionals) with full-time and permanent contracts (defined as contracts for an unlimited period of time). If my conception of insidership is clearly related to the level of protection enjoyed by the worker, it is equally unambiguous that I do not consider the more general category of labor to consist of only manual workers. Like a number of authors (see, for example, Zweig 2000), I emphasize the lack of power over production (being an employee) rather than manual work as the defining characteristic of labor.²⁶ Outsiders are then defined as those who are unemployed, employed full-time in fixed-term and temporary jobs (unless they do not want a permanent job), and employed part time (unless they do not want a full-time job).²⁷

The insider-outsider partisanship approach rests on some assumptions about the preferences of insiders, outsiders and upscale groups. These preferences have been summarized in Figure 2.

²⁴ Some aggregate data on the numbers of unemployed and part-time employed individuals exist for a number of OECD countries. These numbers, however, are not useful to my argument first because they often do not take into consideration the precariously employed (those who have fixed-term or temporary jobs when they would rather have full-time ones) and second because they do not provide data on policy preferences.

²⁵ A more detailed explanation of the responses used for the coding of insiders, outsiders and upscale groups is available from the author.

²⁶ In other works (available from the author), I have analyzed whether differences between manual and non-manual insiders affect the policy preferences assumed in my model. My results confirm that there are no significant differences between these groups. It is indeed the case, that non-manual insiders share the preferences of manual insiders.

²⁷ An argument could be made to include students in the outsider category. Both because students have no certainties about their future employment (even those who hope to become insiders or "upscale" managers can end up unemployed) and because in some cases they may have extended their education because of difficulties entering the labor market. The results I report in the analysis of the individual data are not

[Figure 2]

In Figure 2, the upscale groups and the insiders (who enjoy a high degree of job protection) are considered to be less affected by unemployment and therefore less interested in dedicating more resources to employment promotion policies for outsiders. For insiders, the low preferences are also explained by the fact that the immediate cost of an increase in the level of employment promotion policies represents a higher tax burden. Additionally, these policies may, if successful, promote the entry into employment of individuals who can underbid insiders' wage demands. As for the upscale groups' preferences, limiting the role government in the economy is a general motivation but tax reasons also apply. Outsiders are most affected by unemployment and therefore their preferences reflect a much higher level of concern for employment promotion. The figure sharply illustrates the reasons why this paper's model implies the absence of partisanship effects on ALMPs. In my argument, insiders are considered to be the main constituency of social democratic parties and upscale groups that of conservative parties. The figure makes clear, however, that insiders and upscale groups have very similar preferences regarding ALMPs. They are both relatively uninterested in policies that promote employment and no partisanship differences are therefore expected.

The logical next step is to test whether the preferences presented in Figure 2 are in fact accurate. To do this, I turn to the Eurobarometer survey.²⁸

[Figure 3]

Figure 3 reflects the responses of insiders, outsiders and upscale groups to a question addressing employment promotion concerns.²⁹ In the first question, respondents were asked whether they would tend to agree or disagree with the following statement: "I would be ready to pay more tax if I were sure that it would be devoted to creating new jobs." Responses that agreed were given a 1 and those that disagreed were given a 0. The x-axis measures the mean response of the three groups. As hypothesized in Figure 2, outsiders are in favor of employment promotion measures even if they imply increasing taxes while insiders and upscale groups are more reluctant and display lower levels of support.

The numbers in Figure 3 are suggestive but a more systematic test of the model's hypotheses is needed. The hypotheses summarized in Figure 2 have some clear implications. In a more systematic

sensitive to this distinction. They hold whether students are included or not.

²⁸ In the figures that follow respondents that did not know about their employment status or policy preferences were not included in the analysis. Less than 5% of the total responses were deleted.

²⁹ Given the restrictions in the availability of the data used in the regressions below, this section's analysis is restricted to 10 countries: Austria, Belgium, Denmark, Finland, France, the UK, Germany, Italy, the

quantitative analysis, being an outsider should be significantly associated with higher preferences toward employment promotion. Being an insider or a member of the upscale groups, on the other hand, should be either insignificant or negatively associated with preferences toward employment promotion.

To test these claims, I run some logit random intercept multilevel maximum likelihood RIGLS (Restricted Iterative Generalized Least Squares) models.³⁰ I am interested in a research question that requires an analysis of data at the level of the individual and at the level of countries. This means that the data used in the analysis has a multi-level structure (one level, the individual, is nested within the other). Developing an analysis that ignores the multi-level nature of the data could create a number of statistical problems (clustering, non-constant variance, underestimation of standard errors, etc).³¹ Like other recent analyses of similar data (see Anderson and Tverdova forthcoming and Rohrschneider 2002), I follow the recommendations for modeling multilevel data structures of Steenbergen and Jones (2002).³²

The dependent variable in the analysis presented below has been described already. It is the measure of an individual's willingness to pay taxes to create new jobs. There are two groups of explanatory variables. First, there are the variables measuring insider-outsider-upscale status and an individual's vulnerability to unemployment. Vulnerability is measured in two ways: at the individual level and at the macro-level. For individual vulnerability to unemployment, respondents were asked if the following statement was true: "My job is secure." Those answering "Not at all true" were then given a 1, while other answers were given a 0.³³ For macro-level vulnerability, I use a nation's employment protection level, standardized unemployment and change in standardized unemployment.³⁴ Because the paper's theoretical claims concern the effects of the status variables contingent on those of the vulnerability variables, I include interaction terms for those relationships hypothesized to be significant in determining employment protection preferences (see Table 1). This means interactions between the insider status variable and the vulnerability variables (whether individual or macro-level). In the second group, there are some control variables measuring individual characteristics that are likely to affect the outcome but are not theoretically interesting. They are age, gender, income and education.

Netherlands and Sweden.

³⁰ The estimation procedure used is second order penalized quaslikelihood.

³¹ For a more detailed analysis of these issues, see Zorn 2001.

³² I use MLwiN to analyze the data.

³³ I also ran the models with an alternative definition (including in the 1 category not only those responding "Not at all true" but also "A little true"). The results I report were not sensitive to this change.

³⁴ The macro-level employment protection variable measures the number of months of severance pay a worker gets upon termination without cause. For details about these macro-level variables, see this paper's following section.

I present results for four models. The first two are the main effects and the interaction models. The other two are the parametric and non-parametric bootstrapping models. Bootstrapping is used to make accurate inferences based on simulated parameter estimates. This is particularly important in models with discrete responses that (like in this paper) use quasilielihood estimation (see Goldstein and Rasbash 1996). Bootstrapping procedures generate datasets (by simulation) based on the parameter estimates for the original dataset. In this paper's analysis, the parametric bootstrapping procedure resamples from the estimated residuals and then refits the model. In building confidence intervals, parametric bootstrapping relies on the Normality assumption for the residuals while non-parametric bootstrapping does not.

[Table 2]

Table 2 shows the results of the four models. All models reflect a remarkable amount of support for the insider-outsider framework. In all models, being an outsider is significantly associated with an increase in employment promotion preferences. The results also indicate (regardless of model) that being an insider or a member of the upscale groups is significantly associated with a decrease in employment promotion preferences. This is strong evidence in support of this paper's hypotheses. The theorized effects of unemployment vulnerability are confirmed by the results. In this case, however, two things must be pointed out. First, these effects are only discernible when the main effects and the interaction effects are disentangled. Job vulnerability at the individual level, for example, is insignificant in the main effects model. Once we separate the effects of the interaction, however, the results show that, as was expected, being an insider and feeling job insecurity is associated with an increase in employment promotion preferences. Second, it is also clear that vulnerability at the individual level is a more powerful determinant of preferences than macro-level factors. An ANOVA model indicates that country-level variance is much smaller than individual level variance. Since the data is measured at the individual level, this is not surprising (see Steenbergen and Jones 2002 and Anderson and Tverdova forthcoming). Still, increasing levels of macro-level employment protection seem to be associated with higher employment promotion preferences while increasing levels of macro-level change in unemployment are associated with lower employment promotion preferences. These two findings do not apply to insiders (when the relationship is specified in the interaction) but they are puzzling considering this paper's arguments and in need of further research.

The coefficients reported in Table 2 are meaningful but a more intuitive explanation of the

variables' effects can be provided. Using the interaction model, we can calculate the probability that an individual with average values in all the independent variables agrees to pay taxes for employment promotion by setting all variables to 0 (since the predictors are all centered) and calculating:

$$p = 1/(\exp(-X\beta)) = 1/(1+\exp (.204)) = .449$$

An individual with average values in the independent variables, therefore has an estimated 44.9% probability of agreeing to pay taxes for employment promotion. More interesting to the topic of this paper, however, is the difference in the probability of agreeing to pay taxes for employment promotion between outsiders, on the one hand, and either insiders or members of the upscale groups. Using similar calculations, we can conclude that the probability of agreeing to pay taxes for employment promotion goes up by 7.5% if an individual is an outsider (rather than an insider) and by 11.2% % if an individual is an outsider (rather than a member of the upscale group). To illustrate the effects of unemployment vulnerability, it is sufficient to point out that the probability of agreeing to pay taxes for employment promotion increases by 16.4% if an insider feels insecure about his/her job. The data presented in this section therefore illustrate that my partisanship model's expectations about the preferences of insiders, outsiders and upscale groups are reasonable. In the next pages I explore whether parties do in fact develop policies that agree with these preferences.

The Effects of Government Partisanship on Policy

Very little needs to be said at this point about the theorized influence of the explanatory variables of interest. I hope the previous pages have made clear the reasons why I expect partisanship not to be a significant factor determining ALMPs unless its influence is interacted with other factors (namely employment protection, unemployment growth and labor market institutions). I will however explain in more detail the particular measures used in the quantitative analysis below.

Cabinet Partisanship: The government partisanship measure used in my analysis attempts to capture the ideological position of governments in relation to a left-right continuum. I use partisan cabinet composition as measured by Tom Cusack. Higher figures signify more conservative government. Cusack groups parties into five families, multiplies each family's share of cabinet portfolios by its weight, and sums the products.³⁵

One point must be clarified in reference to Cusack's partisanship measure. As mentioned above,

Cusack's variable measures the ideological position of governments in relation to the partisan composition of cabinets. This means that parties other than the social democratic and conservative ones influence the weighted partisanship measure according to their portfolio shares. Although for convenience I refer to social democratic and conservative parties in the results, it would be more accurate to refer to the partisan options as Left and Right. This, however, does not affect the insider-outsider partisanship model or the conclusions explained below. Regarding partisan options to the left of the social democrats, it is my contention that the communist parties that have participated in government in OECD countries since 1973 should be considered as pro-insider as the social democratic parties. Most communist parties in Europe rely even more on the support of insiders (both through their votes and their participation in unions with strong ties to the party) than social democratic ones and they have been just as reluctant to integrate the interests of outsiders. The government participation of communist parties in the sample that I analyze is limited enough, in any case, not to affect the conclusions made about the influence of partisanship over policy. When considering parties belonging to the center and moderate right, the implication of my statistical analysis is that Christian democrats promote policies that can be placed in between social democracy and conservatism regarding ALMPs.³⁶ This again seems realistic. Finally, the participation of liberal parties in government is also coded as center or moderate right.³⁷ Considering the policies emphasized in the previous pages, this seems uncontroversial. The free-market philosophy of liberals makes them as pro-upscale group as conservatives and the differences between the two groups of parties (mostly regarding individual freedom issues like abortion or divorce) pertain to policy dimensions not discussed in this paper.

Employment Protection: I use a variable measuring the number of months of severance pay³⁸ a blue-collar worker with ten years of service receives upon termination without cause. Cause is

³⁵ See Cusack (1997) for further details.

³⁶ Following Castles and Mair (1984), Cusack's measure classifies Christian democratic governments as either center or moderate right depending on the country. In Belgium (CVP), Denmark, Italy, the Netherlands and Norway, they are classified as center. In Belgium (PSC), Finland and Germany as moderate right.

³⁷ Liberal parties in Norway, the UK, Germany, Canada, Sweden, Finland and Italy are classified as center while those in Denmark, Austria, the Netherlands, Australia, and Belgium are considered moderate right.

³⁸ An overall strictness of protection against dismissals index exists. The index is constructed by averaging the scores obtained by each country in three categories: "procedural inconveniences which the employer faces when trying to dismiss employees; notice and severance pay provisions; and prevailing standards of and penalties for unfair dismissal" (OECD 1999: 54). Conceptually, the overall strictness of protection against dismissal is an ideal dependent variable with which to test my hypothesis. This measure, however, suffers from the important practical limitation of being available only as a summary value for the 1980s and the 1990s. I ideally want to perform the statistical tests with yearly data that allow a significant increase in the number of observations as well as in the complexity of the estimated models. For an analysis of the

illustratively explained by Lazear as generally meaning “for reasons having to do with the worker’s own shortcomings, and it must be extreme. A reading of the rules suggests that in most countries, dismissal with cause requires the kind of evidence necessary to withdraw an American academic’s tenure” (1990: 708).³⁹

Unemployment Rate and Unemployment Growth: The measure used is the standardized unemployment rate for all countries but Austria, Denmark and Switzerland. For these three countries, I use regular unemployment rates.⁴⁰ Unemployment growth is measured as percentage rates.

Other Independent Variables

There is a group of variables with no direct implications to my insider-outsider model that must nevertheless be included in the analysis. In some cases opposing claims about their influence over policy have been provided in the literature and in all cases there are strong theoretical or empirical reasons to believe that they affect the outcomes I am interested in analyzing.

Labor Market Institutions:

Both because of their direct involvement in industrial relations (negotiations covering work regulations and wages being the most clear examples) and because of their capacity to influence political parties, the behavior of unions is a relevant factor in a government’s decision of macroeconomic orientation. I use two variables: wage bargaining centralization and union density. The wage bargaining centralization index was created by Torben Iversen. Higher figures signify more centralization. Observations are classified according to the relative weight of three levels of bargaining (local, industry and national), and then multiplied by a measure of the concentration of union membership at each level.⁴¹ To capture the inertia associated with institutional change, I use a moving average of the yearly values (present and previous four years). It should also be noted that values for the last two years in the time series were extrapolated. The union density measure used in the regressions represents employed union members as a percentage of employed labor force (“net density”) for all countries but Canada. The Canadian figures including unemployed and retired people who retain their membership in the numerator and the unemployed in the denominator (“gross density”).⁴²

close relationship between severance pay and overall employment protection see OECD (1994).

³⁹ The restrictive nature of this measure (which is nevertheless the best available for this kind of analysis), highlights the fact that the quantitative analysis will not be able to capture some of the nuances emphasized in the British analysis.

⁴⁰ Sources: OECD, Historical Statistics 1960-1995 and OECD, Historical Statistics 1960-1997.

⁴¹ See Iversen (1999) for a complete specification.

⁴² Source: The pre-1990 figures were taken from Visser (1996); post-1990 figures provided by Bernhard

International and Financial Openness:⁴³

There are two contradictory accounts of the effects of internationalization on partisan politics. There is first a large literature suggesting that growing levels of international openness, integration and interdependence result in a blurring of partisan differences caused by the inability of social democratic parties to produce policies that do not conform to market forces (see, for example, Iversen 1996, Moses 1994, Kurzer 1993, and Scharpf 1991). Then there are some authors who argue either that international forces do not affect some partisan differences (like Boix 1998 and Garrett and Lange 1991) or that they actually have strengthened the influence of partisanship on policies and economic outcomes (Garrett 1998). The results presented in the following pages do not address whether international dependence limits the autonomy of governments. Rather they look at the great variance of economic policy within the sample and try to assess the factors that are responsible for it. My hypothesis is that, once the influence of internationalization is controlled for, partisanship will account for this variance only in the regressions with interaction terms.

Government Debt:⁴⁴

Government debt is introduced into the analysis as a measure of the possible limitations affecting a government's choice of economic policy. The general argument is that governments with more debt have fewer resources at their disposal and therefore would encounter more difficulties when trying to expand their spending. One widely accepted interpretation of the policy changes of the early 1980s, for example, is that many governments had reached unsustainable levels of public debt (see Schwartz 1994, among others). I use the level of consolidated central government debt as a percentage of GDP as the indicator.

Unemployment:

In addition to being an explanatory variable in some regressions, the rate of unemployment is used as a control in other regressions.⁴⁵ Unemployment represents a measure of the need for the policies chosen as the dependent variable. Numerous authors have argued that the increasing levels of some policies

Ebbinghaus (Max-Planck Institute).

⁴³ International openness is measured as imports plus exports as percentage of GDP. Source: OECD electronic database and OECD, Historical Statistics 1960-1995. Financial openness is measured as the sum of the index for restrictions on payments and receipts of goods and invisibles, the index for restrictions on payments and receipts of capital, and the index for legal international agreements that constrain a nation's ability to restrict exchange and capital flows. Values for 1994 and 1995 were extrapolated. Source: Armingeon, Beyeler and Menegale 2000 and Quinn and Inclan 1997.

⁴⁴ Government debt is measured as the level of consolidated central government debt as a percentage of GDP. Source: Franzese (1998). Given the possibility of endogeneity (higher levels of policy causing higher debt), I use a one-year lag for this variable.

⁴⁵ Given the possibility of endogeneity (higher levels of policy causing higher unemployment), when

simply result from increasing needs (whether demographic, economic, or other).⁴⁶ I attempt to engage, at least partially, these arguments by controlling for the effects of unemployment. It is important for the validity of my conclusions that my results on the influence of partisanship over economic policy are not affected by increasing needs. I want to be able to conclude, for example, that social democratic governments do not promote higher levels of ALMPs than conservative ones regardless of the size of unemployment. It is also important to point out that the unemployment rate acts as at least a partial proxy for the number of outsiders in an economy. And it is essential for this paper's conclusions that the results control for the size of the outsider group, since the insider-outsider partisanship model maintains that social democratic governments will appeal to insiders even when outsiders are numerous.

GDP growth:⁴⁷

Most analyses of economic policy include a measure of economic growth. In this paper's analysis, this is particularly important because of the need to control for the effects of macroeconomic growth on the behavior of governments.

Methodology

I use annual data from 16 countries from 1980 to 1995 and present ordinary least squares (OLS) results.⁴⁸ The pooled data significantly increase the number of observations and therefore allow me to test more complex causal models. There are, however, also some complications.

I include period dummies in the regressions to deal with period-specific effects.⁴⁹ These variables are introduced in the analysis simply to control for those influences that are period specific and that could affect the accurate estimation of the variables of interest (period-specific omitted variables). As many authors have pointed out, when omitted effects are correlated with the observed exogenous variables the estimated coefficients will be biased. I am not concerned about the way in which the intercepts vary across the different periods (and therefore I do not report these estimates in the tables) but I do not want the results to be affected by these possible relationships.

I also include a lag of the dependent variable among the regressors. Since the chosen dependent

unemployment is used as a control variable I use a one-year lag.

⁴⁶ Cutright (1965) and Wilensky (1975) could be considered early proponents of this thesis. See Janoski (1994) for a review.

⁴⁷ GDP growth is measured as year-to-year percentage changes (source: OECD electronic database and OECD, Historical Statistics 1960-1997).

⁴⁸ The countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the UK and the USA.

variables exhibit noticeable time stability, the introduction of a lagged dependent variable provides a better dynamic model in which the influence of the previous year's values is explicitly assessed. In the presence of residual autocorrelation, OLS estimates will lead to inaccurate inferences (see, for example, Hibbs 1974). The results of Breusch-Godfrey tests (Greene 1997: 595) indicated that no autocorrelation existed in the reported regressions.

Finally, Beck and Katz (1995, 1996) have proposed a method that, when autocorrelation does not exist, produces consistent standard errors estimates in the presence of panel heteroscedastic errors. Since their recommendations have been widely followed in the recent comparative political economy literature (see, for example, Garrett 1998, Hall and Franzese 1998, and Iversen 1999), I estimate panel-corrected-standard-errors.

I therefore regress the dependent variables on a one-year lag of the dependent variable, the independent variables, and period dummies. That is, I perform the following regression:

$$y_{it} = \lambda y_{i,t-1} + \sum_k \beta_k x_{kit} + \tau + \varepsilon_{it}$$

Where i refers to the cross-sectional units, t to the time units, k to the number of independent variables, τ to the time period intercepts, β to the slopes of the explanatory variables, $y_{i,t-1}$ to the lagged dependent variable, the x 's are the independent variables, and ε is a random error term normally distributed around a mean of 0 with a variance of σ^2 .

Results

The following pages contain the results of the regressions. In all cases I present the estimates of the constant and the lagged dependent variable first, immediately followed by the main variables of interest: government partisanship and the interactions. Then I produce the estimates for the rest of explanatory variables.

[Table 3]

Table 3 provides the main estimates for the determinants of active labor market policy levels. The most important point to make is that, as hypothesized, cabinet partisanship is not at all significant as an influence on the levels of ALMPs. The table clearly shows that whether a government is social democratic or conservative makes no difference to the levels of ALMPs promoted. It is important to emphasize that

⁴⁹ The periods are: 1980-84, 1985-89, and 1991-1995. The excluded reference year is 1990.

these results contradict the conventional wisdom, and much of the existing literature, regarding the influence of partisanship on ALMPs (see, for example, Swank and Martin 2000, Boix 1998, Janoski 1994 and Janoski 1990). As mentioned above, this analysis represents a significant improvement on most of those done in the past because of the number of factors included in the analysis. The number of variables controlled for and the number of systematic tests conducted provides these conclusions with a high degree of confidence.

The rest of the independent variables do not affect the main arguments presented in this paper. Union density and wage bargaining centralization are introduced into this regression as control variables (their effects when interacted with government partisanship will be analyzed below). It is still possible to point out that a number of variables are significant at the 90% confidence level (or better). The lag dependent variable is significant, indicating that previous values of ALMPs are correlated with present ones. Increasing levels of union density, and international openness are associated with increasing ALMPs. While increases in the level of debt and GDP growth will produce a decrease in ALMPs.

[Table 4]

Table 4 shows the results of the employment protection analysis. The first column contains the results of a regression including employment protection as an explanatory variable and the second one those of a regression with the interaction term (employment protection*cabinet partisanship).⁵⁰ Looking back to the hypotheses in Table 1, a negative association between employment protection and ALMPs was expected. The results in the first column confirm this claim. As implied by this paper's analysis, a decrease in the employment protection of insiders will be reflected in an increase in ALMP levels. I hypothesized that an increase in the vulnerability of insiders to unemployment would be associated with higher pressure on governments to promote employment policies. Table 4 seems to suggest that this is indeed the case.

Table 1 also suggested that the interaction between employment protection and cabinet partisanship would be negative. The results in Table 4 confirm this claim. As employment protection decreases and social democratic governments become stronger (this is reflected in lower scores of the cabinet partisanship variables), ALMP levels rise. As suggested by the insider-outsider partisanship

⁵⁰ Employment protection and the interaction cannot be included in the same regression because they are highly correlated. Including employment protection and employment protection*partisanship would allow us to explicitly estimate the direct effects and the interaction effects. Running a regression with both variables, however, is problematic (their effects would be insignificant simply because of the high correlation). This is in fact the case in a regression with both variables, the standard errors increase greatly

approach, the increasing vulnerability of insiders results in a higher likelihood that social democratic governments implement ALMPs.

The rest of the variables in Table 4 do not add much more to the analysis. Union density is positively associated with ALMP while increasing debt and GDP growth are (once again) associated with a decline in ALMPs.

[Table 5]

Table 5 presents the results of the unemployment growth regression. The first column once again presents the main results and the second column introduces unemployment growth and the interaction between unemployment growth and cabinet partisanship as explanatory variables. The unemployment level variable has been brought forward so that the test of the claims explained in previous sections can be made more directly. It is also the case that the unemployment level is eliminated from the second regression (because it is highly correlated with unemployment growth).

Going back to Table 1, three claims were made. First, that the unemployment level would not affect ALMPs. This was justified by the logic making unemployment instability (rather than high unemployment) responsible for the vulnerability of insiders enjoying high employment protection. Second, that unemployment growth (reflecting increases in unemployment that concern insiders) would be positively associated with ALMPs. And finally, that the interaction between unemployment growth and social democratic government would be positively associated with ALMPs (because insiders pressure social democratic policy-makers when they feel vulnerable to unemployment).

The three hypotheses are confirmed by the data analysis in Table 5. As claimed, unemployment levels (measured here as the level of the previous year) are not significant as a determinant of ALMPs. Also as claimed, both unemployment growth and its interaction with social democracy are significant determinants. It is in fact the case that a rise in the vulnerability of insiders makes social democratic governments more likely to promote ALMPs. It must be pointed out that to capture the effects of social democracy more clearly, the cabinet partisanship variable had to be reversed. In this case, therefore, higher values of this variable mean more social democratic governments (not the opposite as in previous regressions).

and the variables become highly insignificant.

Conclusion

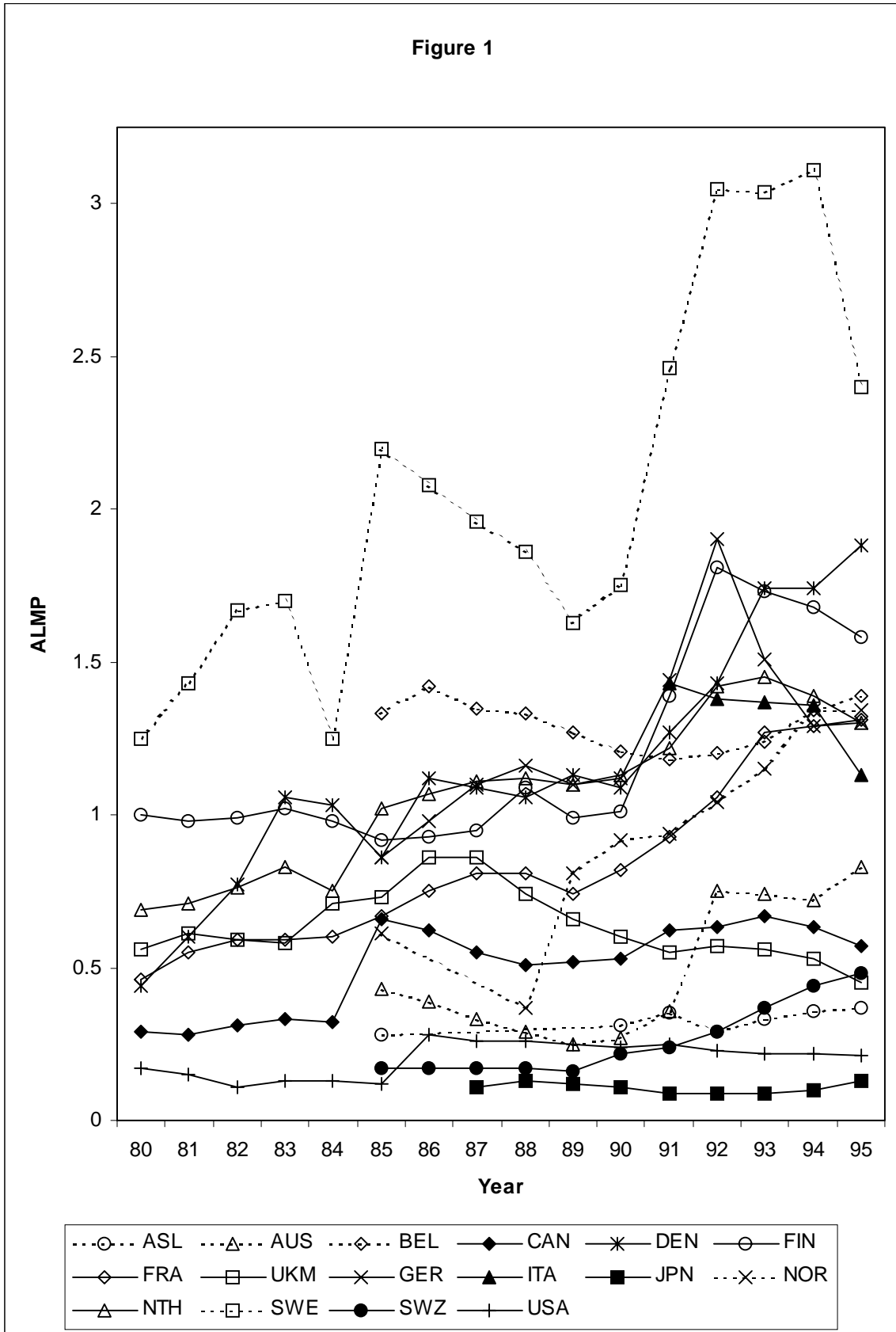
My insider-outsider partisanship model receives a remarkable amount of support from the survey and policy analyses. The decrease in employment protection promoted by the Thatcher and Major governments represents an ideal test of the interaction between insider vulnerability and social democratic strategy. Insiders in the UK experienced a steady decrease in the levels of employment protection throughout the years of conservative rule. As the insider-outsider model predicted, the increase in the vulnerability of insiders to unemployment facilitated the adoption of employment promotion as one of the main goals of Blair's Labour Party. In some ways, therefore, an insider-outsider approach helps explain the emergence of the "Third Way" as a response to the new challenges to social democracy. The analysis of individual preferences showed that the model's assumptions regarding the interests of insiders, outsiders and upscale groups are accurate. Outsiders are significantly more likely than outsiders or members of the upscale groups to have high preferences for employment protection. As hypothesized, insiders experience a drastic increase in their employment promotion preferences, however, as soon as they feel vulnerable to unemployment. In the policy analysis, the findings suggested that partisanship is an insignificant factor in the determination of pro-outsider policies when they represent a conflict for insiders. Social democratic parties are not more likely to promote higher levels of active labor market policies than their conservative counterparts. The results also indicated that, in accordance with the model, the interactions between government partisanship and employment protection (on one hand) and government partisanship and unemployment growth (on the other) are significant. Social democratic governments only influence ALMPs when they receive the pressure of insiders who are vulnerable to unemployment.

Additionally, my analysis provides a useful framework with which to analyze more recent partisanship debates. There is an ongoing discussion, both in academic and more general circles, about whether a "third way" has emerged as a comprehensive philosophy uniting social democratic parties (at least in Europe) around a coherent set of policy alternatives. According to some analysts,⁵¹ a "third way" does indeed exist and it is distinguished by an emphasis on employment promotion as a goal and by the use of active labor market policies as a tool. The arguments presented in this paper emphasize the importance of taking into consideration insider-outsider distinctions to understand recent policy developments. Assuming that partisanship has indeed become more influential and that active labor market policies have

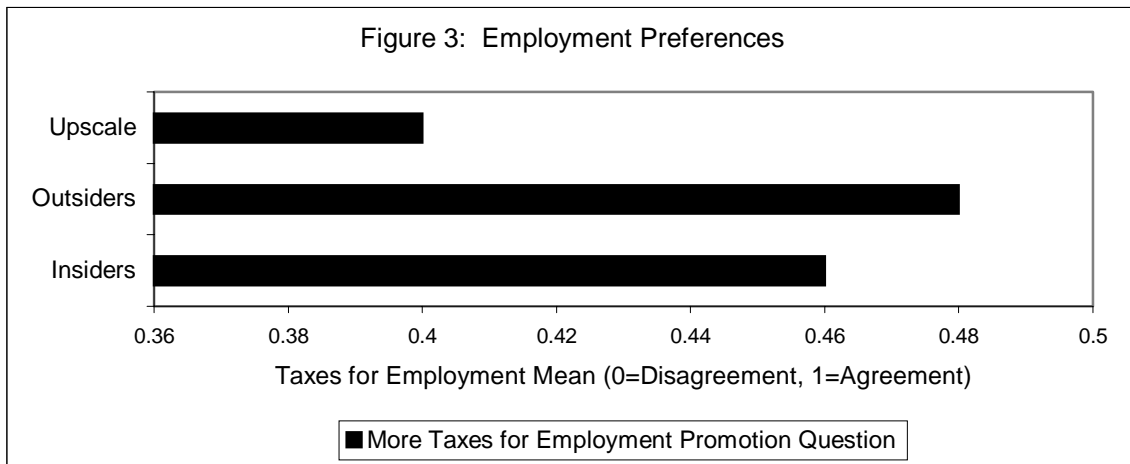
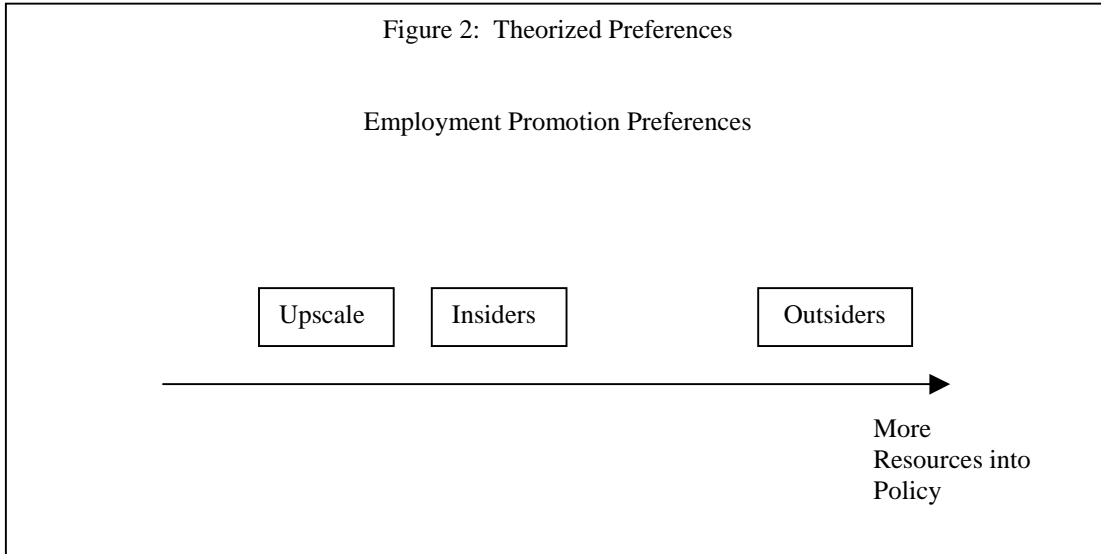
⁵¹ See Giddens (1998) for the seminal contribution and, for example, Green-Pedersen *et al* (2000) for a

not become a more important concern for most OECD governments (irrespective of their partisan composition), the insider-outsider partisanship model can help us explore the reasons behind these developments. Taking this paper's framework as our guide, we would speculate that a number of factors could make pro-outsider policies more attractive to social democratic governments. Among them an increase in the number of outsiders passed a possible critical point, a weakening in the strength of unions, or a decrease in the level of 'insiderness' (perhaps promoted by a previous conservative government) immediately come to mind. The argument was made in this paper's analysis of the UK case that it was the weight of these last two factors (weaker unions and the legacy of dramatically anti-insider conservative policies) that facilitated the emergence of the Blairite third way.

Returning to the three initial questions that motivated this paper's analysis, the previous pages have made clear that insider-outsider politics have become an important part of fully explaining social democracy since the 1970s. It is also fairly unambiguous that recent social democratic governments have had a tendency to fail in the promotion of some of the policies that could have been expected from them. The strategies prevalent in the golden age of social democracy have been abandoned and the provision of equality and security to the most vulnerable sectors of the labor market does not seem to be today a goal comparable to economic growth and, perhaps, even the control of inflation. The evidence provided above makes it difficult to assume that even if the ultimate interests of social democratic governments have not changed in the past three decades, the costs considered acceptable have remained the same. Finally, this paper suggests that in the presence of insider-outsider conflicts, there exists a strong temptation for social democratic governments to promote less than egalitarian policies. Although more research is needed to confirm these results, my analysis emphasizes some of the overwhelming difficulties facing social democratic policy-makers. The acknowledgment of these difficulties may be the first step in finding truly social democratic solutions.



Note: ALMP spending as % of GDP. Source: See notes in Table 2.



Notes: Data for Figure 3 from Eurobarometer 44.3 (February-April, 1996). See footnote 27 for countries included.

TABLE 1: SUMMARY OF HYPOTHESES: EFFECTS OF EXPLANATORY VARIABLES ON ALMPs	
VARIABLE	EXPECTED ASSOCIATION
CABINET PARTISANSHIP	0
EMPLOYMENT PROTECTION	-
CABINET PARTISANSHIP * EMPLOYMENT PROTECTION	-
UNEMPLOYMENT LEVEL	0
UNEMPLOYMENT GROWTH	+
SOCIAL DEMOCRACY * UNEMPLOYMENT GROWTH	+

TABLE 2:
THE EFFECTS OF UNEMPLOYMENT VULNERABILITY AND INSIDER, OUTSIDER
AND UPSCALE STATUS ON INDIVIDUAL EMPLOYMENT PROMOTION PREFERENCES

	MAIN EFFECTS MODEL	INTERACTION MODEL	PARAMETRIC BOOTSTRAPPING	NON-PARAMETRIC BOOTSTRAPPING
CONSTANT	-0.218 (.474) <i>.323</i>	-0.204 (.473) <i>.333</i>	-0.307 (.483) <i>.262</i>	.117 (.103) <i>.128</i>
OUTSIDER STATUS	.163 (.053) <i>.001</i>	.172 (.054) <i>.001</i>	.167 (.053) <i>.001</i>	.166 (.051) <i>.001</i>
INSIDER STATUS	-0.081 (.056) <i>.074</i>	-0.132 (.081) <i>.052</i>	-0.128 (.080) <i>.055</i>	-0.133 (.085) <i>.059</i>
UPSCALE GROUP STATUS	-0.307 (.079) <i><.001</i>	-0.287 (.079) <i><.001</i>	-0.289 (.081) <i><.001</i>	-0.290 (.080) <i><.001</i>
INDIVIDUAL JOB VULNERABILITY	-0.088 (.090) <i>.164</i>	-0.263 (.122) <i>.016</i>	-0.253 (.109) <i>.010</i>	-0.253 (.135) <i>.031</i>
INSIDER STATUS*INDIVIDUAL JOB VULNERABILITY	-	.401 (.182) <i>.014</i>	.356 (.160) <i>.013</i>	.355 (.192) <i>.031</i>
MACRO-LEVEL EMPLOYMENT PROTECTION	.093 (.063) <i>.070</i>	.089 (.063) <i>.079</i>	.089 (.061) <i>.072</i>	.086 (.044) <i>.025</i>
INSIDER STATUS*MACRO-LEVEL EMPLOYMENT PROTECTION	-	.021 (.020) <i>.147</i>	.018 (.026) <i>.245</i>	.018 (.021) <i>.196</i>
STANDARDIZED UNEMPLOYMENT RATE	-0.057 (.053) <i>.141</i>	-0.057 (.053) <i>.141</i>	-0.039 (.050) <i>.218</i>	-0.041 (.041) <i>.159</i>
CHANGE IN STANDARDIZED UNEMPLOYMENT RATE	-0.050 (.025) <i>.023</i>	-0.050 (.025) <i>.023</i>	-0.052 (.025) <i>.019</i>	-0.051 (.018) <i>.002</i>
INSIDER STATUS*CHANGE IN STANDARDIZED UNEMPLOYMENT RATE	-	.001 (.008) <i>.450</i>	.001 (.014) <i>.472</i>	.001 (.004) <i>.401</i>
AGE	.034 (.025) <i>.087</i>	.034 (.025) <i>.087</i>	.033 (.028) <i>.119</i>	.032 (.026) <i>.109</i>
GENDER	-0.023 (.039) <i>.278</i>	-0.022 (.039) <i>.266</i>	-0.026 (.049) <i>.298</i>	-0.028 (.043) <i>.258</i>
INCOME	-0.066 (.015) <i><.001</i>	-0.069 (.016) <i><.001</i>	-0.071 (.017) <i><.001</i>	-0.072 (.016) <i><.001</i>
EDUCATION	.170 (.026) <i><.001</i>	.171 (.026) <i><.001</i>	.171 (.028) <i><.001</i>	.169 (.025) <i><.001</i>
N	11,474	11,474	11,474	11,474

Notes: All entries are from logit maximum likelihood (RIGLS) estimation. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are p-values from z-tests. Bootstrap coefficients and standard errors are computed using resampling of the residuals with 5 sets of 500 replicates. See footnote 27 for countries included in the analysis.

TABLE 3:
THE DETERMINANTS OF ACTIVE LABOR MARKET POLICIES, 1980-1995

	MAIN RESULTS
CONSTANT	.037 (.119) <i>.378</i>
LAGGED DEPENDENT VARIABLE	.921 (.048) <i><.001</i>
CABINET PARTISANSHIP	.015 (.024) <i>.268</i>
UNION DENSITY	.001 (.001) <i>.044</i>
BARGAINING CENTRALIZATION	.132 (.131) <i>.157</i>
INTERNATIONAL OPENNESS	.001 (.001) <i>.083</i>
FINANCIAL OPENNESS	-.005 (.008) <i>.262</i>
LAG OF GOVERNMENT DEBT	-.099 (.046) <i>.016</i>
LAG OF STANDARDIZED UNEMPLOYMENT RATE	.002 (.005) <i>.375</i>
GDP GROWTH	-.019 (.006) <i>.001</i>
N	171
R ²	<i>.93</i>
<p><i>Notes:</i> ALMP spending as % of GDP. Source: OECD Social Expenditures Database 1980-1997, except Switzerland, OECD Employment Outlook several issues. All entries are least squares dummy variable estimates. Numbers in bold are estimated coefficients; numbers in parentheses are their panel-corrected standard errors; numbers in italics are p-values from one-sided t-tests. Period dummy estimates are not reported (available upon request).</p>	

TABLE 4:
THE EFFECTS OF EMPLOYMENT PROTECTION

	EMPLOYMENT PROTECTION REGRESSION	INTERACTION REGRESSION
CONSTANT	.038 (.121) <i>.375</i>	.023 (.121) <i>.425</i>
LAGGED DEPENDENT VARIABLE	.916 (.050) <i><.001</i>	.916 (.050) <i><.001</i>
CABINET PARTISANSHIP	.007 (.027) <i>.394</i>	.010 (.026) <i>.356</i>
EMPLOYMENT PROTECTION	-.012 (.007) <i>.048</i>	-
CABINET PARTISANSHIP*EMPLOYMENT PROTECTION	-	-.004 (.002) <i>.042</i>
UNION DENSITY	.001 (.001) <i>.058</i>	.001 (.001) <i>.050</i>
BARGAINING CENTRALIZATION	.143 (.143) <i>.159</i>	.129 (.145) <i>.187</i>
INTERNATIONAL OPENNESS	.0003 (.001) <i>.262</i>	.0004 (.001) <i>.224</i>
FINANCIAL OPENNESS	-.002 (.008) <i>.425</i>	-.001 (.008) <i>.448</i>
LAG OF GOVERNMENT DEBT	-.070 (.049) <i>.079</i>	-.074 (.047) <i>.059</i>
LAG OF STANDARDIZED UNEMPLOYMENT RATE	.003 (.005) <i>.302</i>	.003 (.005) <i>.309</i>
GDP GROWTH	-.023 (.006) <i><.001</i>	-.023 (.006) <i><.001</i>
N	158	158
R ²	.93	.93
<p>Notes: The employment protection data are the correction of Lazear's figures by Addison, Grosso and Teixeira, updated for the 1992-95 period using OECD (1999). See Lazear (1990), Addison and Grosso (1997) and Addison and Teixeira (1999) for details.</p> <p>All entries are least squares dummy variable estimates. Numbers in bold are estimated coefficients; numbers in parentheses are their panel-corrected standard errors; numbers in italics are p-values from one-sided t-tests. Because of missing data, Canada is not included in these regressions. Period dummies estimates are not reported (available upon request).</p>		

TABLE 5:
THE EFFECTS OF UNEMPLOYMENT INSTABILITY

	MAIN RESULTS	UNEMPLOYMENT GROWTH REGRESSION
CONSTANT	.037 (.119) <i>.378</i>	-.024 (.127) <i>.425</i>
LAGGED DEPENDENT VARIABLE	.921 (.048) <i><.001</i>	.937 (.043) <i><.001</i>
CABINET PARTISANSHIP	.015 (.024) <i>.268</i>	.021 (.025) <i>.193</i>
LAG OF STANDARDIZED UNEMPLOYMENT RATE	.002 (.005) <i>.375</i>	-
UNEMPLOYMENT GROWTH	-	.006 (.004) <i>.065</i>
CABINET PARTISANSHIP (REVERSED)*UNEMPLOYMENT GROWTH	-	.002 (.001) <i>.072</i>
UNION DENSITY	.001 (.001) <i>.044</i>	.001 (.001) <i>.045</i>
BARGAINING CENTRALIZATION	.132 (.131) <i>.157</i>	.100 (.125) <i>.212</i>
INTERNATIONAL OPENNESS	.001 (.001) <i>.083</i>	.001 (.001) <i>.099</i>
FINANCIAL OPENNESS	-.005 (.008) <i>.262</i>	-.003 (.008) <i>.360</i>
LAG OF GOVERNMENT DEBT	-.099 (.046) <i>.016</i>	-.096 (.047) <i>.022</i>
GDP GROWTH	-.019 (.006) <i>.001</i>	-.013 (.006) <i>.020</i>
N	171	171
R ²	.93	.94

Notes: All entries are least squares dummy variable estimates. Numbers in bold are estimated coefficients; numbers in parentheses are their panel-corrected standard errors; numbers in italics are p-values from one-sided t-tests.

Period dummy estimates are not reported (available upon request).

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