The Rise and Fall of Government Partisanship:

Dynamics of Social Spending in OECD Countries, 1962-2000 *

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Abstract

This paper engages in a pooled time series cross-section analysis of the determinants of social spending growth in 16 OECD countries, focusing on the question of whether the salience of government partisanship has diminished, as existing literature alleges. We show that partisan effects on welfare spending in the OECD countries rose from the mid-1970s through the first half of the 1990s. During the latter half of the time period covered by our analysis, we observe significant transitory as well as enduring effects of government partisanship. Furthermore, we discuss the relative explanatory power of different theories as to why partisan effects might change over time, by examining whether and how the effects of government partisanship are contingent upon economic growth, globalization, income inequality, the size of welfare state, and union density.

This paper explores the effects of the partisan composition of government on social spending in sixteen OECD countries.[1] Our approach to this topic is dynamic in a threefold sense. First, we seek to explain annual change in social spending (measured in percent of GDP) rather than cumulative cross-national differences in levels of social spending. Second, we distinguish between transitory short-term effects and enduring long-term effects of changes in government partisanship. Thirdly, and most importantly, we trace changes in transitory as well as enduring partisan effects over the period 1962-2000.

 Much of the historical-comparative literature on the development of welfare states emphasizes the role of labor-affiliated Social Democratic parties as agents of social reforms that redistribute income and/or promote decommodification of labor (e.g., Esping-Andersen 1990, Hicks 1999, Huber and Stephens 2001a). Several prominent contributors to this literature have recently argued that government partisanship has become less relevant to social policy outcomes since the 1970s. As articulated by Pierson (1996, 2001a) and by Huber and Stephens (2001a, 2001b), the decline-of-partisanship thesis holds that slow economic growth and fiscal constraints have increasingly tied the hands of Left parties while the popularity of existing social programs continues to constrain the urge of conservative parties to roll back the welfare state.

It is important to keep in mind that "partisan effects" pertain to the distinctiveness of a particular family of parties—say, parties of the Left or parties of the Right—*relative to all other parties*. (It is also important to keep in mind that partisan effects pertain to behavior in government, not simply policy positions or goals as articulated in electoral campaigns). The question of whether the policy distance between Left and Right governments has changed ought not to be conflated with the question of shifts in the entire political spectrum or, in other words, shifts in the center of political gravity. There can be little doubt that Left parties in many, perhaps most, OECD countries embraced a more market-oriented approach to economic and social policy in the 1980s. However, this shift has not necessarily translated into a diminution of partisan

differences. Parties of the Center and the Right may have moved even farther in a rightward direction, in which case we would observe an increase of partisan effects concomitant with a rightward shift of the political spectrum.

We argue that Pierson and Huber-Stephens fail to make a theoretically compelling case for the decline of partisanship and that their empirical evidence is shaky. The conditions that figure most prominently in their account—slow growth and large welfare-state clienteles—surely affect the politics of the welfare state, but it is by no means obvious that they do so by reducing partisan conflict. Indeed, it seems equally, if not more plausible to suppose that these conditions are sources of partisan differentiation. For reasons that we articulate below, rising inequality and falling union density across the OECD countries also lead us to expect partisan effects to have increased in the 1980s and 1990s. On the other hand, we believe that globalization—specifically, capital mobility—has increasingly constrained the ability of Left parties to pursue partisan spending priorities when they are in government. For us, then, the question becomes how the constraints of globalization stack up against a number of socio-economic developments that are likely to be associated with rising partisan effects. We consider this to be an essentially empirical question.

Again, the dependent variable in the following analysis is annual change in social spending, expressed in percent of GDP. For the period since 1980, we use spending data from the OECD's new Social Expenditures Database; for the period prior to 1980, we rely on the dataset constructed by Swank from earlier OECD publications (presented in Swank 2002).[2] As defined by these sources, "social spending" includes spending on social assistance, health care, care for the elderly and disabled, child care, family allowances, housing subsidies, parental leave insurance, unemployment insurance, sick pay insurance and public pensions. Until recently, most studies of partisan effects have relied either on the OECD's time series on social security transfers or have used total government expenditures (sometimes total government consumption

expenditures) as a proxy for welfare effort. Broader than social security transfers but narrower than total government expenditures, the measure of social spending used here more closely captures what we commonly mean by "the welfare state."

It is hardly necessary to point out that the growth of social spending is to a large extent determined by parameters that governments do not directly control. In addition, much of the existing welfare state literature suggests that partisan conflict over social policy pertains primarily to attributes of the welfare state that are not captured by aggregate spending figures. In Esping-Andersen's (1990:21) oft-cited words, "it's difficult to imagine that anyone struggled for spending *per se.*" Put differently, aggregate social spending growth represents a hard test for partisan theory: we would expect partisan effects to be more pronounced if our analysis were restricted to discretionary spending or to forms of social spending that are particularly redistributive. This said, it should be noted that total social spending, as measured here, correlates closely with redistributive effects of taxation and income transfers on a cross-national basis (see Pontusson 2005). Let us also reiterate that we are primarily concerned with how, and why, partisan effects have changed over time—not with the size of these effects at any particular point in time (or how these effects compare to those of other determinants of social spending).

Following Iversen and Cusack (2000) and Franzese (2002), we estimate an error correction model (ECM) of social spending. With first differences on the left-side side, error correction models include measures of change in each of the independent variables as well as level measures of the same variables on the right-hand side of the regression equation. Thus we estimate the effects of government partisanship in the previous year, but also the effects of changes in government partisanship from the previous year. We expect parties of the Left and the Right alike to pursue more partisan policies at the beginning of their tenure in government or, in other words, to moderate their partisanship over their tenure in government. Our results clearly bear out this expectation.

We explore changes in partisan effects by engaging in moving-windows analysis. Quite simply, we re-estimate our regression model for twenty-five consecutive fifteen-year periods. Contrary to what Pierson and Huber-Stephens would have us believe, this analysis shows that partisan effects on welfare spending increased from the mid-1970s through the first half of the 1990s. Over this period, governments with more representation of Left parties became more distinctively pro-welfare while governments with more representation of Right parties became more distinctively anti-welfare. Partisan effects held steady in the mid-1990s and then dropped sharply in the late 1990s. In our last window, as in all the windows that include observations from the 1960s, the question of who governs appears to be of no consequence to the growth of social spending.

The last section of the paper tentatively explores the relative significance of different variables that might condition the effects of government partisanship on social spending. This analysis suggests that the decline of partisan effects in the late 1990s can largely be attributed to the constraints of international capital markets and capital mobility. It also yields some support for the propositions that slow economic growth and declining union strength served to intensify partisan conflict in the 1980s and 1990s.

1. Partisanship and welfare effort

In the welfare state literature, the proposition that the partisan composition of government matters to policy outcomes is closely associated with the "power resources model" developed by Korpi (1983, 1989) and adopted, with modifications, by many other scholars, most notably Stephens (1979) and Esping-Andersen (1985, 1990). As formulated by Korpi, the power resources model treats trade unions and Left parties as representative of working-class interests in the "democratic class struggle." The public provision of social welfare caters to the interests of

workers, defined broadly as wage-earners with limited economic resources, by insuring their

income stream against the vicissitudes of the market, reducing their dependence on particular

employers if not their dependence on employment in general, and by redistributing income and

consumption opportunities. Power resource theory expects employers and other social groups

that do not primarily depend on income from dependent employment to resist the expansion of

public welfare systems, especially public welfare systems based on the principle of social

citizenship. The extent to which governments provide for social protection and redistribution

thus depends first and foremost on the ability of unions and Left parties to mobilize workers

politically. In sum, power resource theorists attribute cross-national variation in the public

provision of social welfare to the distribution of political resources among classes and predict that

government by labor-affiliated Left parties—typically Social Democratic parties—will be

associated with greater public welfare effort.

The proposition that government by Left parties will produce significantly different

policy outcomes than government by Center-Right or Right parties is by no means self-evident.

Several important theoretical traditions downplay the significance of who governs (cf. Rose

1984). While Marxists typically emphasize the structural constraints that the logic capitalist

accumulation imposes on Left parties in government, others stress the importance of interest

groups, bureaucratic politics and the policy biases of particular institutional arrangements. Most

importantly for our present purposes, the power resources model stands in stark opposition to the

median-voter model proposed by Downs (1957). From the Downsian perspective, parties are

more or less exclusively concerned with winning elections, and elections are won by capturing

the support of voters at the center of political spectrum. Public policy is not determined by the

interests of the core constituencies of the party in power, but rather by the interests of the median

voter. If the median voter wants more public welfare provision, any and all vote-maximizing

parties will deliver more public welfare provision.

As Strom (1990) and Garrett (1998:28-31) both argue, these alternative views of partisanship and electoral dynamics might be conceived as tapping into different dimensions of democratic politics. It is surely reasonable to suppose that political parties are motivated by winning elections and, at the same time, by serving the interests of their core constituencies. In Garrett's (1998) formulation, we should expect governing parties of different political persuasions to pursue distinctive distributive policies so long as their pursuit of such policies does not threaten their prospects of re-election.

A careful review of the empirical evidence on partisan effects in the existing literature lies beyond the scope of this paper. Generally speaking, the results of the first wave of quantitative analyses of social spending were mixed. Against this background, proponents of the partisanship thesis have made three noteworthy moves to strengthen their case. To begin with, the traditional partisanship argument, based on juxtaposing Left parties representing labor to any and all other parties to their Right on the political spectrum, has been modified by recognizing that Christian Democratic parties have a long tradition of support for public provision of social welfare. If Christian Democratic and Social Democratic parties are both distinctively pro-welfare, relative to secular Center-Right parties, including a separate measure of Christian Democratic participation in government in regression analysis should yield a better estimate of the association between Left participation in government and social spending. Secondly, proponents of the partisanship thesis have sought to unpack social spending and to explore the effects of partisanship on dimensions of cross-national variation other than sheer size of the welfare state. This point is related to the role of Christian Democracy, for Esping-Andersen (1990) and others argue that the kind of public provision of social welfare favored by Christian Democratic parties tends to be quite different from the kind favored by Social Democratic parties.

Thirdly, proponents of the partisanship thesis have incorporated the idea of a "hegemony effect." Crudely put, the idea here is that strong Left parties that are successful in enacting social

7

reforms will force Center-Right parties to embrace more leftist social policies in order to compete electorally (cf. Korpi 1983). In countries where Left parties have held government power for long periods, most obviously the Scandinavian countries, the very success of these parties might translate into a diminution of partisan differences. From a Downsian perspective, we might say that hegemonic parties induce a shift in the preferences of the median voter. To capture the long-term effects of partisanship, Huber and Stephens (2001) use cumulative cabinet shares held by Left parties and Christian Democratic parties in their (pooled) analysis of levels of government spending over the period 1960-85. Huber and Stephens find that government participation by Left parties had a substantial positive effect on overall government spending and that government participation by Christian Democratic parties had an even larger effect on overall government spending in this period. While Christian Democratic participation in government is more strongly associated with spending on social security transfers, cabinet shares held by Left parties emerges in Huber and Stephens' analysis as a much better predictor of civilian government consumption and especially the size of the public sector, measured as civilian government employment in percentage of the working population (cf. also Iversen and Cusack 2000).

2. Theorizing about change in partisan effects

To reiterate, the primary objective of this paper is to assess whether, and how, the effects of government partisanship on social spending growth changed over the last four decades of the twentieth century. In important contributions to the recent literature on the politics of welfare-state retrenchment, Pierson (1996, 2001a) and Huber and Stephens (2001a, 2001b) argue that government partisanship is no longer as relevant to social policy outcomes as it once was, dating this change to the decade following the international recession of the mid-1970s. According to Pierson (1996:150) "the power resources approach has had considerable success in accounting

for cross-national variations in social provision during the three decades following World War II," but cannot explain more recent developments. "Cutbacks in social programs," Pierson argues, "have been far more moderate than the sharp drop in labor strength in many countries might lead one to expect." Moreover, "there appears to be little correlation between declines in left power resources and the magnitude of retrenchment" (Pierson 1996:150). In a similar vein, Huber and Stephens (2001b:221) speak of a "sharp narrowing of political differences" with respect to social policy in the 1980s.

As to why the salience of partisanship has declined, Pierson advances two basic arguments that are echoed by Huber and Stephens (2001b). On the one hand, the OECD-wide deceleration of economic growth has given risen to a condition of "permanent austerity," which constrains the ability of Left parties to engage in further expansion of the welfare state. On the other hand, broad-based popular support for existing social programs ensures that parties committed to radical downsizing of the welfare state will not be electorally successful. As part of the latter argument, Pierson points our that the postwar expansion of the welfare state itself transformed the electoral landscape by creating large new constituencies with a material stake in the maintenance, if not the expansion of the welfare state: public employees working in welfare-related services as well as recipients of old-age pensions, unemployment benefits and social assistance. At least some of these welfare-state clienteles are well-organized and they all have an intense interest in the social programs from which they derive benefits, as distinct from the diffuse interests of the average taxpayer. In Pierson's words (2001a:413), "the welfare state's electoral base is not only enormous, but primed to punish politicians for unpopular initiatives."

It is noteworthy that globalization hardly features at all in Pierson's discussion of the decline of partisanship. In fact, Pierson (2001b) goes out of his way to distinguish his account of the "new politics" of the welfare state from globalization-centered accounts.[3] As many comparativists contributing to the debate about the implications of globalization have argued, there is precious little cross-national evidence to support the neo-liberal claim that generous

public welfare provisions undermine efficiency or otherwise impede competitiveness (see, e.g.,

Pontusson 2005). However, there can be little doubt that the international integration of financial

markets that has occurred since the 1970s has made it more costly for governments to engage in

deficit spending over any extended period of time. Arguably, this alone—and particularly in

conjunction with tax fatigue among voters—constitutes a significant constraint on the ability of

Left parties to promote the redistributive interests of their core constituencies by stimulating

macro-economic demand or increasing social spending. Similarly, the process of intensified

macro-economic coordination among member states of the European Union might lead us to

expect a secular decline in the salience of government partisanship across a wide range of policy

outcomes, including social spending. With the possible exception of the US, domestic policy

makers everywhere would seem to be faced with greater international constraints today than they

were in, say, the 1960s. It seems reasonable to suppose that this translates into less room for

partisan preferences to affect policy outcomes.

Probing the logic of Pierson's argumentation a bit further, it is important to distinguish

between the diminution of partisan differences and across-the-board shifts in party positions or, in

other words, shifts in the center of political gravity. Pierson's argument about the growing size

and political influence of welfare-state clienteles postulates that Right parties strategically adopt

more pro-welfare policy positions in order to attract (or avoid alienating) these groups. This

strikes us as a very plausible postulate, but the question immediately arises why Left parties do

not respond in the same manner to an increase in the electoral importance of welfare-state

clienteles. In other words, why should the existence of large electoral constituencies with a

strong preference for public welfare provision produce a diminution of partisan differences, as

distinct from a leftward shift of the entire political spectrum? The same question arises with

respect to permanent austerity: why not suppose that permanent austerity translates into a

rightward shift of the entire political spectrum rather than a rightward shift of Left parties alone?

10

Clearly, Pierson's account of the decline of partisanship hinges on the combination of powerful welfare-state clienteles and permanent austerity, but it is by no means clear why across-the-board shifts in opposite directions should produce a diminution of partisan differences. Worse, both of the variables featured in Pierson's account might just as plausibly—even more plausibly perhaps—be construed as causes of partisan differentiation. In most OECD countries, public-sector unions emerged as a critical constituency of Left parties in the course of the 1960s and 1970s, as a result divergent unionization trends in the public and private sectors as well as the expansion of public-sector employment. Arguably, this transformation of their social base of support pulled Left parties away from the fiscal and social policy preferences of the median voter. In a similar vein, it strikes us as more plausible to suppose that parties of the Left and the Right diverge with regard to taxation and social spending during periods of slow economic growth than to suppose that they diverge during periods of rapid growth.

Slow economic growth is likely to generate demands for further social spending among workers/voters directly threatened by unemployment, but it is also likely to generate pressures for tax relief among workers/voters whose private incomes stagnate or decline while they continue enjoy some degree of protection against unemployment, by virtue of seniority or skills. To the extent that Left parties fear alienating unskilled workers more than Right parties do, they will not be able (or willing) to deliver the same amount of tax relief. Even some of Pierson's own formulations suggest that "hard times," especially fiscal crises, provide cover for Right parties to pursue unpopular spending cuts that serve the interests of their core constituencies. In short, the main variables at play in Pierson's discussion are theoretically ambiguous: they could be a source of partisan convergence, but they could also be a source of partisan divergence.

Regarding the effects of globalization, Garrett's (1998) influential analysis highlights that the constraints that globalization imposes may be partly, perhaps entirely, offset by the fact that globalization increases economic insecurity and thereby generates increased demand for social protection. It deserves to be noted that most of Garrett's regression results show a <u>negative</u>

11

association between his globalization variables and various measures of government spending. Garrett's argument is not that globalization promotes public spending across the board, but rather that globalization generates partisan conflict over public spending or, in other words, that partisan effects increase with globalization. The key to this argument seems to be that the insecurity associated with globalization primarily affects core constituencies of Left parties: unskilled, low-income workers. The argument that globalization is a source of partisan differentiation thus operates by essentially the same logic as the argument that slow growth is a source of partisan differentiation.

Going beyond the existing literature on this topic, trends in union density and income distribution might also be expected to affect partisan conflict over social spending. Among OECD countries, Belgium and the Nordic countries are distinguished by stable as well as exceptionally high levels of unionization: in the rest of the OECD, union density fell significantly from 1980 to 2000 (see OECD 2004:145). We hypothesize that union decline has been a source of partisan differentiation. This hypothesis derives from the observation that Center-Right governments in Sweden and other highly unionized countries have typically pursued policies that might be characterized, from a comparative perspective, as "social democratic." In the Swedish case, the orientation of economic and social policy has changed quite dramatically over the last thirty years, but none of the switches between Left and Center-Right government (1976, 1982, 1991 and 1994) can be said to have marked an abrupt shift in policy priorities (see Lindvall 2004). By comparative standards, welfare-state retrenchment in Sweden has been largely "bipartisan." Arguably, an important reason for this is that the parties to the Right of the Social Democrats depend heavily on the electoral support of union members. Radical initiatives by conservative parties to cut or restructure the welfare state appear to have been more common in countries with weaker labor movements. Put differently, the policy preferences of highly encompassing unions are likely to influence the policies of all parties: at lower levels of

unionization, the distinctive responsiveness of Left parties to the preferences of unions (and their members) will emerge more clearly.[4]

Finally, rising income inequality represents a pervasive trend among OECD countries in the 1980 and 1990s (see Kenworthy and Pontusson 2005) and this development also leads us to expect the salience of government partisanship to have increased. A partisan version of the median-voter model of redistribution proposed by Meltzer and Richard (1981) readily suggests itself. By all accounts, Left parties draw more of their support from low-income voters while Right parties draw more of their support from high-income voters. Rising inequality means that the distance between the income of the median Left-party voter and the median Right-party voter increases. As a result, the median Left-party voter should want more redistribution and the median Right-party voter should want less redistribution than they wanted when the distribution of income was more compressed. Everything else being equal, we might thus expect inequality to be associated with partisan polarization of redistributive policy (see also Rueda and Pontusson 2005).[5]

To summarize, the decline-of-partisanship thesis is less theoretically compelling than it might at first appear to be. There are several quite compelling reasons to think that partisan effects might actually have increased in the 1980s and 1990s. Clearly, empirical evidence is needed to advance this discussion further. While Pierson does not provide any systematic evidence on the decline of partisan effects, Huber and Stephens (2001:212-219) regress average annual change in various welfare-related spending measures on average Left and Christian Democratic cabinet shares in 1960-72, 1973-79, 1980-90, and 1991-95. For Left cabinet shares, this exercise produces large positive coefficients for 1960-72, sizeable but insignificant coefficients for 1973-79, and small, entirely insignificant coefficients for 1980-90 and 1991-95. With only 18 observations, however, Huber and Stephens' ability to control for the effects of variables other than government partisanship is severely restricted. The average rate of

unemployment is the only other variable in most of their regression models. Given that government spending is expressed in percent of GDP, the absence of any controls for GDP growth is particularly troublesome. Less obviously perhaps, our own preliminary analyses, using pooled data, indicate that the estimated effects of government partisanship are very sensitive to the particular periodization that we adopt.

Recent analyses of cutbacks in benefit levels provided by various social insurance programs by Korpi and Palme (2003) and by Allan and Scruggs (2004) convincingly document the persistence of partisan effects in the 1980s and 1990s. Going beyond the question of whether or not partisan effects persist, the moving-windows approach adopted here enables us to avoid the problem of arbitrary periodization and to trace the evolution of partisan effects over time. As we shall see, timing becomes an important criterion in evaluating the merits of the different arguments reviewed above.

3. Methodology

To examine the dynamic relationship between government partisanship and social spending, we estimate several models with an error-correction setup. In an error correction model (ECM), the dependent variable is expressed as the first difference in the variable of interest—in our case, the change in social spending in percent of GDP from the previous year—and change in the values of each of the independent variables appears on the right-hand side of the regression equation along with the "level values" of these variables. This setup is motivated by the idea that when one of the independent variables changes, the dependent variable will adjust in such a fashion that some underlying equilibrium relationship between the dependent variable and the independent variable in question will be maintained (see Beck 1992, De Boef and Keele 2005).

There is bound to be some inertia in the process whereby change in government

partisanship or any other of our independent variables affects the growth of social spending. To

take account of at least some of this inertia, the level values our independent variables are

expressed with one-year lags. Our baseline model thus takes the following form:

$$\Delta Y_{it} = \alpha_i + \phi Y_{it-1} + \sum \beta_j X_{it-1} + \sum \gamma_j \Delta X_{it} + \varepsilon_{it}$$

where ΔY_{it} is the change in social spending, expressed in percent of GDP, from the previous year

in country i in year t and Δ is the first-difference operator. X is a vector of the independent

variables to be introduced below, including cabinet shares held by Left parties or Right parties.

The subscript j refers the particular independent variable. α_i refers to country-specific intercepts

and ε_{it} is the disturbance term, assumed to be distributed around mean 0 with variance σ_i^2. In this

setup, the γ coefficient captures short-term, transitory effects of a one-unit increase in one of the

"change" variables (ΔX_{it}) while the long-run, enduring effects of a one-unit increase in one of the

"level" independent variables (X_{it-1}) are estimated by dividing the coefficient for the particular

level variable j by the error correction rate, $i.e.$, by the coefficient for the lagged "level"

dependent variable ($\beta_j / - \phi$).

The use of error correction models is commonly justified on technical grounds.

Methodologists consider such models appropriate when there is reason to believe that there may

be a potential unit root problem, as might well the case with levels of social spending in percent

of GDP as the dependent variable (Beck 1992; Franzese 2002).[6] Many methodologists also

consider it to be a virtue that error correction models enable us to clear out the transitory

(adjustment) effects of a change in any one of the independent variables, so as to be able to focus

on the enduring effects of such a change or, in other words, to focus on "equilibrium

relationships" among the variables included in the model.

Our choice of the ECM approach is informed by substantive as well as technical

considerations. Again, our goal is to shed light on the dynamics of the partisan effects on social

spending. For this purpose, it is clearly appropriate to define the dependent variable as change in social spending rather than levels of social spending and to conceptualize government partisanship in terms of the make-up of the government at any given point of time. In addition, we consider the transitory effects of changes in government partisanship to be substantively interesting, particularly in view of the fact that changes in government partisanship are a very common occurrence in OECD countries.

Following Alt (1985), among others, we hypothesize that parties typically seek to reward their core constituencies at the beginning of a new term in office. As the next electoral contest approaches, parties of the Left and Right alike can be expected moderate their policies and move towards the center to broaden their support or, in other words, to capture the median voter. Consistent with the power resource theory, we expect representation of Left parties in government to be associated with more rapid spending growth and representation of Right parties to be associated with slower growth. Further, we expect increases in the representation of Left parties (Right parties) to have an additional positive (negative) effect.

As indicated at the outset, our principal methodological innovation is to engage in moving-windows analysis to trace changes in partisan effects over time. Quite simply, this means that we re-estimate the model specified above for twenty-five consecutive fifteen-year periods. (We also report results for the entire period 1962-2000). Fifteen-year windows represent a reasonable compromise between the need to ensure that each window includes a sufficient number of observations to estimate our model and our desire to accurately pinpoint changes in partisan effects. (For each window, N=240).

Though the coefficients are not reported below, we control for country-specific fixed effects (α_i) by including a full battery of country dummies in all our regression models. Unmodelled country-specific factors can be a significant source of bias in this type of analysis (Hsiao 1986) and minimizing the potential for such bias by including country dummies has

become common practice in comparative political economy in recent years.[7] Some authors (e.g.,

Garrett 1998) also include period or year dummies to account for fixed temporal effects. Since

we are interested in the dynamics of spending and time-varying partisan effects, the results

presented below are based on models that do not include year dummies.

Our dataset on social spending was constructed by splicing together two different

datasets, with 1980 representing a series break for all our countries. In addition, there are twelve

documented series breaks in the post-1980 spending data and we have strong reasons to believe

that the pre-1980 data contain undocumented series breaks as well (due to definitional changes).

Under these circumstances, many methodologists would advise the use of a robust regression

estimator rather than OLS. It is well known that OLS may produce seriously incorrect results

even if only a small fraction of the data is generated by a different process from the rest

(Rousseeuw and Leroy 1987; Western 1995; Mebane and Sekhon 2004). Robust regression

addresses this problem by down-weighting observations that constitute influential and/or outlier

observations, but entails potential uncertainty in the precise estimation of standard errors.

Recognizing that many readers may be unfamiliar with or wary of robust regression, the results

we present below were instead generated with OLS but with dummy variables for twelve country-

years that were identified as influential outliers by a number of diagnostic tests.[8] We use the

Prais-Winsten correction for first-order autoregressive errors and, to take into account panel

heteroscedasticity, we report panel-corrected standard errors (Beck and Katz 1995). Available

upon request, robust regression results confirm all the empirical findings reported below.

4. Measuring partisanship

We measure government partisanship by the share of cabinet portfolios held by different

parties, drawing on the Comparative Parties Dataset compiled by Swank. Like virtually all of the

literature on partisan effects to date, our measures are based on a time-invariant classification of parties on the Left-Right spectrum. This is problematic to the extent that parties have repositioned themselves on the Left-Right spectrum over the time period covered by our analysis. The alternative approach of relying on election manifestos to classify parties (see Huber and Gabel 2000) does not strike us as an entirely satisfactory solution to this problem. Using a manifesto-based classification, the question becomes whether government by parties that promise to expand the welfare state tends to be associated with more rapid growth of welfare spending. In our view, it is equally legitimate, and perhaps more interesting, to ask whether parties that have traditionally been conceived as parties of the Left and the Right still have different preferences for welfare spending.

In what follows, we report the results of estimating models with two different partisanship specifications. Conforming to the setup used by Huber and Stephens (2001) and also by Swank (2002), one set of models includes the share of cabinet portfolios held by Christian Democratic parties as well as the share held by Left parties, with "Left parties" being defined as Labour parties, Social Democratic parties and parties to the Left of these mainstream Left parties. (Needless to say perhaps, left-of-mainstream Left parties have only rarely held cabinet portfolios in the countries and time period covered by our analysis). Though we are primarily interested in the effects of Left representation in government, the existing literature suggests that we should control for the Christian Democratic representation in estimating these effects.[9]

Following Korpi and Palme (2003) and Allan and Scruggs (2004), a second set of models measures government partisanship by the share of cabinet portfolios held by Right parties or, in other words, conservative parties. The approach to measuring partisanship adopted by Huber and Stephens stipulates that secular centrist and Right-leaning parties constitute a more or less cohesive political bloc opposed to welfare-state expansion. When we instead measure partisanship by the share of cabinet portfolios held by Right parties, we assume that the crucial

dividing line in the politics of the welfare state runs between, on the one hand, parties of the Left and the Center and, on the other hand, parties of the Right and that there is nothing particularly distinctive about either Social Democracy or Christian Democracy. By comparing results obtained with these different specifications of government partisanship we hope to learn something about the politics of the welfare state.

We have rescaled Swank's measures so that they range between 0 and 10, with 10 signifying that the party or parties in question—say, Left parties—held all cabinet seats for the entire year. (Swank's dataset adjusts for mid-year cabinet changes, weighting each cabinet by the number of months in office). Except in the case of the German CDU/CSU, we rely faithfully on Swank's coding of parties as "Right," "Left," and "Christian Democratic." The case of CDU/CSU is complicated since there is no party to its Right in the German Bundestag. In every other country with Christian Democratic parties in parliament, the Christian Democrats do not hold up the Right end of the parliamentary spectrum. While Swank (2002) codes the CDU/CSU as a Christian Democratic party, Allan and Scruggs (2004) code it as a Right party. We split the difference on this issue by treating the CDU/CSU, in separate models, as a Christian Democratic party and also as a Right party. (Recoding the CDU/CSU does not significantly affect any of the results reported below).

Our measures of government partisanship fail to capture the complexities of presidential and semi-presidential systems. In the case of the US, cabinet shares fail to distinguish between a situation in which the president's party controls Congress and a situation of "divided" government. Our measures also fail to capture many subtleties of coalition government in parliamentary systems. On both counts, the cabinet-center-of-gravity index used by Franzese (2000) constitutes a more informative measure of government partisanship. However, Franzese's data end in 1996, while the most recent version of Cusack's original cabinet-center-of-gravity index ends in 1998.[10] Based on either of these indices, the evolution of partisan effects over the

period 1962-96 (or 1962-98) is very similar to what we report below (results available upon request). We stick to cabinet shares not only because this is the measure used by Huber and Stephens (2001) in their analysis of change in partisan effects over time, but also because it enables us to include observations through 2000 in our analysis.

5. Other independent variables

In estimating the effects of government partisanship, we control for the effects of other variables that might plausibly determine the growth of social spending. As with partisanship, our error correction model estimates the effects of these variables measured with a one-year lag (t-1) and also the effects of change in each variables from the previous year (t-(t-1)). It should be noted at the outset that several of the variables that we treat as control variables in our initial setup— union density, economic growth and international openness—might also be conceived, following our earlier discussion, as variables that condition the effects of government partisanship. We shall return to the question of conditional effects in due course; for the time being, we are only concerned with the direct effects of the variables on the right-hand side of our regression equation. Let us briefly identify these variables and spell out our expectations about their direct effects.[11]

Following conventional wisdom among scholars working in the power-resources tradition, we hypothesize that *union density* is positively associated with social spending growth and that this association is linear. The basic premise of this hypothesis is that unions represent workers with an interest in social protection as well as redistribution and that rising unionization means that unions are more able to influence policy outcomes. Elsewhere (Kwon and Pontusson 2005), we suggest that the policy preferences of union members might be contingent on the level

20

of unionization. Arguably, the distinctiveness of union members—their greater preference for public welfare provision relative to the electorate as a whole—diminishes as unionization rises. This suggests that the association between union density and social spending growth might be curvilinear. For our present purposes, however, the standard hypothesis will suffice: non-linear modeling demands a lot of the data and we do not wish to burden our analysis with econometric complications that do not speak directly to the question of change in partisan effects over time.

Economic growth, here measured in terms of GDP per capita, can be expected to boost social spending so long as we control for the rate of unemployment and other sources of demand for social benefits. Rapid economic growth generates increased government revenues at any given rate of taxation and thus makes it possible for welfare spending and post-tax incomes to grow in tandem. In our setup, however, there is a statistical relationship between economic growth and social spending growth that runs in the opposite direction, since social spending is measured in percent of GDP. We include GDP growth primarily to control for changes in the denominator of social spending and expect the coefficients for this variable to be negative.[12]

Public debt represents an obvious constraint on governments that wish to increase welfare spending (and any other spending as well). This constraint should manifest itself in a negative association between levels public debt and growth of social spending, but the short-term association is likely to be the opposite. Since governments often finance increased spending through deficits, we expect change in levels of public debt to be positively associated with social spending growth.

Spending on the elderly accounts for a very large portion of total social spending in all the OECD countries and many welfare states also target children. Holding GDP and welfare-state generosity constant, an increase in these targeted groups' share of the total population will automatically translate in higher social spending in percent of GDP. While we have no clear expectations about the long-term effects of this variable, we expect an increase in the *dependency*

ratio, defined as the share of the population below the age of 15 and above the age of 64, to be associated with faster growth of social spending.

The unemployed constitute another obvious (and easily measurable) target group of social spending. As with children and the elderly, changes in the size of this group (measured relative to the total labor force) affect social spending in a more or less automatic fashion. On the other hand, Huber and Stephens (2001) argue persuasively that that persistently high levels of unemployment tend to generate fiscal and political conditions conducive to welfare-state retrenchment. For one thing, the unemployed are an easy target for politicians seeking to cut welfare spending. Following Huber and Stephens, we expect the *unemployment rate* to have a negative coefficient and changes in the unemployment rate to have a positive coefficient.

Given the prominence of the globalization theme in recent literature on the welfare state, we include conventional measures of *trade openness* and the potential for *capital mobility* in our model even though we do not have strong prior expectations about the effects of these variables. As commonly construed, the "globalization thesis" posits that increased trade openness and capital liberalization tend to generate slower (if not negative) social spending growth. Virtually all students of comparative welfare state development contest this view, arguing that public welfare provision does not (necessarily) undermine international competitiveness and in some cases, notably Garrett (1998), arguing further that globalization increases economic insecurity and thereby increases political support for welfare-state expansion.

Finally, we include *deindustrialization* as an independent variable, following Iversen and Cusack's (2000) important analysis of social spending. Iversen and Cusack agree with Garrett (1998) that economic insecurity drives social spending, but argue that deindustrialization has been a far more important source of economic insecurity than globalization over the last three or four decades. Like Iversen and Cusack, we measure deindustrialization as the percentage of the

22

working-age population that is not employed in industry or agriculture. We expect this variable to be positively associated with growth of social spending.

Our models do not include institutional variables such as neo-corporatism, constitutional veto points, and electoral rules. Huber and Stephens (2001) and Swank (2002) report significant effects of these variables. Being essentially time-invariant, they are likely to matter primarily for cross-national variation in levels of social spending and are unlikely to shed much light on the dynamics of spending growth. It should again be noted that our models include a full battery of country dummies, which should control for the effects of time-invariant institutional variables and eliminate any omitted variable bias arising from the absence of such variables.

6. Empirical results I: Time-varying partisan effects

Table 1 presents the results that we obtain when we estimate our baseline model with data for the entire period 1962-2000. The first model specification measures government partisanship by the share of cabinet portfolios held by Left parties and by Christian Democratic parties, the second specification measures partisanship by the share of cabinet portfolios held by Right parties. Leaving the effects of partisanship aside for the time being, the coefficient for the lagged level of social spending is negative and highly significant in both of the models reported in Table 1. This coefficient provides a ready check on the equilibrium properties of our model. Any coefficient between -1 and 0 implies that the effects of a shock to any of the independent variables are progressively reduced over time, inducing social spending to converge to a long-term equilibrium rate. A negative coefficient with such a large t-statistic (4.75) allows for inferences that are free of unit-root concerns. In both models, the estimates of the coefficients for

the lagged level of social spending indicate that approximately 92% (1 - .085 = .915) of a shock in one year persists into the next year, then 92% of that into the following year, and so on.

[Table 1 around here]

The effects of the other control variables are very nearly identical with alternative specifications of partisanship. These effects largely conform to our expectations and, more often than not, they are statistically significant. The most noteworthy exceptions pertain to union density and the dependency ratio. The signs of the coefficient for the dependency ratio are positive and so are the signs for coefficient that captures enduring effects of union density, but the coefficients for these two variables are always smaller than their standard errors. Most curiously from the point of view of power resources theory, the rate of unionization appears to have no bearing whatsoever on the rate of social spending growth.[13]

Consistent with our expectations, GDP growth and change in GDP growth are both associated with less rapid growth of social spending. Again, this finding would appear to be essentially a statistical artifact—a result of GDP being the denominator of social spending. More substantively meaningful, the results in Table 1 confirm that high levels of public debt constrain the growth of social spending. Though the sign is positive, as expected, the coefficient for change in public debt is not statistically significant. Again consistent with our expectations, we find that increasing unemployment has a strong positive short-term effect on social spending growth while persistently high levels of unemployment have a negative effect. In the short run, increasing trade openness tends to be associated with slower spending growth while liberalization of regulations governing capital mobility is actually associated with more rapid spending growth. However, we do not observe any enduring effects of either trade openness or capital mobility. Finally, our analysis replicates Iversen and Cusack's (2000) finding that deindustrialization is associated with more rapid social spending growth over the long run.

The results reported in Table 1 provide precious little support for the proposition that who governs matters to social spending growth. The coefficients for the partisanship variables all have the "correct" sign, but only one of these coefficients clear the 90% confidence criterion of statistical significance. According to these results, increased Right representation in government is associated with a temporary reduction in social spending growth, but it has no enduring effects, and representation of Left parties and Christian Democratic parties has neither transitory nor enduring effects of any significance. Should we conclude, then, that government partisanship does not matter to social spending dynamics in OECD countries over the period from the early 1960s through the 1990s?

The results of our moving-windows analysis convey a very different message. Figures 1 and 2 trace the partisan effects (point estimates with 90% confidence intervals) that we obtain when we re-estimate our baseline models for consecutive 15-year periods, dropping the earliest year and adding the next year to each new window. With each window being identified by its last year, Figure 1 plots the coefficients for Left representation in government: panel A shows its enduring effects while panel B shows the transitory effects of changes in Left representation. Similarly, the two panels in Figure 2 trace the effects of the share of cabinet portfolios held by Right parties and the effects of changes Right representation.

[Figures 1 and 2 around here]

For Left representation, we do not observe any significant effects in the first eleven windows (1962-76 through 1972-86). In several of these windows, the signs of the coefficients for Left cabinet share are actually negative, suggesting that Left parties were less inclined to pursue welfare-expansion than Center-Right parties or, at least, Center parties in the 1960s. However, these point estimates are not statistically different from zero. The point estimates for enduring as well as transitory effects of increased Left representation begin to rise from the eighth window (1969-83) onwards and quickly move into positive territory. From the twelfth window

(1973-87) through the twenty-second window (1983-1997), we obtain consistently positive

enduring effects of Left representation at the 90% confidence level. The transitory effects of

changes in Left representation are also consistently positive from the thirteenth window onwards,

but do not always satisfy the 90% criterion. For enduring effects of Left representation, we

observe a sharp decline as observations from 1998-2000 are added and observations from 1984-

86 are deleted from our analysis. The decline of government partisanship at the end of the 1990s

is less pronounced as far does as transitory Left party effects are concerned. Newly formed Left

governments in the late 1990s still appear to have been more spending-prone than newly formed

Left governments in the late 1980s.

Turning to Figure 2, the evidence on enduring effects of Right representation also points

to an increase in partisan conflict over social spending in the decade following the first oil crisis,

but the rise of partisanship is less pronounced by this measure. So is also the decline of

partisanship at the end of the 1990s. The coefficient for Right cabinet shares is consistently

negative from the eighth window onwards and significant for seven out of the last seventeen

windows. More strikingly, the transitory negative effects of an increase in Right representation

grow sharply from the twelfth window (1973-87) through the twenty-first window (1982-96) and

remain more or less unchanged over the last five windows.

It is important to keep in mind that our estimates of the effects of Left and Right

representation pertain to the behavior of Left and Right parties *relative to other parties*. Looking

at Figure 1, it is tempting to attribute the decline of enduring Left-party effects in the late 1990s

to a rightward shift of European Social Democracy, but this decline could also be due to a

leftward shift of other parties. Now, it seems clear from Figure 2 that Right parties did not

become more pro-welfare in this period. Thus the decline of Left-party effects would appear to

signal a convergence in the policy positions of Left parties and centrist parties. Whether the Left

26

became less pro-welfare or centrist parties became more pro-welfare is a question that our analysis cannot resolve.[14]

Figure 3 illustrates the distinction between transitory and enduring effects as well as the substantive meaning of the partisan effects that we obtain for 1982-86, the window with the largest effects of Left representation in government.   Panel A shows how our model predicts that social spending would have responded to a switch from zero to 100% Left representation in government. Panel B replicates this simulation exercise for a switch from zero to 100% Right representation.[15] According to our results, the transitory effect of a switch to Left government in this period was .66, *i.e.*, social spending in percent of GDP at *t*+1 would have been .66 higher than it would have been had the Left remained out of power. For a switch to Right government, the transitory effect of the change in partisanship was slightly smaller, -.63 in year *t*+1. In both scenarios, these transitory effects of the change in partisanship would decline towards zero while enduring effects would increase over subsequent years. Assuming that the Left remained in power, the long-run effect of the simulated change (realized over seven years) would be a 2.02 increase in social spending in percent of GDP. Conversely, the long-run effect of the Right taking power (realized within three years) would be a 1.27 decrease in social spending in percent of GDP. For some perspective on these estimates, it might be noted that social spending in percent of GDP averaged 21.6% across our sixteen countries in 1990, with a standard deviation of 5.69.

[Figure 3 around here]

Again, the estimates reported above are based on data for the window with the largest effects of Left representation in government (1982-96). As shown in Appendix 3, two other windows yield still larger effects of Right representation and our estimates of partisan effects for surrounding windows are also quite large. In sum, our moving-windows analysis indicates that

government partisanship mattered a great deal to the growth of aggregate social spending during the last two decades of the twentieth century.

7. Empirical results II: Explaining change in partisan effects

Our review of medium-range theories in section 2 identified five variables that might potentially condition the effects of government partisanship on social spending: (1) economic growth; (2) globalization; (3) income distribution; (4) union density; and (5) the size of the welfare state or, alternatively, the size of welfare-state clienteles. To explore the role of these variables in shaping the politics of the welfare state, we report two sets of additional results in this section. First, we report results obtained by interacting government partisanship with economic growth, trade openness, capital liberalization, and union density, re-estimating our ECM model with one interaction term at the time. With data for the entire period 1962-2000, this exercise does not yield any statistically significant interaction effects, but when we restrict ourselves to the period 1980-2000 we obtain several interaction effects that are not only statistically significant, but also, we believe, substantively meaningful. (The latter results are presented in Table 2 below). Secondly, we report (in Table 3) the results of estimating a simple OLS model with our 15-year windows as units of analysis, partisan effects as the dependent variable and average economic growth, trade openness, capital liberalization, union density and social spending in percent of GDP as the independent variables. As we note below, serious limitations are associated with each of these exercises. The results presented in this section are suggestive rather than definitive. Most importantly, our discussion is meant to illustrate what a rigorous analysis of the determinants of partisan effects might look like it.

To simplify matters, we focus exclusively on enduring partisan effects in this section.[16] Let us begin by considering whether our data support the proposition that partisan effects on social spending are contingent on economic growth. Along the lines suggested in section 2, it seems to reasonable to suppose, *contra* Pierson, that the social policy preferences of Left parties and Right parties diverge more sharply under conditions of slow growth than under conditions of rapid growth. At least at first glance, this argument would seem to offer a parsimonious account of the evolution of partisan effects. In retrospect, it is clear that the international recessions of 1974-75 and 1981-82 were part of a secular, long-term deceleration of economic growth across the OECD area. The timing of this development fits neatly with the rise of partisan effects documented above. Moreover, the decline of partisan effects in the late 1990s appears to have coincided with a partial recovery of economic growth, particularly in the Anglo-Saxon countries. The implication of this argument is that we should observe a negative effect of the interaction of Left-party representation in government and economic growth and, conversely, a positive effect of the interaction of Right-party representation and economic growth. As shown in the first column of Table 2, the signs of coefficients for the interaction of partisanship and growth for 1980-2000 are indeed what we would expect, but these coefficients are far from statistically significant. Economic growth alone certainly does not provide the basis for an adequate account of the rise and fall of government partisanship.

[Table 2 around here]

Turning to the effects of globalization, the rise of partisan effects that we observe in the period 1975-95 might be invoked as support for Garrett's thesis that globalization increases the salience of government partisanship because it generates increased economic insecurity among core constituencies of the Left in particular. On the other hand, the decline of partisan effects in the late 1990s is consistent with the thesis that globalization constrains the room for governments, particularly Left governments, to pursue partisan objectives. The second and third columns of

29

Table 2 report the results of interacting government partisanship with trade openness and capital liberalization respectively. According to these results, the effects of government partisanship on social spending are in no way contingent on exposure to international trade, but they are contingent on capital mobility (or, more precisely, rules allowing for capital mobility). Contrary to the Garrett thesis, we observe a significant negative interaction effect for Left representation and capital liberalization and a significant positive interaction effect Right representation and capital liberalization.

Based on the results reported in Table 2, Figure 4 shows our estimates of the conditional effects of government partisanship at different levels of capital liberalization.[17] We hasten to note that the right-hand graph does not signify that capital mobility pulls Right governments towards a more pro-welfare position. The point is simply that Right governments become less distinctively "anti-welfare" under more liberalized rules governing capital mobility. Surely, the most plausible interpretation of these results is that capital liberalization constrains the ability (perhaps also the inclination) of Left parties to pursue partisan social policy objectives that entail more rapid social spending growth. Through this mechanism, globalization would appear to have been an important factor behind the decline of partisan effects in the late 1990s.

[Figure 4 around here]

As suggested in section 2, the rise of partisan effects in the 1980s might plausibly be attributed be attributed to the decline of union density that we observe in many OECD countries from the late 1970s onwards. Again, the underlying logic of this argument (developed by Kwon and Pontusson 2005) is that highly encompassing unions affect the social policy positions of all parties, while less encompassing unions only affect the social policy positions of Left parties, to whom unions enjoy some form of privileged access. While union density held steady or declined only slightly in Belgium and the Nordic countries from 1980 to 2000, it fell significantly in every other OECD country over this period. As shown in the fourth column of Table 2, we do not

30

observe any significant interaction effects for Left representation in government and levels of union density, but we do observe such an effect for Right representation. Responsiveness to union interests may well be a distinguishing characteristic of Left parties, but this characteristic does not appear to become more pronounced when unions are weak. On the other hand, the unresponsiveness of Right parties to union interests does appear to become more pronounced when unions are weak. (Figure 5 illustrates the latter effect).

[Figure 5 around here]

In the ECM framework, as noted above, the coefficient for lagged levels of social spending represents the error correction rate. Consequently, levels of social spending cannot be interacted with government partisanship to explore whether partisan effects on spending growth are contingent on the size of the welfare state. As for the argument that rising inequality has been a source of partisan polarization in the 1980s and 1990s, lack of annual observations of income inequality prevents us from testing this argument along the lines suggested above. The decline of partisan effects in the late 1990s poses an obvious challenge to the inequality thesis, especially in view of the fact that the rise of income inequality appears to have accelerated in many West European countries in the course of the 1990s (see Kenworthy and Pontusson 2005). In addition, it should be noted that if we separate our sixteen countries into two groups, those with above-average and below-average increases of income inequality since 1980, we do not find any indication that partisan effects have increased more in the group with above-average increases of income inequality.

The obvious limitation of the preceding discussion is that it treats the determinants of partisan effects separately. There is every reason to believe that several variables must be considered to account for the rise and fall of partisan effects. To illustrate, consider the experience of the Scandinavian countries in the 1990s: arguably, rapidly rising income inequality encouraged partisan polarization, but persistently high levels of unionization constrained Center-

31

Right parties from moving rightward while globalization constrained the Social Democrats from moving leftward. Ideally, we would want to measure each of these effects while taking the others into account. This, then, is the basic motivation behind the regression results presented in

Table 3. Following Western (1997), the models presented here take the coefficients for Left and Right representation in government generated by our moving windows analysis (see Figures 1 and 2) as their dependent variables. Thus each of our 15-year windows is treated as a separate unit of observation. To take account of the fact that these windows are serially related to each, we include the lagged dependent variable (*i.e.*, the partisan effect estimated for the previous window) on the right-hand side of the regression equation. In addition, the models include economic growth, trade openness, capital liberalization, union density and levels of social spending, measured as averages for our sixteen countries over the same fifteen-year period.

[Table 3 around here]

The limitations of the exercise reported in Table 3 are readily apparent. The total number of observations is very small, the data are highly aggregate and the regression models only draw on time-series variation. (The cross-national variation encompassed by the interaction models reported in Table 2 disappears in this setup). It should also be noted that the dependent variables of these models include a number of point estimates that are not statistically significant. Keeping these caveats in mind, the models yield an impressive number of statistically significant effects that appear to be substantively meaningful. According to the results reported in Table 3, the growth of partisan effects is positively associated with slow economic growth and union decline as well as negatively associated with capital liberalization. Also consistent with the interaction results reported earlier, we find that trade openness has no bearing on the size of partisan effects. Finally, the results in Table 3 indicate that partisan effects are also positively associated with levels of social spending. This finding might be interpreted to suggest that the growth of partisan effects in the period 1975-95 was particularly pronounced in countries with large welfare states,

32

but, again, the results in Table 3 do not take cross-national variation into account.[18] In the end,

other data (and perhaps other forms of analysis) are needed to address the question of whether

large welfare-state clienteles are associated with more or less partisan conflict of social spending.

8. Conclusion

The preceding analysis poses an obvious challenge to the reliance on pooled cross-section

time-series among many quantitatively-oriented students of comparative political economy.

Pooling all countries and years for which we have data to produce a single set of regression

results hides a great deal of variation over time (as well as variation across countries) and thus

limits our ability to discover causal relations of a conditional nature. In a sense, moving-windows

analysis brings out what many qualitatively-inclined scholars find unsatisfactory with multiple

regression as an approach to social-science explanation, for the coefficients invoked to explain a

certain outcome (in this case, social spending growth) emerge as "dependent variables" that are

themselves in need of explanation (Isaac and Griffin 1989). At the same time, the preceding

discussion illustrates, we believe, how different quantitative methods can be used to advance a

more nuanced analysis, allowing us to pinpoint the timing of changes in causal dynamics and to

explore conditional effects.

Substantively, the results of our moving-windows analysis confirm the commonly held

view that 1960s were characterized by "welfare-state consensus" and directly contradict the claim

that partisan conflict over social policy declined in the 1980s. The proponents of the decline-of-

partisanship thesis might perhaps invoke the decline of partisan effects in the late 1990s as

support for their view, but this retort is unsatisfactory. After all, the argument advanced by

Pierson (1996, 2001) and also by Huber and Stephens (2001) is not simply that the salience of

government partisanship has declined: rather, their argument is that the salience of government

partisanship has declined because of the growing importance of welfare-state clienteles and the onset of permanent austerity. Both of these causal mechanisms should have been operating already in the 1980s.

With partisan effects rising from the mid-1970s through the early 1990s, and then holding steady or declining in the second half of the 1990s, timing becomes an important criterion in assessing the relative merits of different theories as to why partisan effects might change over time. Moreover, it seems clear that no single variable can explain both the rise of partisan effects and their subsequent decline. Tentatively, our analysis suggests that the rise of partisan effects in the 1980s and early 1990s can be attributed, on an OECD-wide basis, to slow economic growth and union decline. The subsequent decline of partisan effects appears to have been due primarily to constraints associated with the integration of international capital markets and the liberalization of rules governing capital mobility.

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FIGURE 1: 15-year moving window analysis of the effects of Left cabinet share (LCAB)
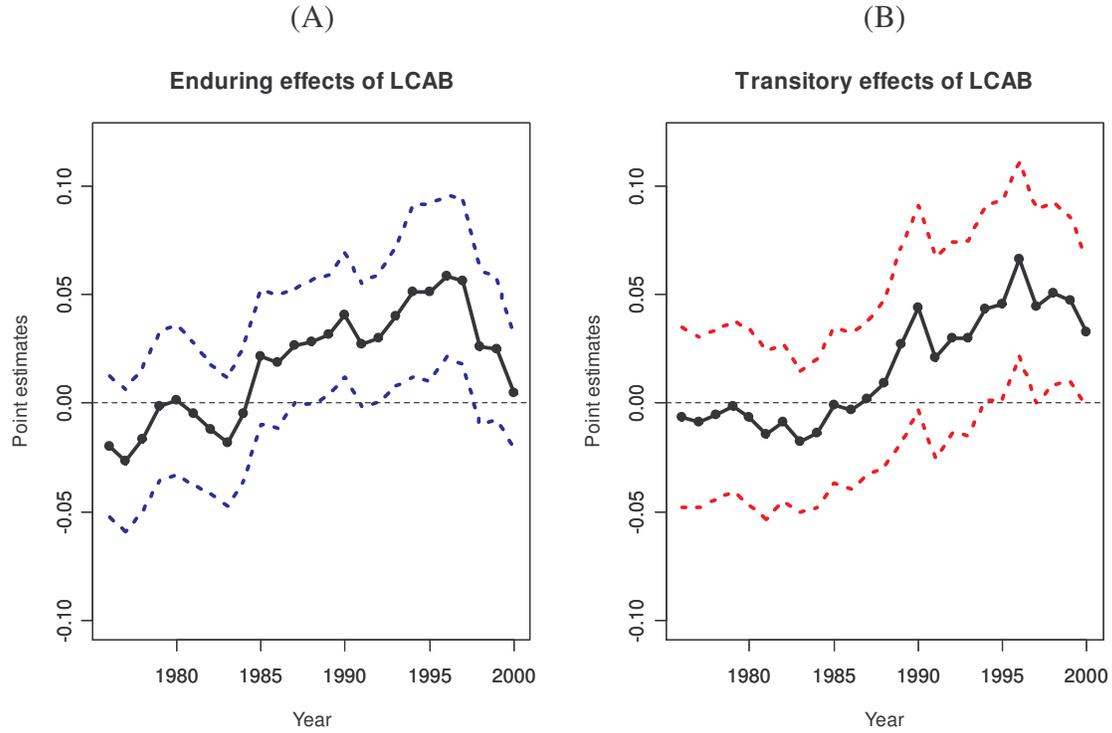
(A)   (B)

Note: Entries are OLS point estimates and 90% confidence interval (*a*=.05, one-tailed). The horizontal axis refers to the last year of each 15-year window. For example, 2000 refers to the 1986-2000 window. The model specification includes country-fixed effects and dummy variables for 12 outliers (see text).

FIGURE 2: 15-year moving window analysis of the effects of Right cabinet share (RCAB)
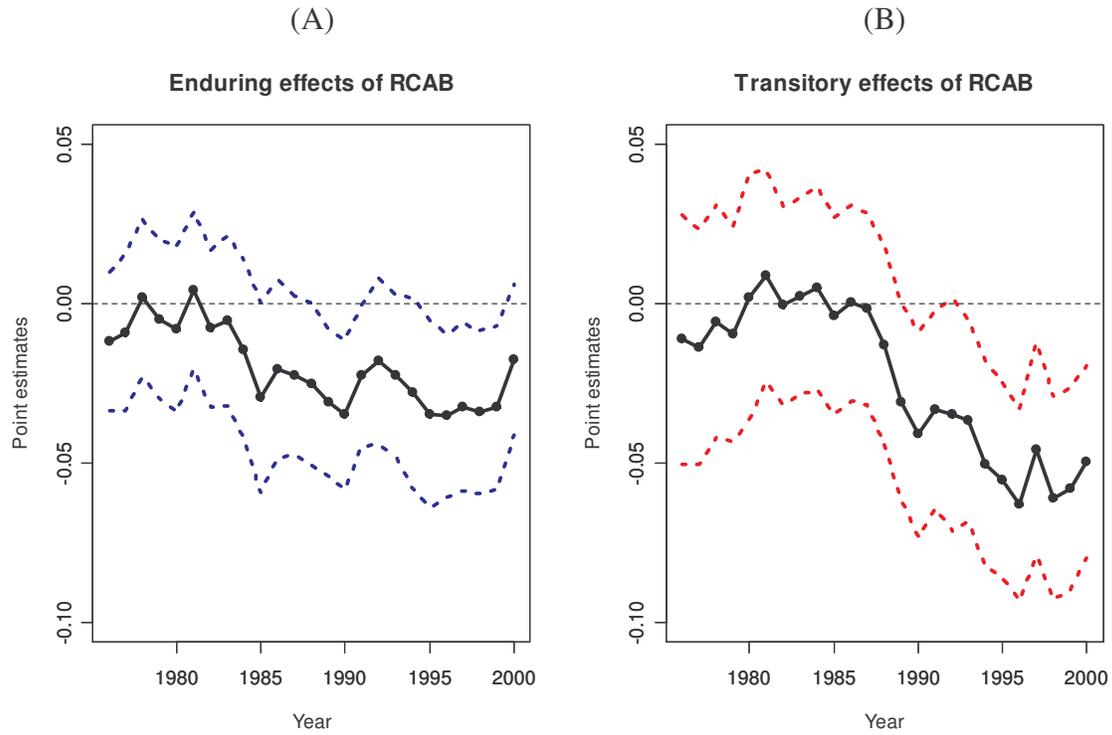
(A)

(B)

Enduring effects of RCAB

Transitory effects of RCAB


Note: Entries are OLS point estimates and 90% confidence interval (*a*=.05, one-tailed). The horizontal axis refers to the last year of each 15-year window. For example, 2000 refers to the 1986-2000 window. The model specification includes country-fixed effects and dummy variables for 12 outliers (see text).

FIGURE 3: Estimated spending responses to government partisanship, 1982-1996

<table>
<tr><td>(A)</td><td>(B)</td></tr>
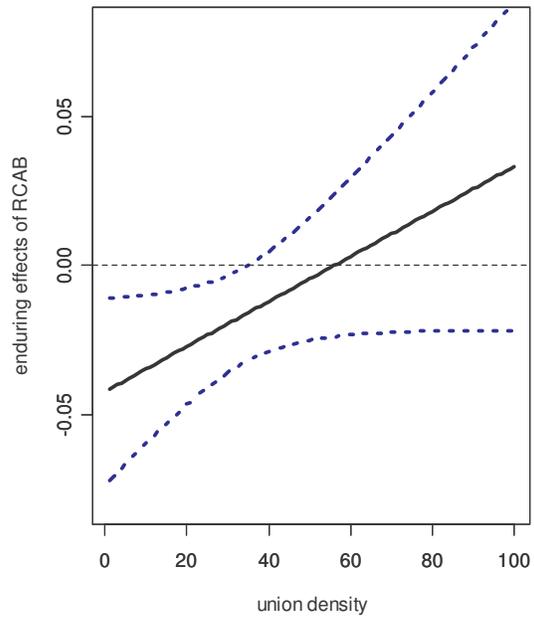<tr><td>LCAB</td><td>RCAB</td></tr>
</table>
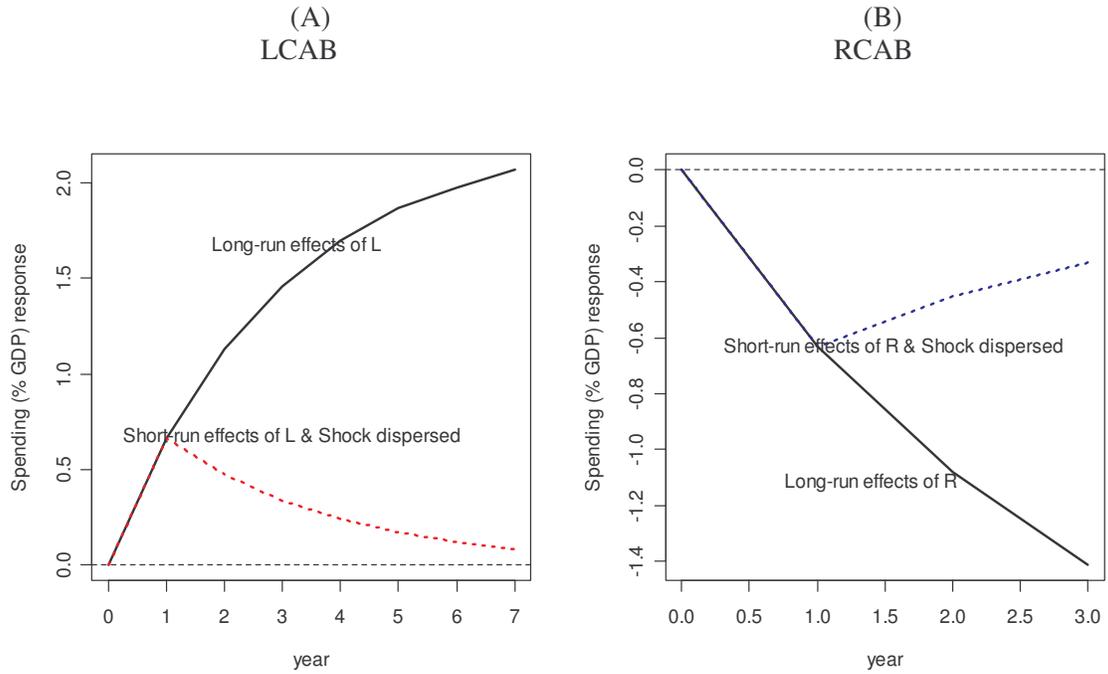
Note: Government change shock occurs at year $t = 0$.

FIGURE 4: Conditional effects of government partisanship and capital liberalization
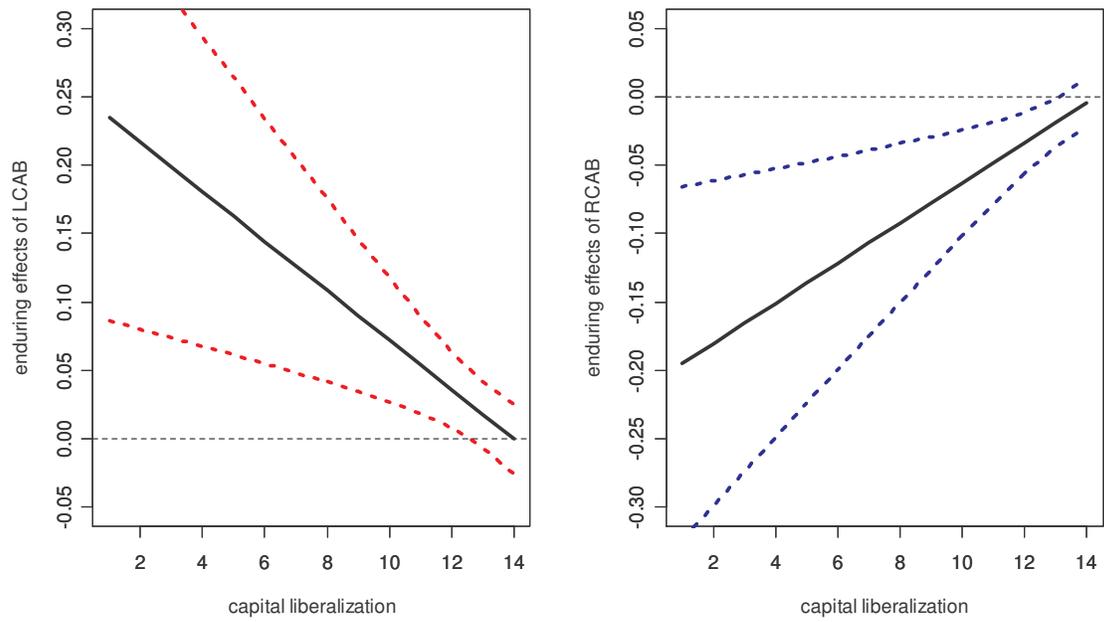
Note: Based on data for 1980-2000.

FIGURE 5: Conditional effects of government partisanship and union density

Note: Based on data for 1980-2000.

TABLE 1: Dynamics of Welfare Spending in 16 OECD Countries, 1962-2000

Variable	Model (1)		Model (2)	
	Coef.	S.E.	Coef.	S.E.
Social spending $_{t-1}$	-0.085***	(0.017)	-0.084***	(0.017)
Left cabinet share $_{t-1}$	0.014	(0.012)		
Δ Left cabinet share $_t$	0.015	(0.016)		
CD cabinet share $_{t-1}$	0.014	(0.023)		
Δ CD cabinet share $_t$	0.061	(0.042)		
Right cabinet share $_{t-1}$			-0.010	(0.009)
Δ Right cabinet share $_t$			-0.021*	(0.012)
Union density $_{t-1}$	0.001	(0.005)	0.001	(0.005)
Δ Union density $_t$	-0.001	(0.028)	0.0002	(0.028)
GDP/capita growth $_{t-1}$	-0.167***	(0.022)	-0.168***	(0.022)
Δ GDP/capita growth $_t$	-0.130***	(0.015)	-0.131***	(0.015)
Public debt $_{t-1}$	-0.010***	(0.002)	-0.011***	(0.002)
Δ Public debt $_t$	0.007	(0.009)	0.005	(0.009)
Dependency ratio $_{t-1}$	0.013	(0.023)	0.009	(0.023)
Δ Dependency ratio $_t$	0.129	(0.115)	0.139	(0.114)
Unemployment rate $_{t-1}$	-0.049***	(0.019)	-0.048***	(0.019)
Δ Unemployment rate $_t$	0.113***	(0.048)	0.115***	(0.048)
Trade openness $_{t-1}$	-0.004	(0.004)	-0.004	(0.004)
Δ Trade openness $_t$	-0.024***	(0.009)	-0.025***	(0.009)
Capital liberalization $_{t-1}$	-0.018	(0.028)	-0.020	(0.027)
Δ Capital liberalization $_t$	0.091*	(0.052)	0.089*	(0.052)
Deindustrialization $_{t-1}$	0.063***	(0.016)	0.063***	(0.016)
Δ Deindustrialization $_t$	0.023	(0.037)	0.026	(0.037)
SSR	228.63		228.64	
Adjusted R^2	0.58		0.58	
N	624		624	

Note: Entries are OLS point estimates and panel-corrected standard errors. The Praise-Winsten procedure to take into account autocorrelation was used. The dependent variable is the first difference in social spending (in % GDP). Country-specific fixed effects and dummy variables for 12 outliers were estimated but not reported. Baltagi-Li Lagrange Multiplier tests of serial correlation: $\chi^2 = 0.77$ ($p = 0.383$). $* p < .10$, $** p < .05$, $*** p < .01$ (two-tailed).

TABLE 2: Interaction effects, 1980-2000

	Dependent variable = Δ Social spending $_t$			
X=	economic growth	trade openness	capital liberalization	union density
(1) Left cabinet specification				
Left cabinet $_{t-1}$	0.033*	0.031	0.235***	0.040
	(0.018)	(0.031)	(0.091)	(0.027)
ΔLeft cabinet $_t$	0.018	0.024	0.022	0.009
	(0.021)	(0.020)	(0.021)	(0.021)
X_{t-1}	-0.217***	-0.023***	0.134***	-0.046***
	(0.032)	(0.006)	(0.049)	(0.012)
ΔX_t	-0.156***	-0.039***	0.280***	-0.017
	(0.023)	(0.009)	(0.075)	(0.034)
Left cabinet $_{t-1}$* X_{t-1}	-0.006	-0.0002	-0.018**	-0.0004
	(0.005)	(0.0005)	(0.007)	(0.0006)
(2) Right cabinet specification				
Right cabinet $_{t-1}$	-0.021	-0.013	-0.185**	-0.048**
	(0.013)	(0.019)	(0.084)	(0.020)
Δ Right cabinet $_t$	-0.021	-0.031*	-0.032**	-0.038*
	(0.017)	(0.016)	(0.016)	(0.020)
X_{t-1}	-0.240***	-0.024***	-0.003	-0.047***
	(0.037)	(0.007)	(0.052)	(0.013)
ΔX_t	-0.160***	-0.041***	0.277***	-0.029
	(0.024)	(0.009)	(0.076)	(0.036)
Right cabinet $_{t-1}$* X_{t-1}	0.001	-0.0001	0.014**	0.0008*
	(0.003)	(0.0003)	(0.007)	(0.0005)

Note: Analysis is for the period 1980-2000. Each model estimates a fully specified model (as in Table 1) but other estimates are not reported. * $p < .10$, ** $p < .05$, *** $p < .01$ (two-tailed).

TABLE 3: Multivariate analysis of trends in enduring partisan effects, 1962-2000

Variables	Left	Right
Lagged DV	0.609***	0.366**
	(0.162)	(0.157)
Union density	-0.037**	0.024**
	(0.017)	(0.009)
Welfare spending	0.040*	-0.030**
	(0.022)	(0.012)
Economic growth	-0.061***	0.027**
	(0.015)	(0.007)
Capital liberalization	-0.129**	0.085**
	(0.061)	(0.032)
Constant	2.477**	-1.487**
	(1.108)	(0.524)
SSR	0.0013	0.0005
Adjusted R^2	0.90	0.90
N	24	24

Note: Entries are OLS estimates using the Prais-Winsten procedure to take into account serial correlation. Standard errors in parentheses. Dependent variables were coefficients for partisanship variables obtained from 15-year moving window analysis. * $p < .10$, ** $p < .05$, *** $p < .01$ (two-tailed).

APPENDIX 1: Variable definitions and data sources

Change in social spending: First difference of social spending (other than active labor

market programs) in % of GDP. Sources for social spending are Swank's dataset for 1961-79

(electronically provided by Swank) and OECD, *Social Expenditure Dataset* (2004) for 1980-

2000. Available from http://www.oecd.org (Last accessed May 25, 2005).

Left cabinet share: Percentage of cabinet portfolios held by Left parties. Years in which

more than one government holds office are scored as the average of those governments, weighted

by the fraction of the year each government holds office. Electronic data was provided by Duane

Swank, available at http://www.marquette.edu/polisci/Swank.htm (Last accessed May 25, 2005).

Christian Democratic cabinet share: same as Left cabinet share (above).

Right cabinet share: same as Left cabinet share (above).

Union density: Net union member share of labor force. Data are from the Lange-Golden-

Wallerstein labor market institutions data set. For some recent years' data, we linearly

interpolated using OECD, *Employment Outlook* (2004), p.145. We also relied on B. Ebbinghaus

and J. Visser, *Trade Unions in Western Europe since 1945. CD-Rom*, London: Macmillan 2000,

for missing country data in the Lange-Golden-Wallerstein data set.

Growth rate of GDP per capita: Annual growth rate of GDP per capita from OECD,

Historical Statistics, various years.

Public debt: Gross consolidated-central-government debt (including social security) from

http://www-personal.umich.edu/~franzese (Last accessed December 12, 2004), updated with data

from IMF, *Government Finance Statistics Yearbook*, various years.

Dependency ratio: The percentage of population below the age 15 and over 64. OECD,

Historical Statistics, various years.

Unemployment rate: The percentage of the unemployed out of total labor force. OECD,

Historical Statistics, various years.

Trade Openness: Total exports and imports as a percentage of GDP. OECD, *Historical Statistics*, various years.

Capital Liberalization: Financial liberalization index presented by Dennis Quinn and Carla Inclan, "The Origin of Financial Openness." *American Journal of Political Science* 41, (July 1997), 771-813. An updated version of the data was electronically provided by Quinn.

Deindustrialization: 100 minus the sum of employment in agriculture and manufacturing industry as a percentage of the working-age population. Data provided electronically by Torben Iversen supplemented with data from OECD, *Labour Force Statistics*, various years.

APPENDIX 2: List of outlier observations

country	year	studentized residual	Bonferroni-corrected p-value	Cook's D	robust weight	Δ Social spending	documented series break?
Belgium	1980	-7.480	0.042	0.088	0	-6.1	yes
The Netherlands	1977	-6.044	0.052	0.054	0	-4.5	no
Norway	1980	-4.650	0.067	0.028	0	-4.1	yes
Ireland	1985	3.864	0.081	0.026	0	3.3	no
Norway	2000	-3.767	0.083	0.047	0	-2.7	no
The Netherlands	1990	3.501	0.089	0.017	0	2.4	yes
Italy	1980	-3.387	0.091	0.020	0	-2.8	yes
The Netherlands	1964	3.373	0.092	0.020	0	3.1	no
Germany	1980	-3.276	0.094	0.014	0	-2.4	yes
Denmark	1980	3.199	0.096	0.014	0	3.1	yes
Australia	1976	3.185	0.097	0.023	0.01	2.2	no
Belgium	1975	3.132	0.098	0.029	0	4.6	no

Note: Studentized residuals were computed by OLS estimation of error correction model presented in column (1) of Table 1. The Bonferroni-corrected p-value was computed by the Bonferroni outlier test. Robust weight was computed by using a robust regression (iteratively reweighted least square).

APPENDIX 3: Estimated effects of government partisanship on welfare spending (% GDP)

Period	change to Left government		change to Right government	
	short-run	long-run	short-run	long-run
75-89			-0.31	-1.99
76-90			-0.41	-1.88
77-91			-0.33	-1.16
78-92				
79-93				
80-94	0.43	1.40		
81-95	0.46	1.61	-0.55	-1.21
82-96	0.66	2.03	-0.63	-1.27
83-97	0.45	1.81	-0.46	-1.10
84-98			-0.61	-1.05
85-99			-0.58	-0.95

Note: Entries are estimated responses of welfare spending (in % GDP). Estimated effects were computed only for those fifteen-year windows which show statistically significant transitory *and* permanent effects of government partisanship.

[1] The countries included in our analysis are the usual suspects: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Sweden, the UK and the US. We did not include Switzerland on account of its tradition of coalition government including all major parties and we dropped New Zealand for lack of reliable data on union density.

[2] To minimize discrepancies between the two datasets, our measure of total welfare spending for 1980-98 excludes spending on active labor market programs.

[3] Huber and Stephens (2001b:221) attribute the narrowing of partisan differences in the 1980s to the realization that "sea changes in the world economy" left governments with "dramatically fewer options," but they do not develop this line of argument, and globalization does not figure as a variable in their empirical analysis of change in partisan effects (2001a:212-219).

[4] We develop this argument further in Kwon and Pontusson (2005).

[5] See McCarty, Poole and Rosenthal (2004) on the relationship between rising income inequality and the partisan polarization in the US.

[6] The Levin-Lin-Chu test for unit roots (an augmented Dickey-Fuller test for pooled data) yields no evidence of non-stationarity in our dependent variable (transformed t-statistic = -9.813, $p<0.000$). It should also be noted that the Langrage Multiplier test allows us to reject the null hypothesis of serially correlated errors (test results available upon request).

[7] Our empirical findings are not sensitive to the choice of a fixed effects model or a random effects model. However, the Hausman specification test suggests that random effects are correlated with covariates, violating a key assumption of random effects models (results available upon request).

[8] Appendix 2 lists the 12 country-years that were deleted. Accounting for 1.9% of our total observations, all of these observations and no other observations had studentized residuals greater than 3 and were weighted at less than .02 in robust regression. 6 of the 12 outliers correspond to documented breaks in the social spending data series.

[9] In fact, our estimates of the effects of Left cabinet share are not significantly affected by controlling for Christian Democratic cabinet share.

[10] Datasets based on these alternative measures of government partisanship are available on the websites of Tom Cusack (www.wz-berlin.de/mp/ism/people/cusack.en.htm) and Robert Franzese (http://www-personal.umich.edu/~franzese).

[11] See Appendix 1 for a complete list of variables and data sources.

[12] With growth of social-spending-per-capita as the dependent variable, Kwon and Pontusson (2002) report strong positive coefficients for GDP growth.

[13] Kwon and Pontusson (2005) report a statistically significant curvilinear (hump-shaped) relationship between union density and growth of social spending. For our present purposes, suffice it to note that this alternative model specification does not change the effects of government partisanship or any of the other independent variables.

[14] See Rueda and Pontusson (2005) for a preliminary stab at this question, drawing on data from the comparative party manifesto project.

[15] The change in government partisanship being simulated here corresponds to a switch from Labour to Conservative government (or vice-versa) in the UK. Needless to say perhaps, changes in the partisan composition of government tend to be less dramatic in countries with proportional representation, multiple parties, and traditions of coalition government. In particular, non-Left governments have rarely been "pure" Right governments in continental Europe and the Nordic countries over the time period covered by our analysis.

[16] The results reported in Table 3 are based on models that include an interaction term for change in partisanship and change in the X variables. Several of these interaction terms have statistically significant effects and these effects are invariably consistent with the following discussion.

[17] The conditional effect of partisanship (P) at a given level of X is the sum of the coefficient for partisanship and the coefficient for the interaction term P*X multiplied by X (see, e.g., Friedrich 1982).

[18] To take account of the potential endogeneity of social spending levels, we estimated an instrumental variable (IV) model, using the dependency ratio and deindustrialization as instruments. Available upon request, the IV estimates are qualitatively identical with the OLS estimates reported in Table 3. The Wu-Hausman test of endogeneity of the regressor shows that we cannot reject the null hypothesis of the exogeneity of the regressor (p-value = 0.702 and 0.498, respectively), suggesting that the OLS estimates are valid. On the other hand, it should be noted that replicating this exercise with Cusack's expert-based "CABCOG" measure of government partisanship does not yield any statistically significant coefficients. (Using Cusack's measure does yield interaction effects that are very similar to those reported in Table 2).

Total public spending, OECD countries, 2008. Note: Figures refer to general government total outlays. Source: Annex 25 of OECD, Economic Outlook No. 85, June 2009 (www.oecd.org/oecdEconomicOutlook). spending after a recession could be masked by the fall in cyclical spending. Conversely, the rise in cyclical spending during recessions could potentially crowd out other programmes, particularly public investment. In 1992 the system was reformed to give the government greater power to manage aggregate public spending in a 'top-down' way. Each year's government spending forecasts included, in addition to the control total, other items such as the cyclical component of social security, central government debt interest payments, and various accounting adjustments. Patterns of Public Pension Reform in OECD Countries," European Review, 8:353–378.Crossref Google Scholar. Huber, E., C. Ragin and J. D. Stephens (1993) "Social Democracy, Christian Democracy, Constitutional Structure, and the Welfare State," American Journal of Sociology, 99:711–749.Crossref Google Scholar. The Scope of Government (Beliefs in Government Vol. 3). Oxford: Oxford University Press, pp. 198–233.Google Scholar. Picot, G. (2008) Politics of Segmentation: Party Competition and Unemployment Compensation in Italy and Germany. Milano (Diss.).Google Scholar. These differences in the valuation of spending categories were also found in earlier studies (cf. Pettersen 1995: pp. 212–214). How does government spending vary across the world? What do countries spend public money on? See global and country-level data on government spending, public benefits and redistribution of resources. The steep growth of social spending in the second half of the 20th century was largely driven by the expansion of public funding for healthcare and education. Click to open interactive version. Recent data on the size of governments. How different are countries in terms of central government involvement in the economy? Generally speaking, the part of public procurement that does not fall within the category of gross fixed capital formation (e.g. building new roads), is referred to as 'outsourcing', or 'contracting-out'. This form of procurement often relies on short-term contracts.