COALITIONS AND COMPENSATION: THE CASE OF UNEMPLOYMENT BENEFIT DURATION

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FORTHCOMING IN *COMPARATIVE POLITICAL STUDIES*

In the 1990s and 2000s, most of the world's rich democracies adopted labor market reforms that put more pressure on the unemployed to look for jobs. Some governments complemented these "demanding" reforms with "enabling" policies that were meant to ease the transition from unemployment to paid employment. Other governments did not. We present a political explanation for this variation in the composition of labor market reform packages.[1]

We argue that coalition governments are more likely than single-party governments to combine "demanding" reforms with "enabling" policies since coalition governments have stronger incentives to compensate groups that oppose demanding reforms: coalitions are made up of parties that need to proceed with caution when they introduce controversial reforms; parties that are strong enough to form single-party governments, by contrast, are less susceptible to pressure and more interested in appealing to a broader, more centrist electoral base.

To test these ideas, we examine a particular combination of labor market reforms: on the one hand, cuts in the duration of unemployment benefits (one of the most common "demanding" reforms in the 1990s and 2000s); on the other hand, the introduction or expansion of labor market training programs (the most straightforward compensation mechanism when benefit duration is reduced). We examine the effects of twenty-five structural labor market reforms that resulted in a reduction of the effective duration of unemployment benefit payments, showing, on the basis of new data, that coalition governments have

We are grateful to Per Andersson, Pablo Beramendi, Thomas Brambor, Hanna Bäck, Axel Cronert, Daniel Fredriksson, David Rueda, three anonymous reviewers, and the editors of CPS for helpful comments and advice. We are also grateful to Susan Divald, Jannis Pähler vor der Holte, Shefali Virkar, and Anna Wilson for excellent research assistance. We acknowledge generous financial support from the European Research Council (Starting Grant No. 284313). The first version of the reform dataset was funded by the British Academy and the Helge Ax:son Johnson Foundation.

[1]On "demanding" and "enabling" policies, see Eichhorst et al. (2008). Martin (2004) writes of "sticks" and "carrots." Dingeldey (2007) prefers the terms "workfare" and "enablement." Weishaupt (2011) distinguishes between "negative" and "positive" work incentives. The idea is the same.

indeed combined cuts in benefit duration with increased spending on labor market training; under single-party governments, by contrast, training spending has typically been *reduced* after duration reforms.

Section 1 develops the theoretical argument about party systems, party competition, and coalition bargaining that informs our empirical analyses. Section 2 introduces our duration reform data. Section 3 presents descriptive evidence on the relationship between duration reforms and training spending. The statistical analysis in Section 4 demonstrates that our main findings are robust to a range of statistical checks, and shows, furthermore, that coalition governments are more likely than single-party governments to combine duration reforms with higher unemployment benefit replacement rates and more generous social assistance benefits. Section 5 discusses a few illustrative cases. Section 6 concludes.

1. Reform Packages: A Political Explanation

Training As Compensation. After the deep economic downturns of the mid-1970s, early 1980s, and early 1990s, the rich democracies were confronted with a difficult economic and social problem: high and persistent unemployment. According to an influential literature in labor economics, the persistence of mass unemployment was caused – at least in part – by labor market institutions. Most importantly, for our purposes, labor economists have long argued that an unlimited or very long duration of unemployment benefit entitlements increases non-cyclical unemployment, at least if unemployment benefits are not coupled with strong job-search requirements (Bassanini and Duval 2006; Fredriksson and Holmlund 2006; Layard, Nickell, and Jackman 1991; Nickell and Layard 1999). Generous unemployment insurance as such does not necessarily increase non-cyclical unemployment – "[w]hile there is a trade-off between efficiency and insurance," Blanchard 2006, 45 notes, "the experience of the successful European countries suggests it need not be very steep" – but it seems important to get the *design* of the unemployment benefit system right. In any event, that has been the premise of many of the cuts in unemployment benefit duration that governments have made since the 1980s: academic economists, international economic organizations, and many, if not most, national governments have favored reforms that involve a reduction of effective unemployment benefit duration, pushing the unemployed to look for, and accept, new jobs.

Such reforms are politically contested. Even if "demanding" reforms might reduce structural unemployment, as the labor economics literature suggests, they are not Pareto-efficient: at least for some groups, the costs exceed the benefits. It is clearly in the interest of those who are already unemployed to keep long-term benefits in place. But it is also in the interest of workers who face a significant risk of unemployment, at least if they expect that new good jobs will be hard to find. The rich democracies are currently undergoing a transformation from industrial to service-based, or post-industrial, economies (Emmenegger et al. 2012; Esping-Andersen 1999; Iversen and Wren 1998; Oesch 2006; Wren 2013). High-skilled professionals in sectors such as medicine, finance, and engineering have become more numerous, but mid-level jobs, especially in manufacturing, are disappearing. Many workers who lose their jobs are unlikely to join the high-skilled professional class. They are therefore left with an unappealing choice between long-term unemployment on the one hand and low-wage service-sector employment on the other (Iversen and Cusack 2000, 314), and since low-skilled service-sector employment is often connected with economic, social, and political "outsiderness" (Oesch and Rodrígues Menés 2011; Rueda 2007), workers who face a high risk of unemployment – and the unemployed – have perfectly good reasons to hold on to long-term benefits, no matter what effects those benefits have on structural unemployment.

Ultimately, however, the policy preferences of those who are harmed by a reform, whom we will call "losers from reform," depend on whether these groups are compensated through some other policy change, coupled with the main reform and mitigating its effects. In the case before us – cuts in benefit duration – the most straightforward compensation mechanism is to combine cuts in benefit duration with investments in high-quality training programs that help the unemployed to improve their skills and find new, good jobs (Dingeldey 2007; Martin 2004; Torfing 1999). If cuts in benefit duration are combined with such "enabling" policies, the groups that are most vulnerable to unemployment are less adversely affected than they would otherwise be.

The combination of cuts in benefit duration and increases in spending on public training programs is the main type of policy package that we consider in this paper, but at the end of Section 4, we consider two additional forms of compensation: on the one hand, an increase in the generosity of unemployment insurance payments in the short term; on the other hand, an increase in the generosity of the means-tested social assistance benefits that are available to those who do not qualify for unemployment insurance benefits.[2]

Parties, Coalitions, and Reform Packages. We argue in this paper that coalition governments are more likely than single-party governments to combine "demanding" reforms with "enabling" policies. We also argue

[2]The reason that we are concentrating on training spending, as opposed to *overall* spending on labor market policies, is that – as Vlandas (2013) and others have recently shown – spending on different forms of labor market programs are often driven by different political influences, and we wish to analyze separately the kinds of active labor market programs that are best-suited to compensate laid-off workers, or workers who risk unemployment, for a cut in the duration of their benefit entitlements.

that the type of government – coalition or single-party – matters more than the government's ideological orientation.

These claims are based on the assumption that governments in the 1980s, 1990s, and 2000s had strong incentives to introduce "demanding" reforms. We believe that this assumption is justified for two reasons. The first is the growing international consensus on the desirability of labor market reforms that we have just described. The second is that there was a shift in the electoral landscape in this period: although a large literature in political science and sociology has argued that welfare state retrenchment is politically risky (Pierson 2001), recent research suggests that voters do not always defend existing social policies, especially if those policies are perceived as costly and inefficient (Cox 2001; Giger and Nelson 2011, 2013). When it comes to labor market policy in particular, it appears that labor market insiders – a large proportion of the electorate in the rich democracies – have become less supportive of generous benefits for the unemployed (Rueda 2007), and, as Svallfors (2011) notes, there has been a noticeable decline in the support for public spending on labor market policies in most rich democracies, even in countries where the welfare state is very popular.

Why, then, do some governments compensate "losers from reform," when other governments do not? We argue, in essence, that consensual policymaking is a sign that all parties in the party system are relatively weak (Crombez 1996): the position of coalition governments made up of several parties is more precarious than the position of single-party governments (which are formed by strong and centrally located parties), forcing coalition governments to be be more cautious, and to build a broader base of political support for the policies they adopt.

We now proceed to discuss single-party majority governments, single-party minority governments, and coalition governments separately. We base our arguments on the comparative politics literature on coalition politics and government formation – especially on theories about the bargaining power of parties, and the incentives that they face when they form governments (Crombez 1996; Laver and Shepsle 1996; Strøm 1984, 1990).

The case of single-party majority governments – which are common in Westminster-style democracies where first-past-the-post electoral systems normally generate stable majorities for single parties (Lijphart 1999; Rae 1967) – is straightforward: broad, encompassing compromises are unnecessary when a single party controls a parliamentary majority on its own. As we argue in more detail below, we believe that this argument holds for all single-party governments, regardless of ideology. Social democratic single-party governments might have been expected to protect the interests of the unemployed and those who face a high risk of unemployment, but in the period that we consider here, social democratic parties have faced an "insider-outsider dilemma" (Lindvall and Rueda 2014): they have had to choose between appealing to labor market "insiders" and labor market "outsiders," and large social democratic parties aspiring to form single-party majority governments have had strong incentives to follow a median-voter logic, appealing to the more numerous labor market insiders.

We turn next to the case of single-party *minority* governments. Scholars of government formation have based their arguments about minority governments on the concepts of "strong" parties (Laver and Shepsle 1996) and "core" parties (Schofield 1993). In this vein, Crombez (1996) argues that parties are able to form single-party minority governments precisely because the are so strong that no party or coalition can replace them: even if all other parties were to gang up on a centrally located party, the resulting policy would still be close to that party's ideal point. Crombez also shows empirically that minority governments tend to be formed by such large, centrally located parties (see also Herman and Pope 1973 and Mitchell and Nyblade 2008). By the same logic, strong and centrally located parties are often able to find support for their ideal policy in parliament. Consequently, we expect fewer balanced reform packages under *all* single-party governments, whether they command a majority or not.

When parties that are not sufficiently large and centrally located to act unilaterally want to propose a government or introduce new legislation, they depend on the support of others. This is why coalitions are formed. We believe that three different mechanisms make balanced policy proposals likely under coalition governments.

First of all, coalition governments have strong incentives to proceed in a more cautious and inclusive manner than single-party governments exactly because the parties that form coalitions tend to be less powerful. The parties in a coalition need to insure themselves against challengers by building broad political support for their policies – sometimes by forming "oversized coalitions" (that is, by including more parties than what is necessary to command a parliamentary majority; see Crombez 1996). Coalition governments are therefore more likely to propose accommodating and balanced reform packages.

Second, we know from the recent literature on policy concertation and social pacts that coalition governments are significantly more likely than single-party governments to seek wider support for potentially controversial policy reforms by engaging in negotiations with interest organizations – especially trade unions and employer organizations (Anthonsen and Lindvall 2009; Baccaro and Simoni 2008; Hamann and Kelly 2007). In other words, coalition governments are not only more likely to seek consensus among parties in the legislature; they are also more likely to seek a broader social consensus. This tendency also makes balanced reform packages more likely.

Third, and finally, coalition governments are typically made up of parties with different political leanings – some more favorable to social rights and high levels of social spending, some less so. The ideological diversity within most coalition governments makes it more likely that the interests of losers from reform are taken into account, especially if small left-wing parties are included in the coalition (unlike large and centrally located left-wing parties, for whom the median-voter logic dominates, relatively weak left-wing parties have incentives to protect the interests of vulnerable labor market groups).

To sum up, powerful parties that are able to form single-party governments do not have incentives to compensate losers from reform, but parties that rely on the support of others, and hence form coalitions, need to be more cautious and circumspect. Using Laver and Shepsle's terms (Laver and Shepsle 2000), the "big beasts of the jungle" do not have to compromise and are mainly concerned about maintaining their strong median position. Smaller "munchkins," on the other hand, worry about dislodging the precarious political equilibria that keep them in office, and therefore pay more attention to diverse interests.

Related Literature. Our argument is related most directly to that of Iversen and Soskice (2011), who provide a general analysis of how electoral systems and party systems have influenced government responses to deindustrialization. Iversen and Soskice argue that in recent decades, a conflict of interest has emerged between skilled and semi-skilled workers over spending on transfers and active labor market programs. They go on to argue that this conflict of interest has had different effects in different political systems: whereas semi-skilled workers have become politically marginalized in majoritarian systems and proportional representation systems with strong Christian democratic parties, governments in PR countries where ruling coalitions have included parties that represent the interests of low-income groups have responded to deindustrialization by providing compensation through transfer schemes and active labor market programs. Our paper asks a different research question (we examine policy packages, not how training spending responds to common shocks), and we use different data and different methods, but the underlying logic of our argument is similar to Iversen and Soskice's: we treat training spending as a compensation mechanism, as Iversen and Soskice do for overall active labor market policy spending, and we argue, as Iversen and Soskice do, that political variables – in our case the type of government – matter greatly to whether losers are compensated. Iversen and Soskice (2011) observe that in majoritarian systems, not even left-wing parties provide compensation for losers from reform, since they are mainly concerned with winning the support of the median voter. As we explain above, we extend this type of argument to all single-party governments, including those in PR systems.

Our argument about how reforms of unemployment benefit duration can be combined with investments in training programs is related to Cathie Jo Martin's work on the "reinvention" of welfare regimes (2004, 43–44). Our general argument about how coalition governments compose policy broad packages to build support for reform is inspired by several recent studies, including Häusermann (2010) (which argues that resistance to "modernizing" welfare state reforms can be overcome if governments build "reform coalitions" by creating broad policy packages), Crepaz (1998) and Birchfield and Crepaz (1998) (which argue that "collective veto points," such as multi-party governments, are associated with more generous welfare states and less income inequality, arguably because coalition governments use social policy to compensate losers), and Lindvall (2010b) (which argues that controversial policy reforms are entirely possible in multi-veto-player systems if "losers" can be sure that they are compensated – which presumably explains why "demanding" labor market reforms do happen in a wide variety of political systems, even if one might have expected them to be rare in countries with many "veto players"; see Tsebelis 2002 and Becher 2009).

2. Data

Our empirical analyses are based on new data on reforms of unemployment benefit duration in twenty-five affluent democracies (Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovakia, Spain, Sweden, Switzerland, the United Kingdom, and the United States) over a period of twenty-four years (1985–2008). We left out reforms that occurred after 2008 since they are likely to be influenced greatly by the financial and economic crisis that began in the autumn of 2008, and not intended to tackle the problem of structural unemployment (OECD 2009a,b). We start in 1985 since the OECD's training spending data do not go back any further. Since the "activation turn" in labor market policy is commonly understood to have begun in the late 1980s or early 1990s (Bonoli 2010; Hemerijck 2012; Lindvall 2010a; Morel, Palier, and Palme 2012; Weishaupt 2011), our study nevertheless encompasses the period that is most relevant for testing the ideas that we developed in Section 1.[3]

[3] As an empirical matter, the only duration reforms that occurred in the countries in our dataset in the 1980s were adopted in the United States in 1980 and 1981. Since no training spending data are available for the first half of the 1980s, we have not been able to determine if these reforms were followed by an expansion of

We analyze the effects of all reforms that resulted in an effective reduction of the duration of unemployment benefit payments. Four types of reforms are included in the dataset: (a) a reduction of the statutory maximum duration of benefit payments, (b) a gradual reduction of benefit levels over time, (c) a reduction of the length of the "passive" period (a period of limited requirements to be "actively looking for work"), and (d) an introduction of limits to (or the abolition of) the possibility of re-qualifying for benefits through participation in active labor market policy programs. The reason for concentrating on these particular categories of reforms is that they are functionally equivalent in that they are meant to minimize the moral hazard problem associated with social insurance by increasing the incentives of the unemployed to start looking for new jobs early (Fredriksson and Holmlund 2006). We concentrate on structural reforms that reduce the effective duration of benefits for all or the vast majority of all claimants. We do not consider marginal reforms that only reduce the maximum duration for some claimants (such as older workers or citizens below the age of 25).

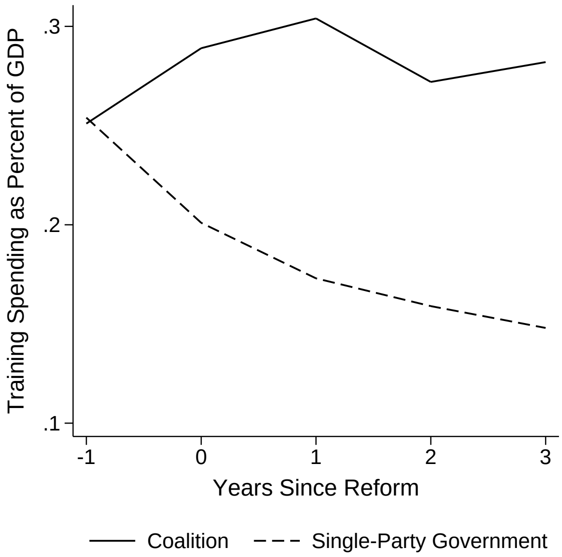
Our analyses are primarily concerned with reforms of unemployment insurance schemes, but we include a few reforms of unemployment assistance schemes in countries where these are the main benefit schemes for the unemployed. Australia and New Zealand do not operate insurance schemes, and the United Kingdom has a homogenous benefit system where benefit levels are linked to inflation, not earnings (Clasen 2011, 20). We are aware that insurance schemes are but one of several types of benefit schemes for working-age persons without employment (Kvist 1998; Pfeifer 2012). Cuts in the duration of insurance payments may therefore simply channel claimants into other schemes (such as social assistance or early retirement programs). But we are not primarily interested in the effects of reforms; we are interested in the politics behind them. As reforms of social insurance schemes should be more controversial than reforms of assistance schemes, they are a better test case for our purposes.

3. Descriptive Evidence

For a first look at the evidence, see Figure 1, which describes the average level of spending on training programs before and after the adoption of reforms involving cuts in the duration of unemployment benefits in countries where reforms were adopted by coalition governments and in countries where reforms were adopted by single-party governments (year of reform = 0). The data on types of government

labor market training schemes, or, as we would expect, no such decline. However, as O'Connor (1998) argues, reducing the welfare state budget was one of the core motives behind President Reagan's welfare state reforms at the time, and expenditure on education and training was cut more than any other item in the budget (O'Connor 1998, 50).

FIGURE 1. Spending on Training Programs After Reforms



Note: The figure describes the average level of spending on training programs in countries where duration reforms were adopted, before and after reforms (year of reform = 0), by type of government.

come from Armingeon et al. (2012). The data on training program spending come from the OECD's *Social Expenditure Database* (2012).

The figure provides preliminary descriptive evidence for the pattern that we expect. In year -1 (the year before reform), countries where reforms were adopted by coalition governments and countries where reforms were adopted by single-party governments had almost identical average levels of labor market training spending (with approximately 0.25 percent of GDP going to such programs in a typical country). But whereas spending tended to decrease where reforms were adopted by single-party governments, training spending tended to increase in years 0 and 1 where reforms were adopted by coalition governments, stabilizing at a significantly higher level than in countries where reforms were adopted by single-party governments (and at a higher level than in countries and periods where no reforms were adopted).

It is important to consider, when examining these trends, that for much of the period that we are studying, average training spending *fell* in the rich democracies: in our sample, average spending on labor market training was approximately 0.27 percent of GDP in the early 1990s, but only 0.15 percent of GDP in 2008. This makes the increase in training spending after reforms introduced by coalition governments all the more striking.

Table 1. Reforms Included in Analysis

Country	Year	Government	Largest Gov. Party	Training$_{t-1}$	Training$_t$	Training$_{t+1}$
Australia	1994	Single-Party	Left	0.15	0.15	0.13
Australia	2005	Coalition	Center/Right	0.01	0.01	0.01
Canada	1996	Single-Party	Center/Right	0.25	0.17	0.12
Denmark	1993	Coalition	Center/Right	0.38	0.51	0.47
Denmark	1995	Coalition	Center/Right	0.47	0.69	0.85
Denmark	1998	Coalition	Center/Right	0.68	0.74	0.84
Finland	1993	Coalition	Center/Right	0.47	0.52	0.53
France	1992	Coalition	Left	0.38	0.42	0.48
France	2001	Coalition	Left	0.37	0.33	0.29
Germany	2003	Coalition	Left	0.55	0.46	0.38
Hungary	1999	Coalition	Center/Right	0.07	0.07	0.07
Hungary	2005	Coalition	Center/Right	0.05	0.04	0.06
Netherlands	2006	Coalition	Center/Right	0.12	0.11	0.10
Norway	1997	Single-Party	Center/Right	0.48	0.40	0.36
Norway	2003	Coalition	Center/Right	0.38	0.43	0.40
Portugal	2006	Single-Party	Left	0.28	0.25	0.19
Slovakia	1999	Coalition	Center/Right	0.02	0.01	0.00
Slovakia	2003	Coalition	Center/Right	0.04	0.02	0.01
Spain	1992	Single-Party	Left	0.21	0.17	0.15
Sweden	2000	Single-Party	Left	0.89	0.64	0.58
Sweden	2006	Coalition	Center/Right	0.20	0.21	0.11
Switzerland	2002	Coalition	Center/Right	0.16	0.21	0.28
United Kingdom	1995	Single-Party	Center/Right	0.12	0.09	0.07
United Kingdom	2001	Single-Party	Left	0.04	0.02	0.02
United States	1992	Single-Party	Center/Right	0.09	0.08	0.08

For more detailed evidence concerning the relationship between government types, reforms, and training spending, see Table 1. This table provides, for each reform included in our analyses, summary information about the type of government that was in office at the time of reform (distinguishing between coalitions and single-party governments), the largest governing party (distinguishing between left-wing parties on the one hand and centrist and right-wing parties on the other), and the level of training spending in the year before the reform, the year of the reform, and the year after (that is, from $t-1$ to $t+1$). (A detailed description of the *content* of each reform can be found in the Appendix.)

It is immediately apparent that the pattern that we described in Figure 1 is not driven by a few individual cases: coalition governments are consistently more likely than single-party governments to increase training spending when they cut duration. A few coalition governments reduced training spending when they cut benefit duration (so that training spending at $t+1$ was lower than training spending at $t-1$). In particular, the Schröder government in Germany ("Hartz IV") and the center-right Reinfeldt government in Sweden (2006) made significant cuts (although it should be noted that Hartz IV was only implemented in 2005, and training spending did not fall further in Germany after the mid-2000s). But most of the coalition governments that cut benefit duration increased spending or kept it stable. The difference in comparison with single-party governments is stark: in *all* cases where reforms were introduced by single-party governments – regardless of whether governments were on the left or on the right – training spending was lower at $t+1$ than at $t-1$, often *much* lower.

As Table 1 shows, many of the single-party governments that implemented cuts in unemployment benefit duration and then reduced training spending were *left-wing* single-party governments, suggesting that the type of government mattered more to the composition of labor market reforms than the government's ideological orientation. Indeed, judging from the evidence in the table, single-party left-wing governments have reduced training spending the most in the wake of reforms. The evidence that we have on coalition governments that include left-wing parties, however, suggests that when left-wing parties form coalitions with *other* parties, the result is likely to be that duration reforms are coupled with increases in training spending (see, for instance, the three reforms in Denmark, the first reform in France, and the reform in Switzerland).

Why did left-wing single-party governments not use training spending to compensate the unemployed and workers that faced a high risk of unemployment when they cut back the duration of their unemployment benefit entitlements? To address this important question, we have summarized evidence about all left-wing parties that adopted duration reforms in Table 2. The findings lend clear support to the argument that we developed in Section 1: these social democratic parties are all large and powerful parties, putting them in a position from which they can dominate political decision-making even when they do not command a parliamentary majority. The fact that we observe this behavior among center-left parties makes the findings more compelling, since the "old school" partisan hypothesis (Häusermann, Picot, and Geering 2013, 224–226) would suggest that social democratic parties protect the interests of vulnerable groups in the labor market.

For each reform introduced under a left single-party government, Table 2 reports the current and average parliamentary seat shares of the governing left party and its main competitor, as well as the share of years in which the main left party has been the strongest party. The "main competitor" is either the strongest party or the next-strongest (if the left party was stronger). As the table shows, the left-wing parties that introduced duration reforms while governing alone were (a) strong parties, in terms of their average seat share throughout the period that our dataset covers; (b) generally stronger, in that period, than their main competitors (the exception being Portugal, where both of the main parties were about equally strong); and (c) the strongest party of all for most of the time (the exception being the United Kingdom). The overall means in the last row in the table refers to the means over all country-years. It becomes clear that the parties in the table were a lot larger than the average left-wing party, and that they have been the strongest party in their respective party system more often than the average left-wing party. In other words, all the left-wing parties that cut benefit duration when they held government alone, and then went on to *reduce* training spending, were either one of the two dominant parties in a majoritarian electoral system (as in the United Kingdom) or the dominant party in a PR system.

This all suggests that the best explanation for the pattern that emerges from Table 2 is that at least in the historical period that this paper is mainly concerned with – the 1990s and 2000s – large left-wing parties that sought to form single-party governments rather than entering into coalitions with other parties have not had an incentive to provide compensation to losers from reform: their main concern has been to win the support of the median voter, and the median voter has had other priorities (Iversen 2005, Chapter 4; Iversen and Soskice 2011). In other words, our findings reflect the median-voter-oriented "third way" politics that many large center-left parties pursued in the 1990s and 2000s (Picot 2009; Rueda 2007).

TABLE 2. Left-Wing Single-Party Governments that Reformed Benefit Duration

Country	Year	Largest Party	Electoral System	Main Left Party Av. Size	Main Left Party Curr. Size	Main Competitor Av. Size	Main Competitor Curr. Size	Share of Years with Left as Strongest Party
Australia	1994	Left	PR	48.7	54.4	39.3	33.3	0.59
Portugal	2006	Left	PR	38.5	52.6	39.1	32.6	0.53
Spain	1992	Left	PR	46.1	50	34.1	30.6	0.62
Sweden	2000	Left	PR	42.0	37.5	22.5	23.5	0.91
United Kingdom	2001	Left	SMD	47.1	62.5	43.6	25.2	0.38
Overall Mean				24.5		31.6		0.33

Notes: "Main Left Party" refers to the main and governing left party in each country; the "Main Competitor" is the either strongest or second strongest party in the party system; "Average Sizes" are measured as their average parliamentary seat share; "Current Sizes" are parliamentary seat shares at the time of reform; "Share of Years with Left as Strongest Party" is the share of years, out of all years in our dataset, when the governing left party was the strongest party in parliament. The averages are computed over all years between 1980 and 2011.

4. Statistical Analysis

Empirical Strategy. Although it is suggestive, the pattern described by Figure 1 and Table 1 is not in itself sufficient evidence that coalition governments behave differently than single-party governments, for there are several other factors that might plausibly explain the pattern: perhaps different kinds of governments adopt duration reforms in different circumstances, or at different points in time, with different underlying trends in training spending – or perhaps the evidence in Figure 1 merely reflects enduring differences among countries. Moreover, since labor market policy spending is expressed as a percentage of GDP, the pattern in Figure 1 could be an effect of slower growth in countries with a high proportion of coalition governments. To control for all these potentially confounding factors, we now proceed to a statistical analysis of public spending on training programs.

We estimate a regression model that includes one lag of training spending (the dependent variable), and one lag as well as the current level of all independent variables. This type of model is known in the literature as an "autoregressive distributed lag model." We estimate the model with ordinary least squares using panel-corrected standard errors (Beck and Katz 1995). Our main explanatory variables are *Reform* (a dummy variable identifying country-years in which structural duration reforms happened), *Coalition* (a dummy variable identifying country-years in which coalition governments were in power, corrected, for country-years when reforms occurred, to make sure that the coding refers to the government that adopted the reform), and a multiplicative interaction term, *Reform* $\times$ *Coalition* (a dummy variable identifying country-years in which reforms were adopted *and* coalition governments were in power).

As control variables, we include a measure of left-party cabinet seats from Armingeon et al. (2012) (to control for the possibility that left and right-wing governments have different labor market policy priorities; cf. Rueda 2006 and Huo, Nelson, and Stephens 2008), a measure of unemployment from the *World Economic Outlook* (via Teorell et al. 2012) (as a rough measure of the size of the target population of active labor market programs), measures of growth and GDP per capita from Heston, Summers, and Aten (2013) (since training spending is measured as a proportion of GDP, changes in the measure that we use might be influenced by growth or contractions), and a measure of government debt, also from Armingeon et al. (2012) (as a proxy for the government's fiscal room for maneuver; using a measure of deficits makes no difference to the results). We also include a time trend (to control for the decline in training spending between the mid-1990s and the present).

Apart from the fact that the autoregressive distributed lag model is a general dynamic regression model that is recommended in the contemporary methodological literature on the promises and pitfalls of panel data in political science (Beck and Katz 2011; De Boef and Keele 2008), we believe that this model is particularly suitable for our purposes since our theoretical argument does not make any strong predictions about the exact timing of spending cuts and spending increases in times of reform. Specifically, our theory does not say whether the expected effects on spending appear immediately (which would be reflected in an association between training spending at t and the reform variable and the coalition variable at t) or with a one-year lag (which would be reflected in an association between training spending at t and the reform variable and the coalition variable at $t-1$). By including both the current values of all variables (measured at t) and the lagged values (measured at $t-1$), our model allows us to estimate both immediate and delayed effects (Figure 1 leads us to expect both).

To facilitate the interpretation of the coefficients, we have rescaled the dependent variable – public expenditure on training – for the purposes of the statistical analyses (but not elsewhere in the paper): in Table 3, expenditure on training is expressed in tenths of percent (not percent).

Main Results. Table 3 reports the main results. The models in columns (1) and (2) are included to demonstrate that when we regress training spending on the reform indicator and the coalition indicator separately (controlling only for one lag of training spending and a time trend), neither variable appears to be related to the level of spending. When we include the interaction term in column (3), however, the expected pattern emerges: when coalition governments cut benefit duration, training spending increases; when single-party governments cut benefit duration, training spending decreases. The coefficients for the present and lagged values of the stand-alone *Reform* variable now describe the partial correlations between cuts in benefit duration and the level of training spending if the reform was introduced by a single-party government, and as the table shows, those correlations are *negative.* If a coalition government is in power, the relationship between reform and the level of training spending is captured by the sum of the present and lagged values of the *Reform* variable and the present and lagged values of the interaction term *Reform* × *Coalition.* These sums are *positive* (with most of the effect of coalition-initiated duration reforms appearing immediately, not with a delay) and different from zero ($p < 0.05$). We have more to say about the medium-term substantive effects of duration reforms below.

In models (4) and (5), we introduce the control variables – unemployment, debt, GDP per capita, growth, and the proportion of cabinet

TABLE 3. Reforms, Governments, and Labor Market Training, 25 Countries 1985–2008

	(1)	(2)	(3)	(4)	(5)	(6)
Reform	0.08		−0.58***	−0.55***	−0.58***	−0.49***
	(0.12)		(0.18)	(0.17)	(0.17)	(0.17)
Reform (L)	−0.03		−0.32*	−0.31*	−0.34*	−0.30*
	(0.12)		(0.18)	(0.17)	(0.17)	(0.17)
Coalition		0.12	0.07	0.08	0.05	−0.08
		(0.10)	(0.10)	(0.10)	(0.09)	(0.10)
Coalition (L)		−0.09	−0.11	−0.10	−0.04	−0.20*
		(0.10)	(0.10)	(0.10)	(0.09)	(0.10)
Reform × Coal.			0.96***	0.88***	0.89***	0.81***
			(0.23)	(0.23)	(0.23)	(0.23)
Reform × Coal. (L)			0.48**	0.49**	0.49**	0.50**
			(0.23)	(0.23)	(0.23)	(0.23)
Unemployment				−0.07***	−0.08***	−0.09***
				(0.03)	(0.03)	(0.03)
Unemployment (L)				0.08***	0.09***	0.09***
				(0.03)	(0.03)	(0.03)
Debt				1.06**	1.14**	1.56**
				(0.53)	(0.53)	(0.61)
Debt (L)				−1.20**	−1.27**	−1.37**
				(0.53)	(0.53)	(0.60)
GDP/Cap				−0.12	−0.12	−0.12
				(0.12)	(0.12)	(0.12)
GDP/Cap (L)				0.12	0.13	0.13
				(0.12)	(0.12)	(0.12)
Growth				0.01	0.00	0.01
				(0.03)	(0.03)	(0.03)
Growth (L)				−0.03**	−0.03**	−0.04**
				(0.01)	(0.01)	(0.02)
Left Cabinet Seats					−0.06	−0.09
					(0.13)	(0.13)
Left Cabinet Seats (L)					0.23*	0.18
					(0.12)	(0.12)
Time	−0.01***	−0.01	−0.01***	−0.01***	−0.02***	−0.01
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Training (L)	0.93***	0.94***	0.93***	0.93***	0.92***	0.83***
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.04)
Constant	0.24***	0.17***	0.27***	0.34**	0.24	0.72
	(0.05)	(0.06)	(0.06)	(0.16)	(0.16)	(0.68)
Fixed Effects	*No*	*No*	*No*	*No*	*No*	*Yes*
Observations	540	567	518	490	490	490
R^2	0.91	0.90	0.91	0.92	0.92	0.92

Panel-corrected standard errors in parentheses. Training spending is expressed in tenths of one percent.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

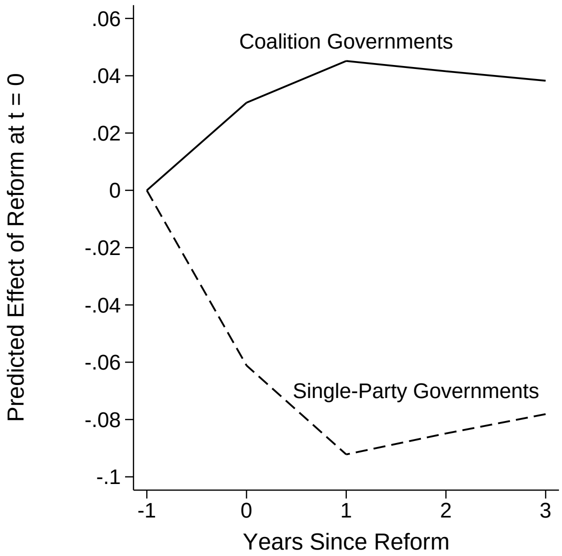
seats that are held by left-wing parties. The inclusion of these controls makes no substantive difference to the results (the estimated coefficients for the main variables are virtually identical).

The structure of the dataset, with 25 countries observed over 24 years (or in some cases less), makes this study a borderline case when it comes to combining a lagged dependent variable with fixed effects (that is, in our case, controlling for unit-level heterogeneity by including a dummy for each country). As noted by Nickell (1981), combining fixed effects with a dynamic specification leads to bias, but as noted by Nickell himself, by Beck and Katz (2011, 342), and by many others, the bias is decreasing in T (the number of periods, in our case years, under observation). Beck and Katz suggest that when T is 20 or higher, the bias is small. Mindful of the fact that in our case T is just above 20, we present fixed-effects estimates in column (6). The magnitudes of the coefficients are virtually identical.

So far, we have only discussed the raw coefficients, but in dynamic panel-data models – such as the models that we have estimated here – the raw coefficients only tell us what the *immediate* impact of a one-unit change in a variable is: the coefficient for the *Reform* variable tells us about the expected immediate effect on training spending of a reform adopted by a single-party government, and the sum of the coefficients for the *Reform* variable and the *Reform* $\times$ *Coalition* interaction term tells us about the expected immediate effect on training spending of a reform adopted by a coalition government. But our argument is not merely concerned with the immediate effect: the sorts of political bargains that we describe in Section 1 are typically implemented over many years. Moreover, the spending patterns that we described in Section 3 suggest that reforms adopted by different types of governments have in fact been associated with enduring differences in training spending. It is therefore important to consider what the model tells us about post-duration-reform spending over a period of more than one year.

Since the main variable of interest – our indicator of duration reforms – takes the value 1 when a reform is undertaken and then goes back to 0 in the year after, the appropriate way to calculate the expected effect of a reform on the level of spending over a period of several years is to use the estimated coefficients from one of our models (we have chosen model 5) to calculate the "impulse response function" for the spending variable, taking into account that our model includes one lag of all independent variables and of the dependent variable. On the basis of this calculation, Figure 2 describes the expected change in training spending after an unemployment benefit duration reform, relative to a scenario with no reform, depending, as before, on the type of government that implemented the reform.

Figure 2. Expected Spending Changes After Reforms



Note: The figure describes the expected changes in spending on training programs (in percent) in countries where duration reforms were adopted, before and after reforms (year of reform = 0), by type of government, based on model (5) in Table 3.

Figure 2 shows clearly that training spending (now expressed in percentage points) tends to decrease after duration reforms adopted by single-party governments and increase after duration reforms adopted by coalition governments. Since the range of the training spending variable is 0–1.06 percent and the mean is 0.2, the estimated effects (in year 1, the effects are -0.09 for single-party governments and $+0.05$ for coalition governments) are large: on the basis of these results, a coalition government that cuts benefit duration can be expected to increase training spending significantly (relative to a similar government that does not adopt a reform); a single-party government that adopts the same type of reform can be expected to reduce training spending significantly. The fact that the estimated pattern in Figure 2 is so similar to the descriptive pattern in Figure 1 strongly suggests that these relationships between reforms, types of governments, and spending on training programs are robust to the conservative statistical tests that we performed and that our model specification – including lags of both the dependent and the independent variables – is appropriate for the data that we use.[4]

Other Forms of Compensation. Thus far, we have concentrated exclusively on one particular form of compensation: higher public spending on labor market training programs as a compensation mechanism for those who are adversely affected by a cut in benefit duration. But there are many possible ways to compensate groups who are adversely affected by a reform. We now consider two of the main alternatives: increasing the generosity of unemployment insurance payments in the short term and increasing the generosity of means-tested social assistance benefits (which are available to those who do not qualify or no longer qualify for unemployment benefits; see Kvist 1998). Our measure of unemployment benefit generosity is the average net unemployment benefit replacement rate that is provided by the *Comparative Welfare Entitlements Dataset* (Scruggs, Jahn, and Kuitto 2014) (we compute the average of the replacement rates for singles and couples with two children). Our measure of the generosity of unemployment assistance benefits is calculated on the basis of data from Nelson's (2010) *Social Assistance and Minimum Income Protection Dataset*; we use OECD data on average wages to compute a "quasi-replacement rate."[5]

We estimate four models that correspond to the fully specified models in Table 3 – models (5) and (6) – using the two measures of benefit generosity as dependent variables. The dependent variables are expressed in percentages. The results, which are presented in Table 4, are very similar to the results in Table 3. The coefficients for the lagged, stand-alone reform dummies – *Reform* and $Reform_{t-1}$ – are negative, suggesting that when reforms are adopted by single-party governments, the generosity of unemployment insurance payments and social assistance payments tends to decrease over time. But the coefficients for the lagged interaction terms – $Reform \times Coalition_{t-1}$ – are positive in both models, and larger in absolute terms than the coefficients for the stand-alone reform indicators, suggesting that when reforms are adopted by coalition governments, the generosity of unemployment insurance payments and social assistance payments tends to increase, relative to the

[4]If we had included no lags, the impulse response function would have reached its maximum (for coalition governments) and minimum (for single-party governments) in year 0 and then it would have fallen over time. Instead, Figure 2 comes closer to the pattern that we actually observe in the data: a significant increase/decrease in year 0, a further increase/decrease in year 1, and not much further change in years 2 and 3.

[5]The exact definition is the average of social assistance and other benefits (less housing supplements) for a lone parent and a two-parent family with two children divided by the average wage.

Table 4. Other Compensation Mechanisms

	UI Replacement Rate		SA Replacement Rate	
	(7)	(8)	(9)	(10)
Reform	0.15	0.35	−0.65	−0.35
	(0.48)	(0.40)	(0.80)	(0.76)
Reform (L)	−0.67	−0.40	−1.84**	−1.63**
	(0.44)	(0.37)	(0.82)	(0.76)
Coalition	−1.51***	−1.95***	−0.46	−0.85
	(0.44)	(0.44)	(1.10)	(1.15)
Coalition (L)	1.61***	0.80*	0.54	0.76
	(0.45)	(0.44)	(1.09)	(1.17)
Reform × Coal.	0.19	0.14	0.08	−0.25
	(0.81)	(0.77)	(1.03)	(1.02)
Reform × Coal. (L)	1.53*	1.52**	3.82***	3.45***
	(0.79)	(0.76)	(1.04)	(1.04)
Unemployment	−0.21*	−0.24*	−0.50*	−0.51*
	(0.13)	(0.12)	(0.27)	(0.29)
Unemployment (L)	0.12	0.10	0.37	0.31
	(0.12)	(0.13)	(0.26)	(0.27)
Debt	0.77	2.03	3.09	1.94
	(2.26)	(2.47)	(3.29)	(3.60)
Debt (L)	−0.33	−0.88	−1.93	−1.21
	(2.25)	(2.36)	(3.39)	(3.67)
GDP/Cap	−0.61	−0.55	1.23	1.48
	(0.66)	(0.62)	(1.32)	(1.37)
GDP/Cap (L)	0.63	0.66	−1.27	−1.58
	(0.67)	(0.63)	(1.35)	(1.43)
Growth	0.09	0.11	−0.42	−0.55
	(0.20)	(0.19)	(0.38)	(0.43)
Growth (L)	−0.09*	−0.15***	−0.01	−0.11
	(0.06)	(0.06)	(0.09)	(0.10)
Left Cabinet Seats	−0.35	−0.40	0.14	0.06
	(0.49)	(0.48)	(1.06)	(1.04)
Left Cabinet Seats (L)	0.94*	0.67	0.17	0.50
	(0.48)	(0.46)	(1.08)	(1.00)
Time	−0.01	−0.07	0.00	0.01
	(0.01)	(0.04)	(0.03)	(0.08)
UI Replacement Rate (L)	0.97***	0.90***		
	(0.01)	(0.02)		
SA Replacement Rate (L)			0.92***	0.82***
			(0.02)	(0.04)
Constant	1.98***	5.32**	4.10**	11.71**
	(0.74)	(2.53)	(1.98)	(5.95)
Fixed Effects	*No*	*Yes*	*No*	*Yes*
Observations	507	507	386	386
R^2	0.97	0.97	0.93	0.94

Panel-corrected standard errors in parentheses.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

baseline scenario without a reform (the sums of the lagged reform indicators and the lagged interaction terms are statistically significant at conventional levels in models (8), (9), and (10)).

The main difference between the results in Table 4 and the results in Table 3 is that reforms do not have an *immediate* (negative or positive) effect on the generosity of unemployment insurance and social assistance benefits – the effect only begins to appear after one year (only the lagged reform indicator and the lagged interaction term have statistically significant coefficients), possibly because political decisions about replacement rates require statutory changes whereas political decisions about the allocation of resources to active labor market programs, such as training programs, can typically be made with greater speed. Another difference, relative to the main models, is that the dummies for reforms under single-party governments (*Reform* and $Reform_{t-1}$) are not significant in the two models of unemployment insurance replacement rates. In other words, reforms adopted by single-party governments do not result in a statistically significant reduction in replacement rates.

In sum, we find evidence of additional ways in which coalition governments compensate those who are adversely affected by reforms: not only public spending on labor market training, but also the generosity of short-term unemployment insurance benefits and social assistance benefits tend to increase in the wake of "demanding" labor market reforms, if those reforms are adopted by coalition governments.

5. Illustrative Cases

In this section, we briefly discuss a few individual reforms in order to demonstrate the relevance of our argument beyond the analysis of general patterns that we presented in Section 3 and Section 4.

First, we consider a series of reforms that were introduced by a coalition between a center-left party and several centrist liberal parties: the labor market reforms in *Denmark* in the 1990s. The Danish parliament reduced the duration of unemployment benefits in three steps. The first reform, in 1993, limited the maximum duration of unemployment benefits to seven years, abolished the right to re-qualify for unemployment benefits through participation in activation programs and made long-term unemployment benefit receipt conditional on activation measures. The two subsequent reforms, in 1995 and 1998, cut the maximum duration further, cut benefits to very low levels after six months of unemployment, and introduced tighter rules for older unemployed (Green-Pedersen 2002, 72). These reforms were clear-cut cases of compensation through the training system: the large increases in public spending on training programs were made explicitly to build support for the cuts in benefit duration – to make these reforms more appealing to the social democrats, and, importantly, to the powerful

Danish trade union movement, which was involved in the reform process through the public commission that prepared the reforms, years in advance of their actual implementation (Lindvall 2010a, 153–154).

For another example of a reform introduced by a coalition government that included left parties – in this case *only* left-parties – consider the 1992 reform of unemployment benefits in *France*, which was introduced to tackle the budget deficit in the unemployment insurance fund UNEDIC (*Union nationale interprofessionnelle pour l'emploi dans l'industrie et le commerce*). The reform, which was based on a bipartite agreement between the social partner organizations running UNEDIC, introduced a single, unified unemployment insurance benefit: the *Allocation Unique Degressive* (AUD). The new benefit was gradually lowered over the course of the unemployment spell. Moreover, the overall duration of benefit payments for claimants with shorter contribution records was cut (Clegg 2011, 38). The bipartite agreement was turned into law later the same year under a minority coalition headed by the Socialist Party (Ysmal 1993). As we showed in Table 1, public training spending in France increased following this reform, and the legislative records show that when the government's budget proposal for 1993 was introduced in 1992, in connection with the benefit reform, it included a 2.1 percent increase in labor market policy spending (Assemblée Nationale 1992). Opposition to the new law came from the political right (arguing that the new law did not go far enough) and from the Communists (who opposed the cuts in benefit duration).

We now turn to an example of a reform that was introduced by a *center-right* coalition government: the reform of the *Dutch* unemployment benefit system in 2006, which was adopted as the Netherlands was governed by a coalition between the Christian democratic party *Christen-Democratisch Appèl* and the right-wing liberal *Volkspartij voor Vrijheid en Democratie* (VVD). The two Dutch unemployment benefit regimes were merged into a single new benefit, which had a maximum duration of three years and two months (unlike the previous benefit system, which had a maximum duration of five years). As the data in Table 1 shows, this reform is one of the few examples of a reform that was adopted by a coalition government but was nevertheless followed by a reduction in training spending (albeit a very slight reduction). But it is a very clear example of a reform where the short-term replacement rate was increased in return for a cut in duration (from 70 to 75 percent in the first two months of unemployment) (Andeweg and Irwin 2009, 222; Sol et al. 2008, 176–182). The reform was preceded by negotiations with the social partners, through the corporatist institution SER, and with the main opposition party, the social democratic PvdA, which actually introduced the reform proposal in parliament in early 2006. In the parliamentary debates on February 7, 2006, representatives of one of the coalition partners, VVD, stated that it opposed the increase in replacement rates in the first two months, but accepted the package as a whole (Tweede Kamer 2006), demonstrating that this particular combination of "demanding" and "enabling" measures was a result of inter-party bargaining.

The case of *Spain* in 1992 illustrates how a determined single-party government can push through a controversial "demanding" reform in spite of resistance from within and outside parliament. The fact that this was done by a socialist (PSOE) government shows again that a party's position in the party system (see table 2 above) appears to matter more than ideology for whether losers from reform are compensated. The 1992 reform reduced the ratio of the duration of benefit payments to the claimant's previous employment record from 1:2 to 1:3, effectively reducing the duration of benefit payments by a third. Both the initial decree and the subsequent law were titled "emergency measures" (in response to a deep recession with high unemployment rates and rising budget deficits). Initially, the Socialist government attempted to reach a consensus with the social partners, but the trade union movement was still strongly opposed to the reform. When the negotiations failed, the government introduced the reform unilaterally as a government decree on April 3, 1992. The unions responded with a general strike, but the decree was still turned into a regular act of parliament two months later (Jefatura del Estado 1992b, Jefatura del Estado 1992a and Cortes Generales 1992, 9110). The reform effectively ended a period of concertation (*el giro social*) between the union movement and the government that had lasted since 1988 (Molina 2011, 84–85). No expansion of labor market training was included in the reform. Training and re-training policies were reformed the following year with the inception of the 1993 National Training Program (*Programa Nacional de Formación e Inserción Profesional*). But this reform was the result of an agreement between the social partners themselves in December 1992, and the government was only involved later. As we showed in Table 1, training spending fell in the years following the reform.

Our final example is a reform that was introduced by a right-wing single-party government. The passage of the "Jobeekers Act" (JSA) in the *United Kingdom* in 1995 is a good example of a "work-first" reform that introduced significant cuts while providing only very marginal compensation to those who lost out. It is also an example of how a single party in government – dominant due to the strictly majoritarian logic of the British political system – can retrench benefits without much opposition. The JSA reform introduced a number of changes in the unemployment compensation system (Finn and Schulte 2008, 305-6; see also Harris 2008). For the purposes of this paper, the most important change was the reduction of the overall duration of contribution-based benefits from one year to six months, leaving approximately a quarter of a million current claimants, as well as future claimants, worse off than before (Clasen 2005, 81). However, not much was done to compensate those who were hit by the reform: the reform extended the requirement to participate in training schemes when requested to all unemployed, but these training schemes were used as a threat, not as an instrument to actually improve skills (Rueda 2007, 174), and as we saw in Table 1, training spending fell after the reform.

6. Conclusions

The evidence that we present in this paper strongly suggests that where cuts in the duration of unemployment benefits were made by coalition governments, spending on training programs has tended to increase; where cuts in benefit duration were made by single-party governments, by contrast, spending on training programs has tended to fall. In other words, the evidence suggests that different kinds of governments opt for different combinations of "demanding" reforms (such as cuts in unemployment benefit duration) and "enabling" reforms (such as increased spending on active labor market training). Our interpretation of these results is that coalition governments use spending on training programs as a means of compensating losers from reform, since they have stronger incentives to do so. The ideas and evidence that we present in this paper lend strong support to an argument that was made powerfully by Häusermann, Picot, and Geering (2013): research on party politics and the welfare state must pay close attention to the role of the political context, especially to electoral institutions, party competition, and party systems. The paper demonstrates the value of applying theories developed in other areas of political science to questions about welfare state reforms in particular and political economy in general.

A natural extension of the analyses presented in this paper is to investigate how other kinds of "demanding" reforms, such as tougher benefit conditions and harsher sanctions, are balanced against other kinds of "enabling" measures, such as general education spending. But our theoretical argument is also potentially relevant for many other policy areas, not just for labor market policy. The ideas and evidence that we have presented here have important implications for how we analyze the relationship between on the one hand political institutions and on the other hand the ability of governments to resolve distributional conflicts, building support for potentially controversial policy reforms. We believe that compensation is a key mechanism in the politics of reform across policy domains. Our paper shows how governments have used a specific compensation mechanism to build support for a specific type of reform. It should be possible to conduct similar analyses of reforms in other areas. Long ago, Hicks (1939) wrote, in his seminal paper on welfare economics, that the main advantage of the approach that he proposed was that it “fixes attention upon the question of compensation,” and he suggested that we should “accustom ourselves, whenever we can, to thinking of every economic reform in close conjunction with some measure of compensation,” not because compensation is always morally required, but because thinking about the possibility of compensation helps us to better understand the welfare effects of economic reforms. We suspect that thinking of reforms “in close conjunction with the possibility of compensation” – asking when governments are in a position to offer it and when they are they not – also helps us to better understand the politics of reform.

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