GLOBAL ECONOMICS, DOMESTIC POLITICS, AND REFORMS OF SOCIAL INSURANCE PROGRAMS IN ADVANCED CAPITALIST COUNTRIES

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Dissertation

Submitted to the Faculty of the

Graduate School of Vanderbilt University

in partial fulfillment of the requirements for

the degree of

DOCTOR OF PHILOSOPHY

in

Political Science

May, 2002

Nashville, Tennessee

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ACKNOWLEDGEMENTS AND DEDICATION

I am grateful to my committee members for all of their input and guidance throughout the process of writing this dissertation. I am also indebted to Professor Duane Swank for sharing his data on state structures and partisanship. My dataset on which all of my findings are based also incorporates data on labor unions from the Miriam Golden, Peter Lange and Michael Wallerstein dataset, as well as data on demographic and labor market trends from the Evelyne Huber and John D. Stephens "Comparative Welfare State Dataset." I am thankful to all of these scholars for making their data publicly available on their respective websites.

Writing this dissertation has been a tremendous challenge, but also a source of much enjoyment for me. Still, most of this writing took place on nights and weekends – time I would have otherwise spent with my wife, Kathryn, and my children, Evan and Vaughn. It was only with their unending patience and support that I was able to finish. Therefore, I dedicate this dissertation to the three of them.

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CHAPTER I

GLOBALIZATION AND THE WELFARE STATE: REVIEW OF THE LITERATURE

INTRODUCTION

The comparative literature has given much attention to the "crisis" of the welfare state, the inability of advanced capitalist states to maintain generous social welfare programs and ensure continued economic growth (Kitschelt 2001; Huber and Stephens 2001; Pierson 2001; Schwartz 2001; Swank 2001, 1998; Hicks 1999; Clayton and Pontusson 1998; Garrett 1998). Especially with the decline in trade barriers since the 1970s, the tensions between these two goals have appeared ever more pronounced (Rodrik 1997, Rhodes 1996). The argument claims that social welfare and insurance policies that redistribute earned incomes through taxes and transfer payments undermine the goals of economic efficiency, capital accumulation, and economic growth.[1] At the micro-economic level, generous social welfare and insurance benefits are assumed to discourage people from working, and this reduces aggregate levels of production and growth. At the macro-economic level, payroll taxes and corporate income taxes divert profits from reinvestment, thereby reducing aggregate levels of capital necessary for economic growth. These arguments would apply even to countries in which outward foreign direct investment is limited. In open markets for goods and services, some scholars claim that these taxes further threaten economic growth by undermining the competitiveness of domestic industries. First, because these taxes diminish profits, they render industries less attractive to foreign investors. Second, because employers' payroll taxes increase labor costs, the resulting increase in the prices of their products dampens demand for them. As a result, many analysts predicted that welfare programs would be cut in order reduce production costs, increase investment, and restore economic growth.

However, research to date has been contradictory. Conclusive evidence that welfare state expenditures do threaten competitiveness is still lacking.[2] There is disagreement over the nature of welfare state policy changes as well. Some analysts find little, if any, adjustment in welfare programs, while others find substantial contraction. Further, those who do find evidence of welfare retrenchment disagree about the causes. For some, shifts in domestic labor markets have produced high rates of unemployment and slowed economic growth, which in turn have driven

reductions in benefits. For others, increasing numbers of benefit claimants, such as old age pensioners and single mothers, have been the source of changes in welfare programs. So far, there is little evidence to support the claim that the need for competitive industries in increasingly integrated markets has prompted these reforms.

Thus, there is little agreement on whether and why the crisis of the welfare state has led to retrenchment. My aim here is to reassess the debate. I will show that many advanced capitalist countries did adopt reforms to limit benefits, and that these reforms were more pronounced where the state faced deficits in trade and foreign direct investment, worsening unemployment and weak economic growth. Globalization did have an impact, but in a different way than is assumed in much of the literature. Specifically, I show that trends in globalization are associated with expansion of benefit programs to a point, but as these trends become more pronounced they are associated with reforms that reduce benefits. I will further show that political institutions traditionally associated with rising benefits actually facilitate these reforms. Finally, the influence of government partisanship on the incidence of reform should be weaker than the influence of political institutions. However, where reforms do occur, partisanship should be an important factor in determining specific policy outcomes that preserve traditional interests.

I assess developments in social insurance programs in fourteen advanced capitalist countries (hereafter OECD countries) for the period 1973 to 1995. Through at least the 1970s, the economies of advanced capitalist countries were still quite strong and the costs of welfare state programs were manageable. Therefore, despite these argued tensions between economic growth and welfare state programs that redistribute incomes, neither constituents nor policymakers had to make difficult choices between these two goals. In most OECD countries both welfare benefits and the taxes that fund them rose at the same time that healthy levels of economic growth were secured. However, as global market integration proceeds, the tensions between economic growth and income redistribution should become more pronounced. Given that the literature has not fully explored this relationship in the context of increased global market competition, a reexamination of this relationship is needed.

EXISTING LITERATURE AND ITS KEY ASSUMPTIONS

All social welfare states serve at least four objectives that mitigate social and economic problems that are inevitable byproducts of capitalism. They encompass several policies intended to alleviate both poverty and income inequality that inhere in capitalist labor markets.[3] They also counter market inefficiencies that discourage or prevent individuals from entering the labor market. Finally, welfare states spread the risk of investment in human capital (Barr 1992; O'Connor 1973). Therefore, these programs receive widespread public support because they significantly improve the economic welfare of many benefit recipients.

Some comparative scholars have long argued that contradictions that inhere in the modern welfare state threaten its survival (Offe 1984, Gough 1979, O'Connor 1973). In capitalist production, owners of capital will benefit when competition among workers for employment drives down wages and increases profits. While workers are disadvantaged *vis a vis* owners of capital in the market, their numbers grant them an advantage in the democratic policymaking process. Laborers can elect policymakers who will increase taxes and social welfare and insurance benefits that will redistribute earned incomes. But these taxes divert profits from future investment, reducing demand for labor and threatening economic growth. So in serving the workers' short-term interests by redistributing incomes, the welfare state threatens the long-term economic interests of both owners and capital and laborers alike. Despite the soundness of this logic, advanced capitalist countries continued to expand their social welfare programs even while achieving solid economic growth. Therefore, rather than questioning whether the modern welfare state would survive, the comparative literature turned its attention to the influence of interest groups, government partisanship, and political institutions in determining the pace and character of welfare state expansion.

Early explanations for the development of welfare states among advanced capitalist countries were almost devoid of politics. Functional / structuralist theories claimed that the process of modernization is positively correlated with growth of social expenditures (Flora and Alber 1981; Wilensky 1975). This theory puts forth a functionalist argument, claiming that the expansion of social welfare policies reflects the state's response to increased "need" among citizens (Esping-Andersen 1990).

Power resources theorists rejected functionalist arguments linking economic development to welfare expenditures and income equalities. These scholars claimed that changes in the

distribution of power among key political groups and social classes caused changes to social welfare policies (Wennemo 1992; Hicks and Swank 1992; Korpi 1985; Castles 1982; Cameron 1978).[4] Laborers seek to expand welfare state programs as long as their post-tax, post-transfer incomes increase. In contrast, owners of capital seek to prevent increases in taxes that decrease profits and divert income from future investment. These assumptions coincide with those predicting the crisis of modern welfare states. However, power resources theorists predicted that policymakers would serve the interests of laborers, given their numbers, organization, and their ability to influence election outcomes. In fact, several power resources theorists produced evidence showing that differences in labor union strength is the strongest predictor of welfare state expenditures, the range of programs covered, and eligibility criteria (Kangas 1991, Myles 1989; Olsen 1988; Stephens 1979, Korpi 1980, Hicks 1991).

Recent efforts to refine power resources theory focus on the ways in which state structures influence balance of power among competing groups as well as policymakers' incentives (Swank 2001; Huber and Stephens 1998; Schwartz 1994; Immergut 1992). Rather than focusing on the degree to which constituent groups can take advantage of electoral rules to ensure that their interest are represented in the policymaking process, this "state structure" literature focuses on the influence of the policymaking process itself. This literature acknowledges that, in addition to the numbers and organization of parties and interest groups, state structures determine their opportunities to influence policymaking process, opportunities that translate into political power (Crepaz 1998; Birchfield and Crepaz 1998). These scholars found that the extent to which political institutions encourage cooperative versus competitive policy processes is also a strong predictor of welfare policy outcomes.

Finally, the "regime theory" literature posits that variations in demographics, economic strength, or labor union mobilization cannot fully explain variations in the composition of welfare states. Instead, this theory argues that critical historical and political determinants "institutionalize" relationships among citizens, the state, and the market (Esping-Andersen 1990; Huber, Ragin, and Stephen 1993). Social welfare programs, their benefits, and the extent to which they redistribute incomes vary systematically according to these institutionalized relationships. This explains why states with similar political institutions or labor union strength in recent decades have very different policies, emphasizing different objectives.

The theories cited above present differing viewpoints on the sources of political influence granted to laborers and owners of capital. However, each of these theories assumes that the electoral laws and policymaking institutions that grant laborers influence in the policymaking process have translated into political power *vis a vis* employers and owners of capital in many OECD countries. As a result, welfare benefits and aggregate expenditures, as well as the taxes that fund them, grew in these countries for much of the Post- World War II era.

Shifting Trends in Trade and Investment in the Global Market

Most OECD countries have historically adopted policies that limited trade and foreign direct investment in order to protect their industries from competition from imports and ensure ample supplies of capital investment. However, as evidence of increasing faith the doctrines of liberal economic principles, policymakers began in the 1970s to either modify or repeal these policies in efforts to stimulate lagging economic growth. According to these principles, all countries would benefit from specializing in industries in which they have a comparative advantage and trading with other countries for all goods that they don't produce. A country has a comparative advantage when its opportunity cost of producing that good is lower than the opportunity cost that other countries would incur. As comparative advantage is determined by opportunity costs, and not actual costs, all countries will have a comparative advantage in the production of *some* goods, even if the actual cost of production is higher than in other countries.

The process of market integration proceeded slowly and unevenly across countries, and most countries' markets for goods and capital are still not completely integrated. They were certainly less integrated in the early 1980s, even after many legal barriers were dismantled. This is largely due to the presence of *de facto* barriers to trade and investment such as transportation costs, differing standards of quality and safety, environmental regulations, and taxes. The argument that all countries will benefit from specialization, trade, and mobile capital starts to unravel when these *de facto* barriers to trade and investment are taken into account. These barriers were particularly relevant to trade and investment between OECD and non-OECD countries because until recently the latter group lacked the human capital and infrastructure needed for production and transportation of high quality goods. OECD countries have, therefore, traditionally imported limited quantities of goods from non-OECD countries while exporting large quantities of goods to those countries. Also as a result of these barriers, foreign direct

investment was relatively uncommon either among OECD countries or between OECD and non-OECD countries through at least the early 1980s.

In the late 1970s, these *de facto* barriers to trade and foreign direct investment (FDI) began to disappear. As a result, total volumes of both international trade and FDI increased throughout the 1980s and 1990s. Most notably, newly industrialized countries (NICs) began producing goods that met higher quality and safety standards and could compete in the world market with goods produced in OECD countries. The improvement of infrastructure and laborers' skills made direct investment in these NICs more attractive to foreign owners of capital. Therefore, trade and investment between OECD and non-OECD countries have risen to unprecedented levels in recent years. As international markets for goods and capital become increasingly integrated, industries from OECD countries must now compete for both export market share and FDI more than in the past.

Industries in some OECD countries continue to thrive as markets integrate. As a result, they incur trade surpluses, attract relatively healthy levels of FDI, and unemployment and growth rates in these countries are at acceptable levels. In contrast, industries of some OECD countries are struggling as markets integrate. These industries likely thrived in the past as a result of protectionist policies. In those OECD countries whose industries are less competitive in the global environment, real wages of workers should fall, unemployment rates should rise, and these countries may experience slowed economic growth until their industries and labor markets adapt to the changing global economy. Therefore, scholars have once again turned their attention to these argued tensions between the goals of income redistribution and growth, and examined policies that result.

THE COMPENSATION THESIS AND THE EFFICIENCY THESIS

The "compensation" thesis and the "efficiency" thesis both acknowledge that economic growth serves the interests of virtually all citizens and is a strong predictor of election outcomes (Rodrik 1997; Rhodes 1996; Teeple 1995; Pfaller 1991). Both theses also acknowledge that efficiencies gained through the integration of markets for trade and investment are key to securing economic growth in the future. Finally, both theses acknowledge the impact that integration will have on labor markets in many countries; as some industries expand and others contract in response to changing international demand for their products, laborers in contracting

industries will be lose their jobs. These workers are likely to support increases in social welfare and insurance benefits that will compensate them for lost income as a result of this temporary "dislocation" from the labor market. Despite their agreement over these issues, the compensation thesis and the efficiency thesis predict opposing social welfare policy outcomes in the era of global market integration.

The compensation thesis focuses on the political power that the electoral process grants large numbers of constituents sharing common interests. Policymakers have enacted reforms weakening or eliminating barriers to trade and FDI with the support of their constituents. However, these reforms are not irreversible; if popular resistance to liberalization grew strong enough, policymakers would be compelled to reestablish protectionist policies, or risk being replaced by politicians pledged to do so. The compensation thesis claims that policymakers advocating further integration will provide generous welfare benefits as "side-payments" to dislocated workers in exchange for their continued support for integration. In sum, the expansion of welfare policies is viewed as a means of ensuring continued integration and economic growth in the new, competitive global economy. If the compensation thesis is correct, we should expect to find that welfare states expand as global market integration proceeds in or to counter growing inequality of earned incomes.

The efficiency thesis focuses on the political power that owners of capital are granted by virtue of their "exit" option. This thesis claims that barriers to foreign direct investment are already limited enough to provide owners of capital the option to invest overseas if doing so will yield higher profits. Income taxes and payroll contributions that reduce profits are likely to influence these investment decisions. In increasingly competitive investment markets, policymakers should therefore reduce the tax burden on capital in order to either retain domestic capital or attract foreign capital in order to foster economic growth (Andrews 1994; Frieden 1991). In order to prevent the need for increased taxes and payroll contributions to finance rising welfare expenditures, policymakers will have to cut benefits despite the popularity of welfare programs. In sum, the reform of welfare policies in order to control aggregate expenditures is viewed as a means of ensuring continued investment economic growth in the global context. If the efficiency thesis is correct, we should expect to find widespread retrenchment in those countries whose industries are less competitive in open markets for goods and investment in recent years. Clearly, both the efficiency thesis and the compensation thesis claim that

policymakers seek the end goal of economic growth, but these competing theses predict very different means to that end.

Evidence for Welfare State Expansion

A number of comparative scholars examine welfare state developments in recent years, although not testing directly for the effects of globalization. They claim that national governments have still had the latitude they need to implement tax and benefit policies that serve the interests of their supporters (Iversen and Cusack 1998; Birchfield and Crepaz 1998; Boix 1997; Huber, Ragin and Stephens 1993; Garrett and Lange 1991). While not explicitly supporting the compensation thesis, these conclusions certainly challenge the efficiency thesis, which would predict retrenchment of welfare state programs in recent years to coincide with trends in globalization.

Evidence Supporting the Compensation Thesis

Some scholars acknowledge that international capital mobility and open markets for goods and services produce financial pressures to reform welfare state expenditures. However, they find that factors traditionally associated with welfare state expansion, such as incumbency of left or Christian Democratic parties, strong and encompassing labor unions, and political institutions that foster cooperative policymaking have enabled policymakers to resist financial pressures for reform. Garrett and Mitchell's (1999) quantitative analysis regresses changes in social welfare expenditures on various measures of globalization and produces evidence in support of the compensation thesis.[5] In several works, Swank (2001, 1998) uses both case studies and regression analysis to show that welfare reforms in response to financial pressures are likely only in states with pluralist decision making, exclusive electoral institutions, and dispersed policymaking authority. Conversely, states exhibiting corporatist policymaking, inclusive electoral institutions, centralized decision-making authority, and universalistic welfare state programs are likely to resist financial pressures for reform. Similarly, Schwartz (2001) finds that, due to domestic political forces protecting welfare state programs in Continental European states, these states have been most resistant to financial pressures for reform stemming from persistently high unemployment rates.

Evidence of Domestic Sources of Reforms

Many scholars who have examined the progress of welfare state reforms in OECD countries claim that these reforms have generally been very modest (Crepaz 1998; Pierson 1996; Garrett and Mitchell 1996; Esping-Andersen 1996; Dilnot 1995; Falkner and Talos 1994; Klein 1993; Hill 1993). They conclude that the coincidence of increasing numbers of beneficiaries with rising unemployment rates and slowed economic growth have prompted temporary "adjustments" aimed at controlling the growth of expenditures. Further, these scholars claim that rising unemployment rates and slowed economic growth are due to domestic developments such as aging populations and labor market shifts, and therefore conclude that these limited reforms are unrelated to globalization. Huber and Stephens (2001) claim that rising labor force participation among women has caused high unemployment rates in many OECD countries, which have in turn required modest reforms of social insurance policies.[6] In fact, Huber and Stephens argue that as unemployment levels recede, efforts of retrenchment should be curtailed, and partisan differences should once again produce different policy outcomes (2001: 145). Pierson (2001a) attributes reforms to lower productivity as a result of shifts to the services sector, maturing populations, and extensive commitments to welfare state expenditures. Clayton and Pontusson (1998) claim that reforms have been widespread and significant, changing both the size and the character of the welfare state. However, they do not attempt to identify specific causes of these reforms, instead discussing several potential causes of reforms presented in the literature.

Evidence Supporting the Efficiency Thesis

In contrast to the works cited above, Rodrik (1997) supports the efficiency thesis, arguing that competition from low wage countries will drive down wages for low skilled workers in OECD countries as well as increasing elasticity of demand for this labor. Rodrik uses panel data to regress changes in levels of social spending and government consumption on changes in measures of openness for goods and capital in fourteen OECD countries for the period 1996-1991. He does find a very slight negative relationship between these variables, lending support to the efficiency thesis (Rodrik 1997: 59-67). However, Rodrik's evidence is easily challenged

because he does not control for demographic or political variables that have been shown time and again to be critical determinants of welfare state expenditures.

The Need for More Research

In sum, the quantitative literature has produced evidence in support of the compensation thesis rather than the efficiency thesis. Yet both case studies and quantitative analysis have produced evidence of reforms of welfare state programs in the late 1980s and early 1990s. The coincidence of these reforms with accelerated global market integration raises the possibility that globalization is one of the causes of these reforms. I argue that the key assumptions about the competing interests and relative power of vying political groups cannot be applied to social welfare policymaking in the new, global context. An alternative thesis, with different assumptions about the role of constituents' short-term and long-term interests in the policymaking process, must be developed. This alternative thesis must also refine arguments linking specific trends in global market integration to welfare state policy outcomes. Finally, an improved measure of these policy outcomes must be produced if quantitative analysis is to account for the wide range of reforms options from which policymakers can choose. This dissertation takes on these tasks.

Outline of the Dissertation

In Chapter II I critique key assumptions that have been incorporated into both the efficiency thesis and the compensation thesis. If globalization does, in fact, create a contradiction between two very popular goals – fostering income redistribution and economic growth – then policymakers lack a clear mandate. Therefore, established assumptions about the role of interests in the policymaking process will fail to explain welfare policy outcomes in the new, global context. Put simply, globalization should fundamentally change the politics of welfare state policymaking. In Chapter II I also critique the measures of policy outcomes that scholars have used in quantitative analysis testing the relationship between globalization and these outcomes. I argue that the overwhelming empirical support of the compensation thesis depends largely on these flawed measures of policy outcomes.

In Chapter III I refine the efficiency thesis and specify the ways in which various aspects of global market integration should affect specific welfare state programs in OECD countries.

Some countries are thriving as global markets continue to integrate – they enjoy rising exports and inward foreign direct investment, low unemployment rates, and solid economic growth. In contrast, some countries are struggling to adjust to market integration, as evidenced by rising imports, outward foreign direct investment, high unemployment rates, and slow or negative economic growth. Those countries that are struggling face financial pressures for reforms of their social insurance programs. My quantitative analysis will account for these differing responses to exposure to competitive global markets.

In Chapter III I also present arguments as to how political factors should dictate policy responses to financial pressures to reform social insurance policies. Political institutions should significantly affect both policymakers' incentives and ability to enact reforms when these financial pressures are present. If adopted, these reforms will sacrifice the short-term interests of some constituents in order to facilitate competitiveness and economic growth. Building on the comparative literature that examines the effects of "inclusive" or "consensual" political institutions on the policymaking process, one should be able to predict whether or not policymakers will adopt reforms in each country.

Evidence presented in Chapter IV will show that, since the mid- 1980s, many OECD countries are incurring large trade deficits as their imports exceed their exports. I will also show that volumes of outward foreign direct investment exceed volumes of inward foreign direct investment in many OECD countries in recent years. These trends indicate that tests of the compensation thesis versus the efficiency thesis using data only through the late 1980s were premature. If the efficiency thesis is correct, evidence to support it should not appear until at least the late 1980s to early 1990s. Following the discussion of economic trends, I present my hypotheses and make predictions as to which countries should adopt reforms of social insurance programs.

In Chapter IV I also present my index of "adjusted" replacement rates for employment related social insurance programs. Rather than measuring expenditures only, this index incorporates all eligibility criteria that determine one's access to social insurance benefits. Reductions in adjusted replacement rates for the four social insurance programs examined here are widespread among the fourteen included in this study, evidence that challenges the findings of much of the recent quantitative research. Further, my regression results show positive, statistically significant relationships between rising deficits in trade and investment and rising

payroll taxes on the one hand, and high unemployment on the other. My regression results also show negative relationships between these trends and real economic growth. The relationships between these economic developments and reforms of social insurance programs are statistically significant as well, providing support for my refinement of the efficiency thesis. Most importantly, the regression results will show that political institutions that facilitate cooperative, "responsible" policymaking serve to reinforce these relationships.

Chapter V includes a more in-depth discussion of the timing and types of reforms in the fourteen countries included in this study. This discussion will show that, while political institutions will facilitate the adoption of reforms in response to economic and financial pressures, partisan politics should largely dictate choices regarding specific programs and components of these programs (such as gross replacement rates versus eligibility criteria) that are preserved.

Chapter VI presents my conclusions, as well as a discussion of avenues for further research. As I argue in Chapter II, globalization has not already "happened." While markets for goods and services, capital, and labor are more open than they were as recently as the mid-1980s, legal barriers to the free flow of the goods and factors of production continue to exist. Therefore, this dissertation certainly does not represent the last word on the effects of globalization on these welfare state programs; complete global market integration is still far from realized, and future trends could alter or even reverse the policy consequences of recent integration and competition that I will present. However, this dissertation makes a significant contribution to the literature in that it will show both that reforms of social insurance programs are widespread among many OECD countries in recent years, and that the relationships between these reforms and trends in globalization lend support to my arguments. The results presented in Chapter IV also show that political institutions that encourage cooperative, responsible policymaking are not predisposed to expand social insurance policies in order to serve the short-term interests of many constituents. Rather, my regression results provide support for the argument that these same political institutions that were once associated with welfare state expansion are in the best position to adopt reforms in efforts to foster economic growth, which serves the long-term interests of virtually all constituents. Finally, my results do provide support for the view that partisanship still matters in welfare state policymaking despite overwhelming

financial concerns. Cross-national differences in partisanship will produce divergent choices for the means by which national governments will reform their social insurance programs.

CHAPTER II

LESSONS LEARNED FROM CURRENT RESEARCH

INTRODUCTION

Both the efficiency thesis and the compensation thesis adopt key assumptions from the established power resources theory and state structure theory about the interests and relative political power of competing groups, as well as welfare state policy outcomes. I argue that the influence of global economic trends has fundamentally changed the politics of domestic welfare state policymaking. Therefore, these key assumptions cannot be applied to the new global context. In this chapter I discuss the specific assumptions of both the compensation thesis and the efficiency thesis that need to be refined. I also discuss the specific measures and methods used in quantitative research testing for evidence to support either thesis that needs to be improved. In Chapter III I present my refinement of the efficiency thesis as well as my improved measures for testing this new thesis.

There are at least five reasons for which the existing quantitative research has not shown that globalization produces financial pressures on welfare state programs, nor that policymakers have responded to these pressures with reforms. The first two reasons relate to key assumptions that the compensation thesis and the efficiency thesis have adopted from the power resources and state structure literature. The third reason relates to formulation of the proposed relationship between specific trends in globalization and reforms of welfare state programs. The remaining two reasons relate to the specific methods that quantitative researchers have used to test these competing theses.

First, both of these competing theses focus on the short-term interests of competing interest groups or parties. They assume that these preferences are fixed, and that the interests of laborers and capital oppose each other. Second, both theses overstate the political influence that competing groups have in the policy process. Therefore, while they predict different policy outcomes, both theses assume a linear relationship between globalization and reforms of welfare state programs. Neither thesis allows for limitations on the political influence of dominant groups, nor for compromise among them in order to achieve common goals. Third, quantitative researchers have not differentiated between different trends in globalization nor between

different types of welfare state programs. Instead, scholars espousing the efficiency thesis claim that the threat of capital exit renders all welfare programs vulnerable to cuts as a means of reducing capital's welfare burden. Conversely, scholars espousing the compensation thesis claim that welfare state programs will expand in response to pressure from laborers, who will continue to support expansion so long as they receive a net benefit (after taxes and transfers) from the change.

The fourth and fifth reasons for which the quantitative research has not found evidence for the efficiency thesis relates to the measures and methods that these researchers use to test their arguments. Quantitative research has focused on expenditures as the sole measure of "welfare effort." But these measures fail to capture potential reforms of social welfare and insurance programs aimed at controlling aggregate expenditures. Finally, the bulk of the research uses data from 1990 at the latest, before the onset of important developments in world markets for goods and capital.

KEY ASSUMPTIONS BORROWED FROM THE LITERATURE

Both the compensation thesis and the efficiency thesis acknowledge that economic integration and efficient use of capital investment are key to long-term economic growth. Both theses also acknowledge that long-term economic growth is important to virtually all constituents, and that changes to welfare state legislation must serve the short-term interests of dominant political groups in order to foster continued integration that will secure long-term growth. But the two theses provide different explanations as to how domestic politics should affect the development of social welfare and insurance policies in the context of global market integration.

The Focus on Short-Term Interests that Generous Benefits Serve

The compensation thesis assumes the same dominant interests and predicts the same policy outcomes as power resources theory. The compensation thesis views welfare benefits as "side-payments" that policymakers must provide in order to secure popular support for continued integration. Therefore, policymakers must expand of welfare state programs in order to serve the interests of laborers interests because they are able to directly affect election outcomes.

The efficiency thesis also borrows from the power resources literature the assumption that policymakers will serve the short-term interests of the most politically powerful groups, even if the interests of less powerful groups must be sacrificed. But then the efficiency thesis diverges from the literature because it claims that owners of capital enjoy an inherent advantage over laborers in the policymakers process because the have an "exit" option. Open capital markets prevent policymakers from forcing them to invest in their own countries. Yet if they do invest overseas and deprive their own states of capital needed for investment and growth, these policymakers will be held accountable for weak economic performance in upcoming elections. Therefore, policymakers will adopt reforms of welfare state programs in order to control aggregate expenditures and payroll taxes in efforts to retain domestic capital investment. In sum, the efficiency thesis claims that owners of capital are granted political power by their ability to indirectly affect election outcomes.

Recent compensation literature adopts "state structure" arguments claiming that, in addition to the numbers and organization of parties and interest groups, state structures determine their opportunities to influence policymaking process, opportunities that translate into political power (Swank 2001; Huber and Stephens 1998; Crepaz 1998; Birchfield and Crepaz 1998; Schwartz 1994; Immergut 1992). Several scholars have lauded institutions that facilitate consensual policymaking over those that engender majoritarian policymaking because the former encompass broader segments of society, better reflect the interests of the median voter, and produce policies which favor the general interests of society as a whole (Crepaz 1996; Goodin 1996; Huber and Powell 1994; Lijphart 1984; Olson 1982). Based on this reasoning, Swank (2001) and Crepaz (1998) posit that states comprised of cooperative veto points (proportional electoral systems, multi-party legislatures, multi-party governments, and parliamentary regimes) should produce higher welfare expenditures and a greater degree of de-commodification than those states comprised of competitive veto points (federalism, strong bicameralism, and presidential government). This is because cooperative veto points allow smaller groups of constituents, including poorer constituents, to exercise influence in the policymaking process. Because markets tend to distribute income less evenly than the distribution of votes, these groups of constituents will use their influence to push for social welfare expenditures to increase their incomes.

Again, these authors claim that "consensual" political institutions encourage cooperation among various political groups. But their hypotheses about the effects of these institutions on welfare state development focus on access enjoyed by disadvantaged groups. They assume that structures encouraging consensual policymaking will produce more generous, redistributive welfare and insurance policies as well. But their descriptions of the policymaking process are not truly describing cooperation; rather, they are describing alliances of disadvantaged groups that coerce wealthier constituents, including owners of capital, to fund their social welfare interests. Again, by focusing on a narrow range of economic policy objectives – income redistribution through social welfare and insurance programs – the bulk of this literature does not allow for trade-offs between two important, but perhaps contradictory, goals of income redistribution and growth.

Policies fostering income redistribution serve some constituents' short-terms interests, while those that foster investment, production, and economic growth serve more universal long-term interests in the following ways. First, policies that increase investment and production increase profits for owners of capital and increase demand for labor. This serves the economic interests of the majority of constituents, especially those who find employment as a result of this increased demand for labor. Second, higher rates of production and employment also increase aggregate wages that are taxed to raise revenues for social insurance benefits. So these economic policies indirectly support the viability of social insurance programs, which serves the interests of those constituents who do not directly benefit from increased demand for labor. If policymakers need to place greater priority on growth than on social welfare and insurance, they will need to control aggregate social welfare expenditures until growth is regained. Yet most of the welfare state literature would not view reforms of social insurance policies aimed at restoring competitiveness, acceptable employment levels, and economic growth as serving the interests of the parties and labor unions that traditionally support these social insurance policies.

In fact, a host of literature shows that these parties and labor unions support policies that increase demand for labor and foster economic growth in addition to policies that redistribute incomes. It is clear that Social Democratic parties have traditionally supported generous social welfare and insurance benefits that provide an adequate standard of living for all citizens as a basic right. But these parties have also traditionally supported government intervention in their economies – through public investment and government employment – to foster full employment

for both men and women as the primary means of securing this standard of living. Christian Democratic parties have traditionally supported economic and labor policies aimed at providing employment opportunities and decent wages for male heads of households. And of course labor unions clearly support economic and labor policies intended to boost demand for labor so that their members can find employment (Compston, 1997).

If political institutions are truly encouraging cooperation, then policies that are enacted should take into account both the short-term and long-term interest of both laborers and owners of capital. For lack of a better phrase, resulting policies should be aimed at the "collective good" of society as a whole. This would likely include policies aimed at restoring low rates of unemployment and strong economic growth. Researchers should focus on political institutions that allow policymakers to adopt policies that may produce short-term costs in order to foster long-term gains, without threatening their political tenure.

The Assumption of Linearity

Both the efficiency thesis and the compensation thesis assume that the relationship between factors of globalization and changes to social welfare policy is linear; the compensation thesis posits a positive relationship while the efficiency thesis posits a negative one. The efficiency thesis overstates the legitimacy of capital's threat of exit. After all, many of the *de facto* barriers to foreign investment still suffice to encourage domestic capital investment even if costs are high. Conversely, the compensation thesis does not seem to take seriously the trade-off between the two popular goals of income redistribution and growth. Nor does it seem to take into account the capacity of the state to fund continually increasing welfare state expenditures. Again, the literature has shown time and again that labor unions and Social Democratic and Christian Democratic parties succeeded in their quest for more generous social welfare and insurance programs, at least through the 1980s. But if the economic theory underlying the efficiency thesis is correct, at some point social welfare taxes and expenditures will reduce investment and employment and threaten economic growth. Therefore, a linear relationship, whether positive or negative, between trends in globalization and welfare state policy development is unlikely.

Mis-specified Relationships between Globalization and the Welfare State

The existing quantitative research does not find support for the efficiency thesis in part because it fails to adequately specify the relationship between the globalization and changes to welfare state legislation. First, this literature does not fully develop arguments explaining which particular trends in globalization should affect the welfare state. Second, it does not fully develop arguments explaining which specific welfare state programs that globalization should affect. Instead, broad measures of "welfare effort" are regressed on equally broad measures of market "openness." These scholars have extended the arguments of earlier works that demonstrated a positive relationship between economic openness and public expenditures. But these earlier works focused on small states in which a few very large exported-oriented industries employed substantial proportions of the workforce (Cameron 1978, Katzenstein 1985). These scholars claimed that volatility in international markets could cause temporary reductions in international demand for these exports, causing temporary bouts of unemployment for large portions of the working population. As large numbers of workers perceived themselves at risk for unemployment, generous social welfare and insurance benefits received popular support, and levels of social welfare expenditures rose over time (Cameron 1978; Katzenstein 1985: 47-57). Implicit in these arguments is the idea that while many workers will experience unemployment, these bouts of unemployment should be rather short lived, and that aggregate levels of unemployment should not increase significantly in the long run. In fact, for the years included in Cameron's and Katzenstein's research, unemployment in these small, export-oriented states was quite low.

Scholars have extended the logic of this research, arguing positive relationships between the openness of markets for goods and investment and the expansion of welfare state programs in OECD countries in recent years (Swank 2001; Garrett and Mitchell 1999; Mitchell 1998). However, this argument is flawed. Trade openness is commonly defined as total volumes of trade (imports plus exports) as a percentage of GDP. Capital market openness is defined as total volumes of foreign direct investment (inward plus outward foreign direct investment) as a percentage of GDP. But we must examine each of these trends separately. As argued in Chapter I, high levels of imports and outward foreign direct investment will at least indirectly reduce demand for labor in a given country, so the number of workers perceiving themselves at risk for unemployment as a result of their open economy should be relatively high. As a result, numbers

of workers claiming social insurance benefits will increase just as aggregate payroll taxes that fund these benefits shrink. These countries should face substantial pressures to reform their social insurance programs. In contrast, high levels of exports and inward foreign direct investment will indirectly increase demand for domestic labor, so the number of workers perceiving themselves at risk may be relatively low. As a result, the numbers of individuals claiming benefits relative to the numbers contributing to social insurance funds should not increase. These countries should not face financial pressures to reform their programs as a result of exposure to open markets for goods and capital.

The current quantitative research also has not identified a statistically significant relationship between global market integration and welfare reform in part because this research uses broad measures of "welfare effort" as dependent variables. These measures include both welfare and insurance benefits as dependent variables. But substantial differences across these programs will render them more or less likely to face increased financial pressures stemming from trends in globalization. Funds for social welfare programs are raised through general revenues and are therefore less reliant on domestic employment levels than are social insurance benefits, which are funded through payroll taxes. Further, aggregate claims on some welfare benefits such as family allowances or health care are likely to remain relatively constant, whereas claims on unemployment benefits may increase quickly as a result of higher unemployment rates. What is needed in the quantitative research is more focused inquiry into which specific welfare state programs should be influenced by which specific developments in the global market.

Existing Measures of "Welfare Effort"

Another reason for which the existing quantitative research does not find evidence to support the efficiency thesis is that it uses expenditures on welfare state programs as the sole measure of welfare effort. Most studies use aggregate expenditures, controlling for the size of recipient groups, unemployment rates, and inflation. A few studies use gross replacement rates of unemployment insurance benefits or 'per capita' benefits for other welfare and insurance programs. Noting that these expenditures have either remained constant or increased in recent years, these works conclude that the welfare state is relatively immune to retrenchment efforts.

But this research fails to capture the array of options that policymakers have to control the growth of aggregate expenditures for these programs.

National governments may respond to increased financial pressures on social insurance programs in at least four ways. First, they may increase revenues through increased taxation and payroll contributions. This would allow them to maintain previous levels of benefits per recipient (hereafter "gross replacement rates"). Second, they may maintain previous levels of revenue and incur deficits in order to maintain gross replacement rates. Third, they may maintain previous levels of revenue and decrease gross replacement rates in order to maintain previous levels of aggregate expenditure. And finally, they may maintain previous levels of revenue and decrease the number of recipients in order to maintain previous levels of aggregate expenditure. They would accomplish this by tightening eligibility criteria, such as increasing the amount of time for which one must contribute to social insurance funds, or increasing the duration for which one is disqualified from receiving benefits for various reasons. Quantitative research testing for relationships between global market integration and changes to welfare state legislation must use measures that incorporate all aspects of welfare state programs that are potential targets for reforms.[7] My alternative measure of welfare retrenchment is presented in Chapter IV.

Recent Changes in the Character of "Globalization"

Yet another reason for which the quantitative literature has not uncovered a constraining effect of globalization on the welfare state is that the bulk of the research uses data from 1990 at the latest. It is true that global trade of goods and services took off in the 1970s. It is also true that legal barriers to capital mobility fell in the late 1970s and early 1980s. However, both financial capital and direct investment have increased dramatically since the late 1980s. Also, as I discuss in Chapter IV, competition for FDI and export market share became more pronounced in the late 1980s as compared to previous years. So the pace and character of global market integration has changed substantially in recent years. Therefore, any effect that these new development would have on the welfare state would not be discovered by these research projects.

In the next chapter I put forth my revision of the efficiency thesis. This revised thesis overcomes each of the deficiencies in the existing quantitative literature addressed in this chapter. I discuss the means by which trends in globalization should affect rates of

unemployment and economic growth, and therefore create financial pressures for reform. Such reforms are likely to be unpopular among the citizens of most of the countries examined here. Therefore, I further discuss the political institutions that should provide opportunities for policymakers to enact such reforms without prompting electoral backlash. Finally, I present specific hypotheses to be tested in Chapter IV.

CHAPTER III

REFINEMENT OF THE EFFICIENCY THESIS

In this chapter I specify how particular developments in global market integration should affect unemployment rates and economic growth rates, and how these trends should produce financial pressures for reform. I also differentiate between what I call "enabling" versus "disabling" political institutions, and argue that reforms are most likely where both economic pressures and enabling political institutions are present. I conclude with specific hypotheses delineating the ways in which trends in globalization, combined with particular political institutions, should foster reforms of social insurance programs.

THE LINK BETWEEN GLOBALIZATION WELFARE STATE PROGRAMS

Much of the recent quantitative literature examining the effects of globalization on the modern welfare state only examine market openness as the key indicator of globalization. But the focus on openness does not fully capture recent developments in international markets in the 1980s and 1990. In studying the effects of global market integration on reforms of welfare state legislation in OECD countries, one must separate market openness from the patterns of trade and investment that emerge among them. Some OECD countries are thriving in this new global environment. On the other hand, others are experiencing net deficits in trade and investment and persistently high unemployment rates as their industries adjust to changes in international markets. The examples of Austria and Sweden are illustrative. These two countries have consistently had similar values of trade openness (exports plus imports as a percentage of GDP). However, Sweden consistently incurs trade surpluses, while Austria consistently incurs trade deficits. Clearly, the effect that similar levels of openness should have on unemployment and economic growth in these two countries should be quite different. In fact, the relationships between openness and direction of trade and investment (imports versus exports, inward versus outward FDI) for these fourteen countries are tenuous at best, as indicated in Table A-2 of the Appendix.

While total volumes of trade among OECD countries have not changed dramatically, in many of these countries the direction of trade has changed. Many of these countries are sustaining trade deficits as a result of consistently importing more than they export. Both of

these trends may be the result of waning competitiveness of exports from these countries. Again, measures of trade openness do not capture this shift from trade surpluses to trade deficits. Additionally, levels of foreign direct investment (FDI) crossing national borders are unprecedented. More importantly, much like international markets for goods, many OECD countries are sustaining net deficits in foreign direct investment, as volumes of outward FDI consistently exceed volumes of inward FDI. Finally, unemployment rates in many OECD countries have been high for over a decade, which some believe is a result of these trends in trade and investment. These trends in market integration and unemployment levels in OECD countries call for a reexamination of the effects globalization has on the modern welfare state. In the sections that follow I discuss the potential effects of each of these developments on investment, employment, and growth. I further discuss the ways in which these economic trends create financial pressures for reforms of social insurance programs.

A host of scholars have examined potential relationships between welfare state expenditures and competitiveness, but there still is no concensus on whether or not these expenditures do threaten competitiveness. This dissertation will not enter into this debate. Instead, I will present evidence that some OECD countries are, in fact, less competitive than others in increasingly open markets, and I will examine the relationships between these trends and reforms of social insurance policies. It should be noted, however, that there is growing belief that that trade liberalization may be necessary for continued economic growth, despite its at least temporary harm it may bring to some workers in OECD countries (Hanson 1998). Also, independent of any empirical link between the welfare state and competitiveness, there is growing belief among key constituent groups and policymakers that welfare state taxes and expenditures discourage investment and reduce international demand for a given country's exports, which in turn threaten economic growth in that country (Jordan 1998:9, Rhodes 1998, 1996:308). Given the growing belief that policymakers should avoid increases in payroll taxes to address these financial pressures, the desire to foster the competitiveness of their industries should make it difficult for OECD countries to sustain large welfare programs that increase costs of production and reduce returns to capital investment.

Trade

The connections between trade, the risk of unemployment, and changes to welfare programs should result from two trends. First, cross-national differences in both wage and non-wage labor costs may produce significant differences in the final costs of goods and services. As a result, some countries will import goods that are less expensive than those produced domestically. Second, international demand for exports originating in these countries is likely to fall if prices for their goods are higher than substitutes produced in other countries. Declining domestic and international demand for goods produced in these countries would produce higher rates of unemployment that persist over the long run.[8] Therefore, instead of total volumes of trade, the relationship between exports and imports in each country should be incorporated into quantitative analysis used to test these competing theses.

Foreign Direct Investment

As laborers often make us of capital in production, investment is clearly necessary to sustain levels of production and increase demand for labor. This would in turn reduce unemployment and stimulate growth. It is true that FDI constitutes a small portion of the fixed capital stock in OECD Countries, but volumes of both inward and outward FDI are increasingly rapidly in some countries. If volumes of outward FDI consistently exceeded volumes of inward FDI in a given country, and volumes of capital originating in that country (e.g. reinvested corporate profits) could not offset the deficit, then growth in stocks of physical capital would slow. If the growth of physical capital slows and supplies cannot keep up with growing populations or the entry of more women into the pool of potential laborers, the demand for labor would stagnate and unemployment rates should rise (see Mishra 1993).[9] In sum, as volumes of outward FDI exceed volumes of inward FDI, these trends should lead to higher unemployment rates. For these reasons, the relationship between inward and outward foreign direct investment in each country should be incorporated into quantitative research linking trends in capital markets to reforms of welfare state programs.

The effects of investment deficits on unemployment and economic growth should not be as strong as the effects of trade deficits for two reasons. First, as long as the stock of fixed capital is growing, albeit at a slower pace due to net deficits in FDI, the rate at which the labor supply grows will determine the adequacy of capital to employ labor. If the labor supply grows

slowly as well, domestic sources of capital may suffice to maintain adequate demand for labor. Second, despite significant growth in FDI in recent years, it still comprises a much smaller percentage of GDP than does trade for all of the countries examined here. Therefore, FDI deficits will have less of an impact than trade deficits demand for labor and aggregate levels of production.

As a matter of fact, deficits in FDI may stem from two very different causes. The first is described above; owners of capital invest overseas specifically to avoid high costs of production such as wages, taxes, and payroll contributions. This is commonly referred to as "capital flight." But deficits in FDI may also result from saturated investment markets. Consider that domestic corporate profits are the largest source of capital stock for the countries examined here. In a strong economy, the growth of capital available for investment could outpace the growth in the labor supply. In this situation owners of capital could invest overseas without curbing demand for labor. Neither unemployment rates nor growth rates would be hurt as a result. A thorough examination of these various relationships between investment and unemployment rates is beyond the purview of this dissertation. However, in Chapter IV I test for the relationship between trends in trade and FDI and unemployment rates among these fourteen countries, controlling for partisanship and the presence of strong labor unions. The results from this analysis will provide insight into the nature of deficits in FDI among these countries and the likely impact on reforms of social insurance programs.

The focus on Social Insurance

The relationship between globalization, unemployment, and welfare state programs in OECD countries should be as follows. Social insurance programs are financed through employer and employee payroll contributions, and these contributions are generally earmarked for specific programs. These contributions increase the cost of production, and may render goods and services produced in these countries less competitive relative to goods and services produced in other countries. This lack of competitiveness leads to higher rates of unemployment until industries and labor markets adapt to competition in the world market. Higher unemployment rates would simultaneously increase aggregate expenditures on unemployment cash benefits while decreasing aggregate payroll taxes that fund all social insurance benefits.

As a rule, payroll taxes should cover the entire costs of these social insurance programs. Deficits, which require supplemental funding from general revenues, should not occur. So given higher rates of unemployment, in order to prevent deficits policymakers would have to either increase payroll tax rates or reduce aggregate expenditures. As payroll taxes should be partially responsible for these high rates of unemployment in the first place, increasing payroll taxes should prove difficult as market integration proceeds. Hence, these high unemployment rates should create pressures to adopt reforms aimed at reducing (or at least controlling the growth of) aggregate expenditures on all social insurance programs.

In contrast, social welfare programs are financed through general government revenues that are collected primarily through individual and corporate income taxes. These taxes do not directly affect costs of production or the competitiveness of industries, so they are unrelated to unemployment rates. One could argue that corporate income taxes influence the decisions of owners of capital as to where they will invest. As such, they may indirectly influence the competitiveness of affected industries. However, these taxes also finance much costlier programs, such as defense, regulatory programs, and infrastructure development, so social welfare expenditures represent a small portion each corporation's total tax burden. Reducing aggregate expenditures on these programs would do little to facilitate the reduction of corporate income taxes. Therefore, trends in global market integration should not produce financial pressures to reduce social welfare expenditures. In sum, developments in global market integration should have direct effects on employment-related social *insurance* programs, but not on social *welfare* programs. For these reasons, I have chosen to focus my research on reforms of employment related social insurance programs, rather than the array of welfare state programs that OECD countries provide their citizens.

Falling exports, rising imports and deficits in FDI should create incentives to reform social insurance programs in at least three ways. First, as indicated above, these trends should contribute to rising unemployment, which will produce strictly financial pressures to reform these programs. Second, these economic trends should produce divergent interests between labor unions in "competitive" export industries versus labor unions in noncompetitive industries and government. This division would prohibit their willingness or ability to bargain for economic and labor market policies that include generous social insurance benefits. Globalization also undermines the legitimacy of those laborers' demands for more generous

social welfare benefits, because these generous benefits would necessitate increases in payroll taxes. Third, globalization provides owners of capital an exit option. Policymakers should therefore avoid increases in payroll taxes that might encourage this exit and indirectly inhibit economic growth.

High Unemployment Rates

One key aspect of the earlier compensation thesis literature (Cameron 1978 and Katzenstein 1985) that recent supporters of this thesis seem to overlook is that, although many workers in these small states perceived themselves to be at risk of unemployment, aggregate unemployment rates in these countries were actually relatively low. Aggregate expenditures on these benefits grew relatively slowly, and these programs remained viable. In contrast, unemployment rates in many OECD countries (especially in continental European countries) have been very high for nearly a decade, driving up aggregate expenditures on unemployment cash benefits.[10]

Reforms of social insurance programs would alleviate financial pressures on these programs in at least three ways. First, reforms that either increase social insurance revenues or control the growth of aggregate expenditures would alleviate financial pressures in the short-term. Second, reforms that control aggregate expenditures would allow for cuts in employers' payroll taxes, which should reduce labor costs. This costs savings should stimulate demand for goods produced and therefore for additional labor. Third, reducing gross replacement rates of social insurance benefits would provide greater incentive to individuals receiving benefits to pursue employment. This would contribute to overall productivity while simultaneously reducing aggregate social insurance expenditures. To the extent that these reforms stimulate competitiveness and economic growth, they would represent long-term solutions to financial pressures on social insurance programs.

Weakening Labor's Claim for Generous Benefits

The comparative literature has thoroughly documented the decentralization of bargaining and the declining strength of unions relative to employers since the mid- 1980s. Changes in the composition of union membership have reduced the capacity of labor unions to act collectively (Moene and Wallerstein 1993; Lange, Wallerstein, and Golden 1995). Thus far, however,

several authors have attributed these changes to de-industrialization, which has led to conflicts within unions because the interests of blue collar and white-collar workers differ (Moene and Wallerstein 1993). Others claim that a shift in production from large to small plants, flexible work schedules, etc. that both produce divergent interests among workers and make it difficult for unions to organize (Pontusson and Swenson 1996; Pontusson 1995).

Some scholars argue that union members' interests regarding economic and social welfare policies are influenced by their ability to compete in the international economy. In general, those unions engaged in non-competitive enterprises such as services, public employment, and non-export industries will continue to support higher taxes and social welfare and insurance benefits that labor unions have traditionally supported. In contrast, those unions engaged in competitive, export-oriented industries will oppose increases in payroll taxes and benefits, and support wage flexibility that should allow their wages to rise. In fact, it should be in their purely rational economic interests to ally with owners of capital seeking trade liberalization (Frieden and Rogowski 1996; Pfaller et. al. 1991). To the extent that unions are divided in their interests, they will lack the political clout to bargain for generous benefits or elect policymakers pledged to raise payroll taxes to fund increasing aggregate expenditures.[11]

Perhaps more important than the influence of economic trends on labor unions strength and coordination, the need for competitiveness in open markets should undermine labor unions' traditional claims for generous social insurance benefits that require high rates of employer payroll taxes. This should be true even in those few countries in which labor unions remain relatively strong and centrally organized. To be clear, I argue that it should be especially hard for weakened labor unions to push for more generous benefits in the face of increasing aggregate expenditures. This does not imply that cuts in social insurance benefits should be more prevalent where labor unions are weak. Constituents in OECD countries still largely support generous social welfare and insurance benefits. Independent of labor unions, these constituents can influence both the electoral and policymaking processes through a variety of channels in order to oppose cuts in benefits.[12]

Strengthening Capital's Claim for Moderate Payroll Taxes

Some scholars argue that increasingly mobile capital poses a minimal threat to the social welfare state. They claim that the cost of labor plays a minimal role in decisions to invest

overseas. Instead, the skills of the labor force in a given country, access to raw materials, and transportation costs are all more important factors in these decisions. In fact, the vast majority of foreign direct investment is exchanged among OECD countries with comparable welfare states (Hirst and Thompson 1996). However, as volumes of FDI increase, and especially as volumes of outward FDI exceed volumes of inward FDI, the threat of capital exit becomes more credible. Therefore, while the effect of deficits in FDI should be weaker than the effect of trade deficits on unemployment and growth, rising outward FDI signals increasing opportunity for owners of capital to invest overseas, making capital's exit option more credible. Therefore, growing investment deficits as a result of increasing outward FDI should produce incentives to reform social insurance programs independent of, or in addition to, effects on unemployment and growth rates.

Other Sources of Reforms not Addressed Here

Before proceeding with my revision of the efficiency thesis and my specific predictions for reform, I should make clear what I am trying to accomplish and how the arguments and the evidence that follows should fit with the current literature. My goal here is not to dispute those scholars who have identified domestic labor market and demographic trends as causes for reforms of social welfare and insurance programs in OECD countries. For example, rising numbers of pensioners relative to workers contributing to pay-as-you-go pensions schemes have required reforms of these programs in order to keep them viable. Japan is a notable example; replacement rates for old age and disability pensions were cut as early as the late- 1970s, which preceded a 50% increase in the number of elderly in the next 15 years. Rather, my goal is to demonstrate that, in addition to these domestic economic and demographic factors that affect welfare state policy development, trends in global market integration have played a role as well.

I also don't dispute the observation that partisan politics (e.g. incumbency of right parties) are responsible for reforms of social welfare and insurance programs in these countries. Certainly welfare reforms that the Thatcher and Reagan administrations adopted in the U.K. and the U.S., respectively, are well documented. To demonstrate once again that economically liberal parties hostile to welfare state taxes and expenditures have instituted reforms of these programs would add nothing new to this debate. Rather, my goal is to establish the political institutions that would render economically necessary reforms of social insurance policies more

likely even when left and Christian Democratic parties traditionally committed to these programs control government. Such reforms will be unpopular among constituents supporting these parties because they undermine the short-term interests of those constituents receiving benefits, or who view themselves as at risk for becoming unemployed and having to rely on these benefits. Therefore, politicians representing these parties face challenges to reform programs without incurring electoral backlash.

The Enabling Influence of Political Institutions

The financial pressures addressed above cannot directly lead to reforms of social insurance programs; policymakers must respond to these pressures and enact legislation mandating such reforms. Therefore, it is important to determine under which circumstances policymakers give preferences to policies that foster long-term economic growth over policies that foster short-term income redistribution. As many scholars have claimed, I argue that political institutions are critical in determining these incentives. Again, laborers and the unions and parties that represent them also desire low rates of unemployment and strong economic growth, which are necessary to fund social insurance programs. Therefore, if economic growth is threatened, then policymakers must adopt policies aimed at restoring economic growth as a means of funding these social insurance programs. So short-term sacrifices must be made in order to keep social insurance programs viable. But these reforms are likely to meet with resistance from those who will immediately be hurt by such reforms.

Pierson (1994, 1996) claims that social welfare reforms differ qualitatively, and not just quantitatively, from welfare expansion. Politically active constituencies have developed around these established programs. And while cuts in benefits will seriously alienate those who depend on targeted programs, budgetary reductions won't be significant enough to secure electoral support of taxpayers. Therefore, instead of claiming credit for expansion of social welfare programs, politicians must strive to avoid blame for retrenchment. Therefore, policymakers intent on reforms will avoid political backlash if they enact reforms that are difficult for constituents to identify, thereby allowing themselves to "avoid blame" for these reforms.

Institutions That Foster Blame Avoidance

As an extension of Pierson's central claim, I argue that political institutions allowing individual politicians to avoid blame for policies of retrenchment would foster the adoption of social insurance reforms. Bargaining and voting within coalitions that takes place in multi-party legislatures make individual accountability difficult (Powell and Whitten 1993; Shugart and Carey 1992). As a result, proportional representation and multi-party legislatures should allow policymakers to avoid blame for policies that may sacrifice limited short-terms interests as a means of serving broader long-term interests. Therefore, states with inclusive, or consensual, policymaking institutions will be better able to respond to the economic imperatives to reform their social insurance policies as a step towards restoring healthy levels of unemployment and growth. Independent of constituents' particular interests, then, these political institutions enable policy change.

One might argue that multi-party government renders policy change difficult because of the many interests that are represented in the policymaking process. In contrast, majority parties can adopt reforms without addressing the interests of opposing parties and their constituents. But again, reforms of social insurance programs are bound to be politically unpopular in most of these countries. Even Thatcher and Reagan met with resistance when instituting reforms despite an apparent conservative mandate that elected them into office (Pierson 1994, 1996). If we take the view that these reforms will be unpopular and would put accountable parties – certainly a majority party – at risk of electoral backlash, then multi-party legislatures are in a better position to adopt reforms than are majority party legislatures.

Institutions That Encourage Cooperation

As indicated in Chapter II, several scholars have lauded institutions that facilitate consensual policymaking because the former encompass broader segments of society and produce policies which favor the general interests of society as a whole (Crepaz 1996; Goodin 1996; Huber and Powell 1994; Lijphart 1984; Olson 1982). But because these institutions grant access to poor, otherwise under-represented groups, these scholars have argued that they also facilitate the expansion of welfare state policies. But if one examines the effects of these state institutions independent of constituents' policy preferences, the key findings indicate that collective veto points encourage policy change of any kind. This is because collective veto

points provide both the electoral and legislative incentives for policymakers representing varied interests to compromise in order to enact legislation, rather than to compete with one another at the risk of reaching a stalemate. Parliamentary government provides legislators and executives the incentives to cooperate and enact legislation, as the cabinet is accountable to the legislature. Proportional electoral systems often produce multi-party legislatures and governments that prevent narrow interests held by any one party to dominate the content of legislation.

Given the incentives that collective veto points provide policymakers, these institutional arrangements "enable" governments to adopt legislation of any kind (Lijphart 1984; Lijphart and Crepaz 1991; Huber and Powell 1994; Crepaz 1998; Birchfield and Crepaz 1998). I also argue that political institutions fostering policymaking that incorporates the varied interests – such as both the short-term and long-term interests of laborers and owners of capital – should encourage reforms in efforts to improve competitiveness and economic growth. In short, these institutions provide policymakers with incentives to adopt responsible long-term economic and social welfare policies goals.

Institutions That Disperse Policymaking Authority

The same literature cited above has found that states with political institutions comprised of competitive veto points, or decentralization of political authority, have not expanded their welfare state programs at the rate that states comprised of collective veto points have done. These scholars argue that competitive veto points often produce deadlocks and prevent policymakers from adopting policy changes, including expansions of welfare state expenditures that mitigate earned income inequalities. For example, while minority groups such as owners of capital and the right wing or neo-liberal parties that represent them may not gather enough support for policymakers to adopt reforms that serve their interests, they may be able to veto reforms that contradict their interests. In doing so, these minority groups may block the adoption of reforms that serve the interests of larger, more powerful groups. The conclusion is that these competitive veto points are inimical to the interests of those who benefit from these social welfare and insurance programs.

Again, if we examine the effects of these competitive veto points independent of constituents' social welfare and insurance preferences, we find that these competitive veto points "disable" governments from making significant policy changes of any kind. Single member

district representation provides legislators the incentive to serve the narrow interests of their constituents, even if they contradict party platforms. As a result, it may prove difficult for even the majority party in the legislature to adopt policy changes because individual members of the party may stray from the party line if their constituents oppose the policy in question. (Of course it should be easier for right-wing parties than left or Christian Democratic parties, given their traditional opposition to generous welfare state programs.) Strong bicameralism magnifies this effect because it provides constituents opposed to such policies with two avenues to influence the legislature. Presidential government may produce divided government, which often results in a deadlock between the legislature and the president who must either approve or veto policies the legislature adopts. And finally, federalism provides constituents with yet another avenue to block policies that they oppose. In sum, it should be more difficult to adopt policy changes of any kinds in states with disabling political institutions. This would include reforms of social insurance programs, even when the economic imperative to do so is present.

An extension of this argument would posit that concentration of political authority in unitary governments with unicameral legislatures would foster policy change more readily than in governments with dispersed policymaking authority. However, the relationship of the executive to the legislature is likely to have a greater impact on policymaking than the number of chambers in the legislature. Also, to the extent to which policies are truly national in their scope and the degree to which varied interests are represented in the national legislature are likely to have more of an impact on policymaking than the distinction between federal and unitary states. Therefore, while states with dispersed policymaking authority may be less likely than those with concentrated authority to adopt policy change, the distinction between enabling and disabling political institutions should be stronger predictors of policy reforms.

The Influence of Labor Unions on Economic and Social Policies

Labor unions can influence the policy process as a result of their numbers, coordination or centralization, and their formal incorporation into the policymaking process. As indicated in Chapter II, strong labor unions have traditionally been associated with expansion of welfare state programs. In this chapter I cited evidence showing that in many countries levels of union density and centralization have fallen. However, weakened labor unions should not render social welfare and insurance benefits more vulnerable to cuts, as laborers can act independent of labor

unions to oppose cuts in these popular benefits. In contrast, cuts should be more likely in those countries in which labor unions remain strong and centrally organized. This is because encompassing labor unions cannot externalize negative consequences of their demands, so they should consider the effects of social welfare and insurance policies on labor market and macroeconomic performance. For example, high payroll taxes that increase the cost of labor should decrease demand for labor and increase unemployment rates. Yet those who would become unemployed are likely to belong to these encompassing labor unions. To avoid this, encompassing labor unions should incorporate their social insurance policy preferences into larger macroeconomic and labor market policy goals (Garrett 1998; Mishra 1984; Olson 1982).

Much of the literature has focused on labor's bargaining directly with employers for wages, training and employer-provided benefits. For example, wage restraint can translate into greater demand for labor and lower unemployment rates (Compston 1997). But labor unions can influence government policies as well, by electing politicians pledged to support their economic, labor market, and social policy goals. Therefore, strong and encompassing labor unions should encourage their members to support whatever economic and social policies will facilitate lower levels of unemployment and stronger economic growth. Such policies may include reforming social insurance benefits to control the growth of aggregate expenditures and prevent increases in employer social insurance contributions that increase the costs of labor. However, even where the interests of labor unions are formally incorporated into the policymaking process, politicians acting on behalf of their parties within the legislature are ultimately responsible for the adoption of reforms. Therefore, all else being equal, the effect of large and encompassing labor unions on the incidence of policy reforms should be stronger than most of the literature would predict, but will not be as strong as the effect of enabling institutions.

To summarize, global market integration exposes industries in OECD countries to international competition in markets for both goods and capital. Some OECD countries are losing FDI, and incurring trade deficits. In many OECD countries, unemployment rates are persistently high and economic growth has slowed. If states are to restore unemployment rates and economic growth to acceptable levels, they should have to reform their social insurance programs. But such reforms will be difficult for many constituent groups, and opposition to those reforms could be strong. Therefore, reforms are likely only where political institutions encouraging cooperation and responsible policymaking are present. So while these institutions

were associated with the expansion of welfare state programs in the past, they will be most likely to produce reforms when the economic imperative is present.

The Influence of Partisanship

Social Democratic parties and Christian Democratic parties have traditionally championed both full employment and generous social welfare programs. Social Democratic parties are more likely to support universal benefits that are awarded to any citizens in need, regardless of past labor market involvement. It's true that states in which Social Democratic parties have traditionally controlled government do award more generous benefits to those with substantial histories of employment and social insurance contributions, but flat-rate benefits that are awarded to those with minimal labor market involvement do provide an acceptable standard of living. In contrast, states in which Christian Democratic parties have traditionally controlled government are more likely to have adopted social insurance programs that discriminate among recipients, providing very generous benefits to those with relatively long employment and high wages and social insurance contributions, but less generous benefits to those with sporadic work histories or relatively low wages and payroll contributions. Despite these differences, control of government by either Social Democratic or Christian Democratic parties has traditionally been associated with generous social welfare and insurance benefits. Conversely, right wing parties traditionally support social welfare and insurance programs as a last resort for citizens unable to ensure their own welfare by securing employment, or relying on personal savings and private insurance. Therefore, control of government by right wing parties has traditionally been associated with relatively meager social welfare and insurance benefits.

While Social Democratic and Christian Democratic parties support generous social welfare and insurance benefits, both view government policies that maximize demand for labor as a greater priority. It is therefore reasonable to argue that waning competitiveness among OECD countries might prompt Social Democratic and Christian Democratic parties that control government to reform social insurance programs in efforts to reduce aggregate expenditures. This would forestall further increases in employer contributions in order to stimulate demand for domestically produced goods, attract foreign direct investment, and boost demand for labor. But these reforms would cause immediate hardships for constituents relying on social insurance benefits, and they would be unlikely to produce these positive economic outcomes in the short-

run. Therefore, unless electoral rules or political institutions make it difficult to hold individual parties accountable for reforms, they risk losing future elections to parties pledged to reinstate social insurance benefits.

Given the need to preserve constituents' short-term interests as a means of maintaining control of government, Social Democratic and Christian Democratic parties are unlikely to hasten reforms in response to negative responses to globalization. Conversely, reforms should be more likely in those states in which right-wing parties control government, because these parties will seize upon economic hardships such as high unemployment rates and slow economic growth as excuses to curtail social insurance expenditures to which they are already generally opposed. That said, I believe that the influence of partisanship should be strongest when examining the character of reforms (e.g. cutting gross replacement rates, tightening eligibility criteria, or increasing payroll contributions), rather than the incidence of reforms.

The conclusions that I have reached about the economic trends, financial pressures on social insurance programs, and political incentives that should encourage reforms of these programs are illustrated in Figure 1 below. These argued effects that formal political institutions and the incorporation of strong, encompassing labor unions on social insurance policies in this era of globalization stand in stark contrast to conclusions in the literature about the effects of these political determinants in the past. If these relationships are evident, they will indicate that globalization has, indeed, caused significant changes in welfare state policymaking.

On the surface, high rates of unemployment and slow economic growth should produce financial pressures for reforms. These reforms are most likely in cases where economic factors render aggregate payroll taxes unable to keep pace with aggregate expenditures. Several scholars have identified domestic causes of these high unemployment and slow economic growth. However, I will show that trends in globalization are also partially responsible for these economic trends. As a result, both unemployment and economic growth rates are endogenous to the structural model depicted in Figure 1 below; globalization is ultimately at least partially responsible for these financial pressures for reforms.

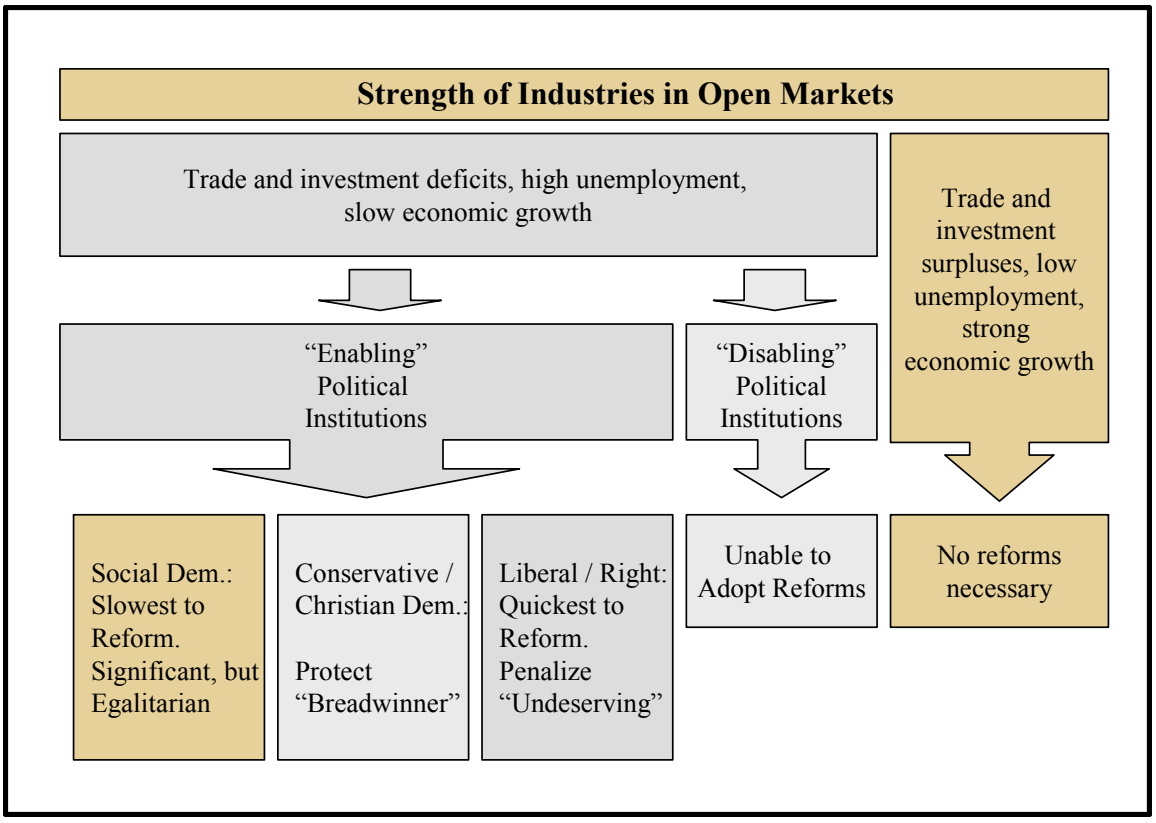

Figure 1: The Relationship Between Trends in Globalization and Reforms of Social Insurance

GLOBALIZATION AND SOCIAL INSURANCE: A CURVILINEAR RELATIONSHIP

Both the compensation and efficiency theses fail to account for the *interaction* between domestic political factors on the one hand, and international economic constraints on the other. The compensation thesis argues that domestic political factors drive policy changes while the efficiency thesis argues that international economic constraints drive policy changes. According to much of the current literature, as unemployment rates rise and wage inequality increases, most states should compensate dislocated workers with generous social welfare benefits in the short run. This is because the political support of the unions and Social Democratic and Christian Democratic parties to which they are affiliated is necessary for continued economic integration. Owners of capital cannot easily use the threat of exit to resist such policy changes because the costs of exiting may be too high; costs of liquidating physical capital, training labor in other countries, and transporting final products may prevent profitable production elsewhere. These

are among the reasons for which previous claims of capital's "privileged position" over labor in the policy domain (Lindblom 1977) did not seem evident in the development of welfare policies. In other words, laborers can use their numerical strength to push for social welfare expansion as long as opportunity costs of domestic investment are not high enough to prompt capital exit.[13]

As unemployment and wage inequality worsens, however, tax rates would have to rise in order to maintain the level of each recipient's benefits. As those cost of social welfare rises, the opportunity costs of investment rise and the threat of exit becomes more credible. If large volumes of capital were invested in foreign markets instead of domestic markets, growth rates would be threatened -- an almost universally undesirable outcome. Because open capital markets prevent policymakers from forcing compliance from owners of capital, policymakers must instead encourage their continued investment. Therefore, policy changes should serve the interests of owners of capital despite their small numbers; replacement rates and benefits per recipient will decrease in order to serve the interests of owners of capital. Of course the short-term interests of capital foster the long-term interests of laborers, as these policies would eventually stimulate investment and employment.

In sum, the relationship between global market integration and changes to social insurance programs should be curvilinear. This curvilinear relationship will be most evident in those states with enabling political institutions, as well as strong and encompassing labor unions. This is because these institutions have been identified with significant social welfare and insurance programs in the past, so initially the relationship should be positive. However, I argue that these institutions should be the most likely to reform social insurance programs where the economic imperative is present, so the relationship will become negative.

To date, only one other scholar has tested for this curvilinear relationship, although not testing for the specific interactions that I specify. Hicks (1999) argues that open markets for goods and capital should prompt governments in OECD countries to foster more competitive industries by reducing non-productive costs, e.g. welfare state taxes and expenditures. However, Hicks does not differentiate between those whose industries are thriving and those that are struggling in open markets for goods and capital. Nor does he account for interaction between economic and political variables; he treats political variables such as state structure, labor union organization, and partisanship separately from economic variables. But his predictions for the effects of these variables follow the precedent of existing literature; Hicks argues that social

democratic parties and labor unions should continue to defend welfare state programs, thereby mitigating economic pressures for retrenchment. He also argues that "exclusionary" political institutions (what I label "disabling" institutions) should promote retrenchment. Finally, Hicks uses general measures of welfare effort, rather than measures of employment-related social insurance benefits, as his dependent variables. Hicks' mixed results lend only tentative support to his arguments. However, given my measures that better capture both trends in globalization social insurance policy outcomes, I expect to find stronger evidence in support of this proposed curvilinear relationship.

An Alternative Measure of Welfare Effort

Yet another reason for which recent quantitative research has not identified widespread retrenchment is that much of this research defines retrenchment as either convergence around the residualist welfare state model, or privatization of social welfare and insurance programs that amount to dismantling of these programs. But these definitions of retrenchment that are both too rigid and unrealistic. The idea that the Scandinavian, social democratic welfare states would respond to pressures from globalization by adopting reforms that render their welfare programs similar to the residualist welfare programs of the U.S. and the U.K. is unrealistic.

But any reforms among these countries that imposed restrictions on access to these benefits, such as requiring substantial past employment and social insurance contributions, or passing a means test, would represent retrenchment. This would be the case even if aggregate expenditures on these programs remained unchanged. Similarly, if the conservative, continental European welfare states adopted reforms that reduced gross replacement rates of social insurance benefits for even those workers who fulfilled maximum requirements for past employment and social insurance contributions, such reforms would represent retrenchment as well.

This project rests on the assumption that the social welfare state provides for those absent from the labor market due to old age, health problems, or unemployment, as well as for those who cannot for whatever reason maintain a basic standard of living (Gough 1979). As such, the welfare state substitutes for traditional modes to provide for these individuals, such as extended families and the church (*ibid*, Esping-Andersen 1990). If one defines the social welfare state in this way, it is clear that any reforms that shift the growing financial burden of the welfare state back onto households represent retrenchment. This would include a shift from programs that

provide benefits on a universal basis to programs that either award benefits based on past employment or contributions or to programs that provide only meager benefits to those who pass means tests (Clayton and Pontusson, 1998). This would also include the reduction of gross replacement rates of benefits and tightening of eligibility criteria that determine one's access to these benefits. This definition of retrenchment contrasts that which is applied by much of the existing literature, which defines retrenchment as either dismantling of welfare state programs, or at least convergence around the residualist model.

Policymakers have at their disposal many options for controlling the growth of aggregate expenditures on social insurance programs, which in turn should control the growth of business' welfare burden:

1) Policy makers may increase employee contributions to social insurance schemes.
2) They may cut replacement rates of social insurance benefits.
3) They may restrict access to benefits, thereby decreasing the number of beneficiaries

The array of options available to policymakers that shift the financial burden of unemployment benefit programs onto households can be divided into four categories (see Figure 2). Options (A) and (B) increase aggregate revenues by shifting the burden to the entire working population. Options (C) and (D) control the growth of aggregate expenditures by reducing the number of recipients or reducing the amount that each receives; in both cases they shift the burden directly to those who need to rely on these benefits. Any one of these options would alleviate financial pressures on employment-related social insurance programs. However, most quantitative research on the welfare state explores only Option (C). I argue that quantitative research needs to examine all the components of social welfare and insurance programs, such as contributions and eligibility criteria.

A logical extension of Pierson's (1994) claim for the need to "avoid blame," would dictate that allowing the real value of gross replacement rates for benefits to fall would be the most politically feasible option for reform. In some OECD countries, benefit amounts are specified (i.e., a specific number of national currency units), rather than replacement rates (i.e., a percentage of lost wages). Policymakers can avoid indexing replacement rates to increases in wages or inflation without enacting explicit, easily identifiable reforms. In fact, they could even increase benefits by small amounts while still allowing the real replacement rate to fall. An

advantage of this option is that it produces immediate relief of financial pressures on these programs as aggregate payroll taxes will rise with increases in wages.

Reforms of eligibility criteria should also be politically feasible because current beneficiaries would generally not be affected if eligibility criteria were changed. Tightening eligibility criteria governing the receipt of sickness, disability, or unemployment benefits would disqualify future beneficiaries who are unaware at the time that they will need to rely on these benefits in the future.[14] In the case of old age pension programs, workers plan to rely on these benefits, but they discount reforms that will affect them because the effect will be experienced in the distant future. A disadvantage of this strategy is that relief of financial pressures on social insurance programs may not be realized for several years.

	Impose "Direct" Costs	**Tighten Eligibility Criteria— Limit Access to Benefits.**
Increase Revenues	(A) **Increase employee payroll contributions** (percentage of wages)	(B) **Increase number of workers contributing to insurance schemes** • Require a longer history of work and contributions
Reduce Expenditures	(C) **Decrease replacement rates** of cash benefits • Lower ceiling on tax-exempt income or benefits	(D) **Decrease number of recipients** • Greater penalties if one refuses offers of employment • More waiting days for unemployment benefits • Shorten duration of benefits

Figure 2: Options for Reforms

Finally, in several OECD countries the replacement rates for benefits are specified, expressed as a percentage of lost wages. In these countries, policymakers would have to adopt

new policies in order to decrease replacement rates. Again, this strategy would provide immediate relief of financial pressures on these programs. However, as benefit recipients would also immediately feel the effects of these reductions, and would be able to identify explicit policy changes prompting these reductions, this strategy is the least likely of the options addressed here.

While the impact of reforming eligibility criteria would be less immediate and perhaps less severe than cutting replacement rates, such reforms would definitely represent retrenchment of these programs. In fact, reforming eligibility criteria may contradict widely held political and social values more so than cutting replacement rates. Again, the most influential literature on the welfare state identify these criteria as the key factor distinguishing cross-national differences among welfare states because they preserve values that different political groups seek to further through their welfare state programs (Pierson 1994 and 1996; Huber, Ragin, and Stephens 1993; Esping-Andersen 1996 and 1990; Furniss and Tilton 1977). Therefore, a combination of factors, such as the number of individuals that particular programs benefit, the size of these programs and the employer contributions they require, and the values that these programs (as well as particular aspects of these programs) foster should all influence politicians' choices for reforms. In Chapter IV I will examine only resulting replacement rates, and not the specific causes of these changes. However, in Chapter V I will examine the sources of any changes to replacement rates of benefits.

HYPOTHESES

Based on the arguments presented in this chapter, I put forth the following hypotheses, which will be tested in Chapter IV.

1) Employer contributions to social insurance schemes increase non-wage labor costs and therefore increase the final costs of goods and services. These higher costs may render these goods and services less competitive in an increasingly integrated global economy. As a result, unemployment rates would rise. Therefore, I expect to find a positive relationship between employer contributions and unemployment rates.

2) Based on arguments presented throughout these three chapters, net deficits in both trade deficits and FDI in a given country should, all else being equal, reduce demand for labor. Therefore, I expect the relationships between my measures of net deficits in trade and investment on the one hand, and unemployment rates on the other, to be positive.

3) Net deficits in trade and investment should, all else being equal, inhibit economic growth. Therefore, I expect the relationships between my measures of net deficits in trade and investment on the one hand, and economic growth rates on the other, to be negative.

4) As high rates of employer contributions should contribute to the persistently high rates of unemployment observed in many OECD countries since the mid- 1980s, I expect the relationship between these contributions and net replacement rates for these social insurance benefits to be negative. As employer contributions and unemployment rates rise, policymakers are encouraged to reform these programs in order to forestall increases in employer contributions that might further exacerbate unemployment levels.

5) According to the current literature, policymakers should respond to workers' dislocation from the labor market resulting from waning competitiveness with more generous social insurance benefits. However, as trade deficits grow, policymakers should have to reform these programs and control costs in order to forestall increases in employer contributions and restore competitiveness of domestic industries. Therefore, the relationship between net deficits in trade and social insurance benefits should be curvilinear.

6) Policymakers should also have incentives to reform social insurance benefits in order to control costs and continue to attract foreign direct investment. If domestic sources of capital are leaving a given country faster than foreign sources of capital are entering this country, this incentive grows stronger. Therefore, I expect the relationship between net deficits in FDI and social insurance benefits to mirror the relationship between net deficits in trade and social insurance benefits. This relationship will also be curvilinear, with benefits rising with these net deficits to a point, but then falling as net deficits continue to rise.

7) Enabling political institutions will magnify the independent effects of net deficits in trade and investment outlined above. I expect that the interactive effect of enabling political institutions and these economic measures on social insurance benefits to be curvilinear, and that this relationship should be stronger than for economic trends alone. Conversely, disabling political institutions should inhibit policy reforms in response to these economic pressures.

8) The interactive effect of strong and cohesive labor unions and net deficits in trade and investments should mirror the effects of enabling political institutions. In addition to the independent effects of the measures of trade and investment on social insurance benefits, I expect the interaction of my measure of labor union strength and cohesiveness and these economic measures also to be curvilinear.

9) I expect that the relationship between the interaction of trends in globalization and partisanship on the one hand, and social insurance benefits on the other will be weaker than the relationships between institutional variables and these benefits. Instead, I expect evidence of the effects of partisanship to be strongest when I examine specific types and timing of reforms of these programs.

Chapter IV presents trends in imports and exports, inward and outward FDI, and unemployment rates and economic growth rates in fourteen OECD countries from 1973 to 1995. Next, I will present indices showing the degree to which political institutions in these countries are comprised of enabling versus disabling political institutions. I will also present an index that measures the degree to which labor unions are strong and encompassing (or the degree to which social corporatism influences the policy process). Based on the combined effects of economic pressures and the influence of political institutions, I will make predictions as to which countries should reform their social insurance programs.

Chapter IV also presents the values of adjusted replacement rates for all four social insurance programs in each of these countries over the period 1973 to 1995. Just as much of the literature has argued, my measure of adjusted replacement rates shows that social insurance programs generally became more generous from the 1970s through at least the mid- 1980s in nearly all of the countries included in this study. However, starting in the mid- to late- 1980s, reforms that produced falling adjusted replacement rates were just as widespread as previous increases had been. The coincidence of these reforms with the economic and political conditions that I address will certainly not be enough to infer causality. Therefore, I also present the results of regression analysis that tests the effects of both economic and political variables on these adjusted replacement rates. If these relationships are statistically significant, and in the direction that I anticipate, such relationships will lend support to my hypotheses.

Chapter V presents a discussion of the potential affects of partisanship on reforms adopted and present data on partisan composition of governments in these countries during these years. Based on this information, I will make predictions as to what types of reforms – and to which programs – these countries should adopt. An examination of the specific types of reforms adopted, the timing of these reforms, and in particular the parties in power when these reforms were adopted, will provide yet another test for my hypotheses.

CHAPTER IV

GLOBALIZATION AND RETRENCHMENT REVISITED

INTRODUCTION

The discussion in Chapter II indicates that the disagreement in the current literature over the effects of trends in global market integration on social insurance outcomes stems from at least three sources. First, there is disagreement in the literature as to whether social welfare and insurance expenditures help or hinder competitiveness of domestic industries in OECD countries. Second, there is disagreement over whether reforms are widespread or not, and whether those reforms that have been adopted represent minor "adjustments" or more significant retrenchment of those social welfare and insurance programs. Finally, there is very limited quantitative evidence linking trends in global market integration to these reforms. Therefore, while many scholars agree that some reforms have taken place, there is little evidence that globalization is the cause.

In this chapter I will present evidence that represents significant step towards resolving each of these controversies. First, I will show that deficits in trade and foreign direct investment that countries incur largely as a result of exposure to open markets are associated with the persistently high unemployment rates and low rates of real economic growth that many OECD countries have experienced in recent years. Second, I will show that when one accounts for the broad range of reforms to social insurance programs that policymakers may adopt, the evidence that reforms of these social insurance programs aimed at controlling aggregate expenditures on these programs is quite clear. And finally, I will show that the relationships between net deficits in trade and foreign direct investment (FDI), as well as total employer contributions to social insurance schemes on the one hand, and reforms of social insurance programs on the other, are both in the expected directions and statistically significant.

SOURCE OF DATA AND METHODS

Now that I have presented my arguments linking trends in global market integration to reforms of social insurance programs, the following review of these trends in recent years serves as the background for my predictions for such reforms in the countries included in this study.

Most of the research examining effects of globalization on the welfare state uses data from the early 1970s onward, claiming that the OPEC oil shocks signaled a new era for economic and social policymaking in which domestic politics were inextricably intertwined with international economics. Evidence of expansions of welfare state programs in virtually all OECD countries throughout the 1970s and most of the 1980s abounds (Iversen and Cusack 1998; Crepaz 1998; Birchfield and Crepaz 1998; Huber, Ragin and Stephens 1993; Hicks and Swank 1992; Hicks and Swank 1984; Pampel and Williamson 1989). And while I take issue with some of the methods included in these research projects, my measure of adjusted replacement rates indicates that most programs grew more generous throughout the 1970s and early 1980s. So while some scholars start their analysis of welfare state policy changes in the early 1960s (Swank, 2001; Hicks, 1999; Hicks and Swank, 1992), the analysis that follows starts with 1973, which should be early enough to discover early reforms of these social insurance programs where they occur.

Much of the recent research on the welfare state also includes the same eighteen OECD countries that, along with Luxembourg, constitute the nineteen advanced industrial countries that have been democracies since World War II. These countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany[15], Ireland, Italy, Japan, Netherlands, Norway, New Zealand, Sweden, Switzerland, the United Kingdom, and the United States. These states are studied time and again to assess economic and social policy outcomes because their economies are very similar, but there is a great deal of variance among them in labor union strength, partisanship of government, as well as government structure. Therefore, cross-national differences in economic and social policies adopted can be attributed to political, rather than purely economic, differences. My study excludes Australia, Ireland, New Zealand and Switzerland from this group. Economic and political data for Ireland and Switzerland are incomplete, preventing me from including these countries in my regression analysis.

I exclude Australia and New Zealand because general revenues, rather than payroll taxes, fund their unemployment, pension, and sickness benefit. Also, these benefits are provided based on a means test, rather than one's history of employment or taxes paid. Therefore, these programs amount to social *welfare*, rather than social *insurance*. As indicated in Chapter III, I exclude all social welfare programs from this study. This is because they do not directly increase the non-wage costs of labor that may decrease aggregate demand for labor or discourage capital

investment, so they are not affected by trends in globalization. For these reasons, I exclude Australia and New Zealand entirely.

The four employment-related social insurance programs included in this study are old age pensions, disability pensions, unemployment insurance cash benefits, and sickness cash benefits. Eligibility criteria differ slightly for these four programs, and therefore so do policymakers' options for reform. For old age pensions, these criteria include (1) duration of required employment and contributions and (2) retirement age. For unemployment benefits, these eligibility criteria include (1) duration of required employment and contributions, (2) number of days one must wait after becoming unemployed before collecting benefits, and (3) the number of weeks for which one is disqualified from receiving benefits if one turns down offers of employment. Criteria for disability pensions include (1) duration of required employment and contributions and (2) proof of disability. Sickness benefit eligibility criteria (1) duration of required employment and contributions, (2) number of days one must wait before receiving benefits.

A few authors have attempted to include eligibility criteria in quantitative measures of welfare effort. Myles (1989), Esping-Andersen (1990) and Kangas (1991) each developed measures of the quality of welfare benefits that include not only the replacement rates of benefits, but also the duration of benefits and some eligibility criteria. Each of these works, therefore, make significant strides towards creating a measure of welfare effort suitable for quantitative analysis. However, each of these measures does have shortcomings.

Myles' index for the quality of pension benefits includes values assigned for several aspects of public pensions, such as maximum pensions, cost-of-living increases, and universality of coverage. Myles compares the pension programs of the countries in his study and ranks his six components, assigning values to them according to how generous or flexible they are relative to the other countries. A drawback to Myles' measure is that if all countries reform their pension programs, his qualitative index will not register these changes as long as the countries maintain their rankings. Therefore, this measure is best for cross-sectional comparisons at one point in time, rather than comparisons both across and within countries over time.

Esping-Andersen's (1990) measure ranks various social welfare and insurance programs of eighteen countries according to a range of eligibility criteria and benefit amounts. Like Myles' index, Esping-Andersen's is a qualitative index that compares the programs of these

countries and ranks the degree "de-commodification" according to their variance from the mean. Therefore, Esping-Andersen's index also will not register these changes as long as the countries maintain their rankings. Given the huge disparity in de-commodification of the welfare states he examines, it is easy to imagine that countries could adopt very significant reforms without changing their ranking compared to the other seventeen countries.

Kangas' (1991) index for sickness benefits combines 1) number of insured for daily sickness allowances as a percentage of the population 15 – 64, 2) the income replacement rate as a percentage of net wage, and 3) the number of waiting days before benefits can be collected. Then Kangas weights the replacement rate by four-sixths and the number of waiting days and coverage by one-sixth. These three components were then compiled into an additive index measuring the quality of social rights in sickness benefits. A drawback to Kangas' index is that he does not justify the reason for which he assigns these weights to the various components of sickness benefits. Also, his measure does not include required contributions to qualify for sickness benefits, such as the duration of employment or insurance contributions. Reforms of these criteria, particularly the former, could significantly limit one's access to benefits.

In order to incorporate each of these options presented in Figure 2 into a measure of welfare effort, I have developed a measure of "adjusted replacement rates" for social insurance benefits. An advantage of this measure is that it incorporates eligibility criteria, but can be used in quantitative analysis using very large data sets. The results of such an analysis should better complement the thorough case studies of such reforms in the current literature. This measure improves upon Myles', Esping-Andersen's, and Kangas' measures because it incorporates replacement rates, contributions, and the entire range of eligibility criteria that one must meet to qualify for benefits. The value of this measure will change if any aspect of a given social insurance program changes. Also, this measure can be used for both cross-national and longitudinal comparisons because it captures trends that may affect all countries in this study in similar ways. The formula for adjusted replacement rates is:

$$\frac{((\text{Gross Replacement Rate} * \text{Duration Benefits}) - (\text{Tax Rate} * \text{Duration Contribution}))}{(\text{Duration of Need for Benefit})}$$

- Duration of Benefits = (Duration of Benefits before penalties – Waiting Period – Disqualification)

- For old age pension benefits, duration of need for benefits is calculated by subtracting the retirement age from average life expectancy at retirement age.

- For disability benefits, these values are further divided by the degree of disability required to receive maximum benefits. Therefore, if the maximum disability benefit remains the same but legislation is adopted changing the required level of disability from, say, 85% to 100%, the adjusted replacement rate will fall.

Some might argue that the inclusion of disqualification periods overstates the impact of reforms because many unemployed individuals would accept their first offers of employment, thereby not incurring the penalty. However, I argue that the inclusion of this variable is justified, and it underestimates the full effects of reforms, at any rate. An increase in the period of disqualification from, say, two weeks to four would decrease the adjusted replacement rate by only about four percent. However, such reforms would force many individuals to accept unsatisfactory offers of employment, which would represent a significant change to such programs.

Eligibility criteria for all four programs, benefit amounts, and total employer payroll contributions for these programs come from *Social Security Programs Throughout the World* (Social Security Administration, various years). This publication presents policies in effect as of January 1st for each year included (odd years only). The OECD provides gross replacement rates for unemployment cash benefits, but not for the other three social insurance programs. For the remaining programs I calculated gross replacement rates based on benefit amounts. Many countries included in this study award benefits according to a specific portion of one's wages (e.g. 60% replacement rate), which represent the gross replacement rates of these benefits. Some countries assign either a flat amount or a specific amount for each year of contributions. Also, minimum or maximum earnings for contributions or benefits purposes are often mandated. In order to calculate gross replacement rates for old age pensions, disability pensions, and sickness benefits for those countries, I compared the amount of cash benefits to either industrial or non-agricultural wages using the *Bulletin of Labor Statistics*. Earnings statistics for United Kingdom were supplemented using *Statistical Yearbooks* for that country for various years. Some statistics for Denmark, Finland, Norway, and Sweden were supplemented using the *Yearbook of Nordic Statistics* for various years.[16]

Data on unemployment rates come from *OECD Historical Statistics*. Data on foreign direct investment, imports, and exports come primarily from the International Monetary Fund's *International Financial Statistics*. These data were supplemented with figures from the United Nations' *World Investment Report*, and the *OECD International Direct Investment Yearbook (OECD 1998)* for select years. In this chapter I present trends in imports and exports, as well as both inward and outward flows of FDI (all expressed as percentages of GDP), and predict reforms of social insurance programs where economic pressures and facilitating political variables make reforms likely. I argued in Chapter III that these trends should be examined separately, rather than combining them to create measures of market openness. However, I created a single measure for trade and a single measure for FDI for two reasons. First, as these measures are expressed in terms of GDP, fluctuations in GDP will change these measures independent of changes in volumes of trade or FDI. So, for example, if volumes of trade remained relatively constant, the nominal value of total trade would rise with inflation. But if increases in nominal GDP failed to keep pace with inflation, then the value of trade as a percentage of GDP would rise, even though volumes remained constant.

The second reason for which I use a single measure each for trade and investment is that measures for imports versus exports and inward FDI versus outward FDI may not provide statistically significant results. This is because regression coefficients represent the effect that a given independent variable has on the dependent variable *holding all else equal.* But, for example, rising imports produce entirely different effects on domestic demand for labor depending on whether they are coupled with rising exports (in which case domestic demand for labor may still be strong) or falling exports (in which case domestic demand for labor is likely to fall). Therefore, rather than examining these variables separately in the regression analysis, I have created indices that measure the ratio of imports to total trade and the ratio of outward FDI to total FDI. Values less than 0.5 these measures indicate net surpluses for trade and investment, respectively, while values greater than 0.5 indicate net deficits.[17] These values differentiate between "positive" and "negative" responses to globalization, unlike the widely used measures of market openness.

A drawback to the ratio of imports as a percentage of total trade is that it does not reveal differences in total volumes of trade between two countries; it only reveals the relationship between levels imports and levels of exports for a single country. Therefore, this ratio may be

similar for two countries and yet the extent to which trade influences the economic performance of these two countries may differ substantially. For example, as Tables 1 through 3 reveal, the value of this ratio is similar for Austria and the United Kingdom. Yet trade has a much greater impact on the economy in Austria than it does in the United Kingdom. In the 1980s and 1990s total trade in Austria was consistently above 50% of GDP. Conversely, that figure for the United Kingdom was much closer to 42% of GDP. Therefore, while the ratio of imports to total trade is similar for both countries, and this ratio indicates that both countries consistently incur trade deficits, that trade deficit is likely to have a greater impact on unemployment and economic growth in Austria than in the United Kingdom. Of course the ratio for outward FDI as a percentage of total FDI has the same drawbacks. Nevertheless, these measures are independent of fluctuations in GDP, capture cross-national differences in strength of export and investment markets, and can be used in quantitative analysis to test for curvilinear relationships.

State structure and cabinet partisanship variables used here come from Swank (2001). Measures for Left, Secular Center, Centrist Christian Democrat, and Right parties represent the proportion of cabinet positions occupied by those parties. The measures of enabling versus disabling political institutions incorporate most of the variables that several scholars have used in examining the impact of state structures on changes to welfare policies. These scholars build upon theories that Lijphart (1984) put forth about the effects of these structures on points of access that constituents have to affect the policy process, as well as on the incentives of elected policymakers. Some have created unweighted additive indices measuring the number of veto points, produced by the presence of presidentialism versus parliamentarism, federalism, bicameralism, electoral laws establishing proportional representation, the presence of multiparty government that may result from proportional representation, and referendum voting.

In Chapter III my arguments also build upon these theories, claiming that parliamentarism, proportional representation, and multiparty government should theoretically enable policymakers to adopt reforms. In contrast, the division of power that results from presidentialism, bicameralism, and federalism should disable policymakers from easily adopting reforms. However, I avoid using unweighted additive indices that other scholars use because the assignment of equal weight to each of these measures is arbitrary. If the institutional structures these measures represent exercise differing influences on the policymaking process, these unweighted additive indices fail to capture these differences.

Following the example set by Swank, I conducted correlation and principal components analysis using measures of proportional representation, number of effective parties, bicameralism of the legislature, federalism, and presidentialism versus parliamentarism. Not surprisingly, the measures of proportional representation and number of effective parties loaded on the same factor. I used these two variables to create a weighted standard score index of what Swank labels inclusive electoral institutions, which enable policymakers to adopt reforms in response to changing economic and political forces. Therefore, this factor represents the enabling political institutions on which I based my hypotheses in Chapter III. Bicameralism and federalism loaded on the same factor, and I used them to create a similarly constructed index of what Swank labels "decentralization of political authority," which prevents policymakers from adopting reforms in response to political pressures. Therefore, this factor represents the disabling political institutions on which I based my hypotheses in Chapter III.

Again following the example set by Swank, I use data on the organization of trade unions and the labor and industrial relations systems in these fourteen OECD countries to develop an indicator of social corporatism. These data come from Golden, Lange, and Wallerstein (1997). I use correlation and principal components analysis of dimensions of corporatism that should theoretically cohere. These include union density, inter-confederal concentration, confederal power as indicated by measures of control over strike funds and involvement in wage bargaining, and the level of wage bargaining. The measures of union density, confederal power, and level of wage bargaining load heavily on the same factor, so I use them to create a weighted standard score index to represent social corporatism. The measure of inter-confederal concentration loads on a separate factor, so it is excluded from the analysis.

Recently, a number of comparative scholars have acknowledged growing financial pressures on social welfare and insurance programs in many OECD countries, and reforms of these programs that policymakers have adopted in response. As discussed in Chapter III, however, there is very little evidence indicating statistically significant relationships between trends in global integration and reforms of social insurance programs. It is generally acknowledged that persistently high unemployment rates and slowed economic growth are producing financial pressures, but domestic demographic trends, and not globalization, are blamed for these domestic economic trends. Iversen (1998) offers convincing arguments that it is deindustrialization, rather than globalization, that leads to prolonged bouts of unemployment

for workers in OECD countries, and therefore to expansion of social welfare states through the late 1980s.[18] Pierson (2001) also believes the shift to services has been significant for welfare state legislation, but claims that lower productivity resulting from the shift from manufacturing to services sectors, maturing populations, and extensive commitments to welfare program expenditures have caused the fiscal pressures to reform welfare state programs. Maturing populations contribute to this increased pressure because it raises the number of pensioners receiving pensions benefits relative to the number of workers contributing to pension funds.

Huber and Stephens (1998) acknowledge that persistently high rates of unemployment are associated with the "rollback" of some social insurance programs, but blame rises in rates of female participation in the labor force for this unemployment. As the number of potential workers rises and demand for labor fails to keep pace, the unemployment rate will rise in response.

These scholars have put forth convincing arguments and evidence to explain some of the causes of recent reforms, but I disagree with the popular notion that trends in global market integration are unrelated to these reforms. In this chapter I will show statistically significant relationships between trends in global market integration and social insurance reforms, even when controlling for these domestic demographic factors. In my regression analysis, I include variables for the proportion of the working population employed in services to represent deindustrialization, the proportion of the working population that is female, and the proportion of the population that is over 65 years of age. While this measure captures the aging of populations in these countries, it is an imperfect measure of the trends that aging implies – growing numbers of individuals retiring from work and collecting old age pensions. Nevertheless, this is the best available measure of these trends. All of these variables come from Huber and Stephens' Comparative Welfare State Dataset (see Huber and Stephens 2001).

Trends in Global Market Integration

I now turn to recent trends in global market integration that should provide the source of predictions for reforms in these fourteen countries. Some industries in OECD countries may thrive in open markets for goods, services, and physical capital. For example, volumes of exports may be rising and even exceeding volumes of imports in recent years. Similarly, volumes of inward FDI may be rising and exceeding volumes of outward FDI in recent years as

well. In part as a result of these trends, unemployment rates may be relatively low and financial pressures on social insurance programs should be manageable. Therefore, no reforms of social insurance programs are necessary. Other countries experience negative responses to globalization, with imports exceeding exports and outward FDI exceeding inward FDI. Unemployment rates may rise in response to these trends, and financial pressures on social insurance schemes funded through payroll contributions will increase. As a result, reforms of social insurance programs may be necessary in order to keep these programs viable.

Figure 3 shows five-year averages for trends in imports versus exports for all fourteen countries from 1972 to 1994. This figure shows that, on average, total volumes of trade as a percentage of GDP increased substantially in these countries throughout the 1980s. Imports exceeded exports for the group of countries during this period, indicating that many countries experienced trade deficits as markets for goods became increasingly integrated. In the late 1980s volumes of total trade relative to GDP decreased, and exports exceeded imports, indicating that the trade positions of at least some countries had improved. Finally, in the early 1990s total volumes of trade relative to GDP declined once again. Exports continued to outpace imports, indicating that the trade positions of at least some countries had improved once again. Certainly there is substantial variation these fourteen countries, and these variations are revealed in figures discussed below. However, it appears that trade – to the extent that these deficits do affect unemployment rates – this effect should be strongest in the mid- to late- 1980s.

Tables 1 and 2 show five-year trends in imports and exports, respectively, for each of the fourteen countries included here. Table 1 reveals that most of these countries adhered to the average trends indicated in Figure 3; imports relative to GDP were at their highest points in the mid- to late- 1980s and the values of both measures generally fell in the first half of the 1990s. Table 3 presents the ratio of imports to total trade. For this measure, a value less than 50% represents a trade surplus, whereas a value of greater than 50% represents a trade deficit. Following arguments from previous chapters, independent of domestic developments that will affect demand for labor, net deficits in trade should dampen demand for labor, while net surpluses should increase it. In Table 3 the countries are listed from highest to lowest average values of imports as a proportion of total trade from 1980 to 1994. The exports markets of those countries towards the top of the table are generally not as strong as those towards the bottom of

the table. Independent of other factors, these countries should face stronger financial pressures on their social insurance programs.

The highlighted cells in Table 3 indicate periods in which this ratio was highest, as well as values within .02 of this highest proportion for each country. These highlights illustrate that imports as a proportion of total trade was highest in the 1970s in most of these countries. In fact, eight of these countries incurred trade deficits for most of this decade. However, the fourteen countries seemed to have divided into two distinct groups by the late 1970s. Those with the largest trade deficits in the 1970s continued to run trade deficits throughout the 1980s. In contrast, most of the countries with smaller trade deficits or even trade surpluses in the 1970s continued to improve their trade positions in the 1980s and early 1990s. The U.S., Austria, the U.K., Italy, France, and Belgium are not competing as well in the increasingly integrated global market for goods as are the remaining eight countries. In particular, Sweden, Germany, Norway, and Japan are faring quite well throughout the 1980s and early 1990s.

Trends in FDI differ substantially from trends in trade in most of these fourteen countries, as Figure 4 and Tables 4, 5, and 6 indicate. Foreign direct investment, measured as a percentage of GDP, is relatively small compared to trade in all fourteen of these countries. However, it has become increasingly relevant to the economies of these countries in recent years. First, Figure 4 shows five-year averages for inward and outward FDI for all fourteen countries included in this study. This figure shows two trends that should be relevant for the analysis that follows. First, in contrast to declining levels of trade (relative to GDP) in the late 1980s and early 1990s, average levels of FDI for the group increased substantially throughout the 1980s, and increased slightly once again in the early 1990s. Second, outward consistently FDI exceeds inward FDI, and the gap between these two measures widened for each five-year period through the late 1980s. Based on these trends, to the extent that net deficits in FDI do affect unemployment levels, this effect should be strongest in the late 1980s and early 1990s.

Tables 4 and 5 show five-year averages for trends in inward and outward FDI, respectively, in each of these fourteen countries. These tables show that most of these countries adhere to the trends in the group averages. Inward FDI is at its highest level in the 1990s in ten of the fourteen countries. Germany, Italy, the United Kingdom and the United States are the only exceptions to this trend. More importantly, average levels of outward FDI were at their

highest point in the first half of the 1990s in eight of the fourteen. For the remaining six, the highest average levels of outward FDI relative to GDP were in the late 1980s.

Table 6 shows five-year average values of the ratio of outward FDI to total FDI. For each country, highlighted cells indicate periods in which this proportion was highest, as well as values within .02 of this highest proportion. These highlighted cells illustrate that this ratio was highest in the late 1980s and early 1990s in nine of these countries. Only Belgium enjoys FDI surpluses in the early 1990s, although Finland experienced a dramatic shift from the 1980s and recorded equal levels of inward and outward FDI for the 1990s.

Total employer contributions for old age and disability pensions, sickness cash benefits, and unemployment cash benefits are presented in Table 7. There is significant variance across these fourteen countries in the value of total contributions, from an average of 34.2% of wages in Italy to an average of 5.9% of wages in Canada in the 1990s. In general, the value of total contributions has increased steadily over time. The value of total contributions was highest in eleven of the fourteen countries in the 1990s. Therefore, further increasing total employer payroll contributions to sustain higher aggregate social insurance programs, whether these higher expenditures were due to increased numbers of pensioners and unemployed or to more generous benefits, may be infeasible. This should be especially true for those countries with the highest total contributions.

The Influence of Intervening Political Variables

The literature has shown that Social Democratic and Christian Democratic parties, as well as encompassing labor unions have in the past been able to partially offset market forces that would otherwise increase unemployment rates. Countries in which Social Democratic parties have traditionally been very strong are able to offset market forces because relatively large proportions of their working populations are public employees, and are therefore fairly insulated from these market forces. These countries also tend to spend heavily on investment in both human and physical capital. Doing so bolsters aggregate levels of capital investment and also ensures that workers' skills match production needs. Countries in which Christian Democratic parties have traditionally been quite strong tend to invest in worker training programs for those who become unemployed. Finally, encompassing labor unions have agreed to pay cuts to boost demand for labor, and have also bargained for worker retraining programs

for those members who become unemployed. In contrast to the efforts of these countries, those countries in which right-wing parties have traditionally been fairly strong are generally less concerned with unemployment rates than they are with inflation, as the latter is more relevant to investment opportunities for owners of capital. Therefore, these countries generally do the least to offset market forces that drive up unemployment rates.

Table 8 shows five-year averages for the cabinet share for Social Democratic, Christian Democratic, secular center, and right wing parties for each of the fourteen countries examined here.[19] According to the arguments above, the influence of government partisanship on efforts to combat market forces that would otherwise increase unemployment rates should be strongest in Austria, Finland, Norway, and Sweden, as well as Germany in the 1970s and early 1980s, where Social Democratic parties have enjoyed considerable influence in government. This should also be the case in Germany in the late 1980s, as well as in Italy, the Netherlands, and to a lesser extent Belgium, where Christian Democratic parties have usually comprised cabinet majorities. Table 9 includes five-year averages for my measure of social corporatism that represents union density and union centralization.[20] Based on these measures, countries in which labor unions should exercise the greatest influence in combating high unemployment rates include (not surprisingly) Denmark, Finland, Norway, and Sweden.

UNEMPLOYMENT AND ECONOMIC GROWTH

Table 10 shows five-year averages for unemployment rates for each of the fourteen countries. For each country, I have highlighted the five-year period in which average unemployment rates have been highest. In eight of the fourteen countries, average unemployment rates were at their highest in the first half of the 1990s. In Belgium and Italy, average unemployment rates in the early 1990s were only slightly lower than their highest points from earlier periods. Only the Netherlands, the United Kingdom, and the United States showed substantially lower unemployment rates in the late 1980s and the early 1990s than they experienced in the mid- 1980s. For nearly all of these countries, then, purely financial pressures to reform employment-related social insurance programs stemming from high unemployment rates should be greatest in the late 1980s and especially the early 1990s. As I discussed in Chapter II and Chapter III, previous quantitative studies that end their analysis around 1990

would logically fail to capture retrenchment when financial pressures on social insurance programs make retrenchment most likely.

Table 11 shows five-year averages for real rates of economic growth from 1971 to 1995. A few trends that may influence economic pressures for reform are evident. First, the average rate of economic growth for these countries fell substantially from an average of over three percent in the 1970s to just 2.1 percent in the first half of the 1980s. After recovering to rates averaging about 2.9 percent in the late 1980s, average growth fell substantially again to 1.6 percent for the first half of the 1990s. Of course there is significant variation across these fourteen countries; Japan and Germany produced rates of economic growth in the late 1980s as high as they had since the early 1970s, whereas rates of economic growth in Sweden and Finland were significantly lower in the 1990s than they had been in the previous twenty years. These slowed rates of growth, combined with high rates of unemployment shown in Table 10, indicate that in several of these countries economic pressures to reform social insurance programs should have been strongest in the 1990s.

The efficiency thesis posits waning competitiveness in open markets for trade and investment would produce the rising rates of unemployment and falling rates of economic growth presented in the tables above. By contrast, several scholars have claimed that domestic economic and demographic trends are largely responsible for these trends in unemployment and economic growth. Therefore, they conclude, these domestic developments – and not trends in global market integration - are ultimately responsible for reforms of social welfare and insurance programs in recent years. These scholars have presented convincing evidence to support their claims. In order for the efficiency thesis to have merit, evidence to support the claim that trends in globalization affect both unemployment rates and economic growth rates is needed.

Table 12 shows the results of the regression including various demographic and political variables in an attempt to explain variation in unemployment rates in these fourteen countries. Of course changes in the independent variables should not have contemporaneous effects on the unemployment and growth rates, so each independent variable is lagged. Political variables are lagged one year. The demographic variables are also lagged one year. To smooth fluctuations in trade and investment, lagged three-year moving averages are used. As I had to omit one of the four party classifications from the regression, I omitted Christian Democrats. Therefore, the coefficients for each of the economic variables represent the relationship between that variable

and unemployment rates where Christian Democratic parties control government. I first address the effects of increased female participation in the labor market and the shift to service industries on unemployment rates, as argued by Huber and Stephens (1998) and Iversen (1998), respectively. The relatively large, negative coefficient for female labor force participation is surprising, indicating that where Christian Democratic parties control government, a one-point increase is associated with a 0.26-point decrease in unemployment rates. While Huber and Stephens' argument is very logical, this result contradicts that argument. However, this result must be interpreted along with the interactive effect of parties and social corporatism. The positive coefficients for the interaction between female participation both left-wing and right-wing parties completely offset the interaction of female participation and CD government. Therefore, where left and right parties control government, female participation in the labor force yields a slight increase in the unemployment rate, just as Huber and Stephens predict. As many women recently entering the labor force are employed in services, it is possible that the inclusion of a measure of deindustrialization in this equation explains some of the same variation that female participation explains, producing these puzzling effects for female participation. In any case, as female participation in the labor force contributes to only marginally higher unemployment rates in some cases, I exclude it from the rest of my analysis.

The relatively large, positive coefficient for the proportion of the labor force engaged in services (Iversen's 1998 measure of "deindustrialization") supports Iversen's central argument; a one percentage point increase in services as a proportion of total employment is associated with a 0.13 percentage point increase in the unemployment rate.[21] This indicates that the shift towards services is associated with increases in unemployment rates among the countries examined here. Therefore, I will control for trends in deindustrialization in my regressions testing for the relationship between trends in globalization and reforms of social insurance programs.

As shown in Table 12, none of the coefficients for partisanship were statistically significant on their own. This indicates that, holding all else constant, partisanship alone does is not associated with differences in unemployment rates. In contrast, the coefficient for Social Corporatism is negative and statistically significant, indicating that the presence of strong and centrally organized labor unions is associated with a decrease in the unemployment rate. This result agrees with Compston's research (1997).

I first address the interactions of foreign direct investment deficits with these domestic political variables. In Table 12, the coefficient for the ratio of outward FDI to total FDI is positive, although it is also fairly small. This indicates that, when Christian Democratic parties control government, increases outward FDI relative to inward FDI are associated with small increases in unemployment rates. This result supports my arguments in Chapter III. In contrast, the coefficient for the interaction of right-wing parties with the ratio of outward FDI to total FDI is twice as large, and negative. This indicates that, where right-wing parties control government, increases in the ratio of outward FDI to total FDI are associated with small decreases in the unemployment rate. This finding might seem to contradict arguments that net losses in FDI may cause slowed growth in fixed capital and therefore adversely affect demand for labor. However, as I argued in Chapter III, countries may incur deficits in FDI without reducing the supply of fixed capital per worker if domestic sources of capital keep pace with the growth in the labor supply. This negative coefficient could indicate that, among these countries in which right-wing parties control government, deficits in FDI are the result of saturated investment markets in which unemployment rates are low.

The coefficient for the ratio of imports to total trade represents the relationship between this ratio and unemployment rates when Christian Democratic parties control government. This coefficient is large and statistically significant, indicating that where CD parties control government, a one percent increase in the ratio of imports to total trade is associated with a 0.18 percent increase in the unemployment rate. In contrast, the coefficient for the interaction of right-wing parties and imports is negative, although not as large as the coefficient for the ratio of imports to total trade on its own. So while the relationship between rising imports and unemployment is weaker when right-wing parties control government, it is still slightly positive. These findings largely support arguments that failure to compete in open markets for goods may dampen demand for labor and increase unemployment rates.

The positive coefficient for total employer contributions to social insurance schemes indicates that - where Christian Democratic control government – a one-point increase in employer contributions yields a 0.06 percentage point increase in the unemployment rate. This finding supports my arguments in Chapter III. High employer payroll contributions increase the cost of labor, reducing demand for labor and increasing the unemployment rate. In contrast, the coefficient for the interaction between left-wing parties and payroll taxes is negative, and slightly

larger than the coefficient for the interaction with Christian Democratic government. This indicates that, where left-wing parties control government, a one-point increase in payroll contributions is associated with slightly lower unemployment rates than where Christian Democratic parties controlled government.

Table 13 shows results of my analysis regressing real economic growth rates on the ratio of imports to total trade, the ratio of outward FDI to total FDI, the percentage of the population in services, and the percentage of the population over 65 years old. The coefficient for Services is positive and statistically significant. This indicates that, when controlling for aging populations and trends in globalization, the shift from manufacturing to services is associated with a slight increase, rather than a decrease, in economic growth rates. The coefficient for the proportion of the population over 65 years old is rather large and statistically significant, indicating that a one percent increase in the proportion that is elderly is associated with a 0.69 percent decrease in real economic growth. This is intuitive; as the proportion of the elderly (and, in most cases, retired) grows, the relative proportion of the population that is productive shrinks, and real economic growth should slow in response. The coefficients for the ratio of imports to total trade and for the ratio of outward FDI to total FDI are both negative and statistically significant, although the coefficient for outward FDI is quite small. Nevertheless, these results lend support to my arguments that as imports and outward FDI grow relative to exports and inward FDI, demand for labor and production falls, and rates of real economic growth fall in response.

In sum, while these results lend support to Iversen's arguments that domestic economic trends are partially responsible for persistently high rates of unemployment in many OECD countries in recent decades, they also contradict the claims by many scholars that trends in global market integration are *not* associated with recent high rates of unemployment in many OECD countries. Instead, the results in Table 12 show that the relationships between deficits in FDI and trade on the one hand, and unemployment rates on the other, are positive and statistically significant. Additionally, the relationships between deficits in both trade and investment and economic growth are negative and statistically significant. These results lend support to the claim that deficits in FDI may slow growth in fixed capital, leading to lower levels of production and therefore economic growth. The results in Tables 12 and 13 support these arguments, indicating that the efficiency thesis, or some variant of it, has merit. High rates of

unemployment and low rates of economic growth appear to be linked to lack of competitiveness in increasingly integrated world markets.

One way to increase competitiveness would be to decrease, or at least control, the cost of labor. This cost includes employer contributions to social insurance funds. If the growth in employer contributions to these funds is to be arrested, then benefits must be curtailed in order to prevent deficits. Based on these arguments, it follows that those countries with high rates of employer contributions, net deficits in trade, and net deficits in FDI face the greatest pressures to reform their social insurance programs in efforts to restore their competitiveness and foster more favorable levels of economic growth.

These regressions results above indicate statistically significant relationships between net deficits in trade and investment, and deindustrialization on the one hand, and high rates of unemployment and low rates of economic growth on the other. In the analysis that follows I regress adjusted replacement rates for social insurance programs on these deficits, payroll contributions, and the measure of deindustrialization. Again, as I indicate in Chapter III, unemployment and rates of economic growth are endogenous to the structural equation I have formulated; trends in globalization can explain changes in unemployment rates and economic growth, which in turn produce financial pressures for reforms. As these same variables explain much of the variance in unemployment and economic growth among these countries, I exclude measures of unemployment and economic growth from the analysis. Instead, I include measures of these economic trends, along with variables that represent the configuration of state institutions as well as partisanship. For even though high rates of unemployment may, on the surface, be the trigger for recent reforms of social insurance programs, it is domestic and international developments that have caused these high rates of unemployment that are ultimately the causes of financial pressures on these social insurance programs.

Specific Economic Trends in Each Country

Some of these fourteen countries have thrived in open markets for trade and investment; they enjoy trade surpluses, their net deficits in FDI are relatively small, unemployment rates are manageable, and economic growth is higher than many of the other countries included here. For these countries, economic imperatives to reform social insurance programs will be weak. In contrast, some countries are struggling in open markets for trade and investment; they

consistently run both trade and investment deficits, unemployment rates are high and rates of economic growth are low. In these countries, the economic imperative to reform social insurance programs should be strong. The extent to which these economic imperatives translate into reforms of social insurance programs will largely depend on the configuration of political institutions and, to a lesser extent, partisanship of government. These political factors and predictions for reforms are discussed below.

Countries Thriving as Markets Integrate

The economies of Japan, Germany, and the United States are fairly strong in the face of open markets for trade and investment. Volumes of FDI leaving Japan are almost ten times the volumes of FDI entering that country because policies limiting investment in Japan have rendered inward FDI almost non-existent. Apart from trade deficits resulting from its investment policies, Japan is thriving in increasingly integrated global markets. Japan has the largest trade surpluses of any of these countries, has among the lowest unemployment, and (until the 1990s) had among the highest rates of real economic growth. As economic trends included in the tables above indicate , the economies of Germany and the United States have also been fairly strong in the face of market integration, although not as strong as Japan. Therefore, trends in trade, investment, and unemployment should not produce financial pressures to social insurance programs in these three countries in the 1980s and 1990s.

Countries Experiencing Economic Hardships Early

The Netherlands and the United Kingdom were among the first countries to experience trade and investment deficits as markets became slightly more integrated in the 1970s. The Netherlands incurred only slight trade deficits in the 1970s, but recovered in the early 1980s and incurred slight trade surpluses for the remainder of this period. In contrast, both investment deficits and unemployment rates were larger than in most countries throughout the 1980s. In addition, growth rates in the early 1980s were much lower than they had been in years before or since, and were lower than in nine of these fourteen countries for that time period. The United Kingdom consistently incurred substantial deficits in both trade and investment. Trade deficits were at their highest levels in the 1970s while investment deficits were at their highest in the early 1980s, due in part to economic “adjustment” under Margaret Thatcher. Growth rates have

hovered around 2.0 percent for much of this entire period, but unemployment rates were also at their highest, and quite high relative to the other thirteen countries, throughout the 1980s. In sum, trends in trade, investment, and unemployment should produce financial pressures to social insurance programs in these two countries as early as the 1970s and the first half of the 1980s.

Countries Experiencing Economic Hardships Later

Half of the countries examined here – Austria, Canada, Denmark, Finland, France, Italy, and Sweden – have experienced some combinations of trade and investment deficits, high unemployment, and slow economic growth beginning in the mid-1980s. Specific trends in Austria and France are presented here, and trends in the remaining countries are summarized in the tables included above. Austria consistently runs one of the highest trade deficits among these countries throughout the period. Austria incurred relatively small investment deficits until the 1990s, when deficits were higher than most of the countries included here. Unemployment rates are consistently among the lowest of these countries, but they increased from an average rate of less than 2% in the 1970s to almost 3% in the early 1980s and about 3.5% in the late 1980s and 1990s. Economic growth rates fell sharply in the early 1980s and then, after recovering in the late 1980s, fell again in the 1990s. Trade deficits in France have eased slightly in recent years, but net deficits in FDI rose substantially in the 1990s. At the same time, unemployment rates rose substantially, just as rates of real economic growth have dropped sharply. In sum, economic pressures to reform social insurance programs should be moderate in these countries in the mid-1980s, and then quite strong in the 1990s.

Norway has experienced "mixed" responses to globalization. For the 1980s and 1990s, Norway's trade surplus and average growth rates are second only to Japan's. However, Norway's investment deficits increased dramatically in the 1980s. And although average unemployment rates are among the lowest for the 1980s and 1990s of the fourteen countries included here, they increased substantially in the 1980s and again in the early 1990s. Also, average growth rates in the late 1980s were lower than all other countries except for Denmark. Total employer payroll contributions in Norway are only slightly higher than the average for these fourteen countries. So while Norway's trade surplus is strong, recent trends in investment deficits, unemployment and (for at least the late 1980s) economic growth make moderate reforms of social insurance programs starting in the late 1980s likely.

Finally, Belgium is a special case among these fourteen countries, given trends in trade and investment unemployment, and economic growth. Belgium has the highest average unemployment rates and among the lowest real economic growth rates. But these trends seem to be independent of trends in globalization. Belgium exports almost as much as it imports, and Belgium enjoys the highest investment surplus of any country included here. Total employer contributions in Belgium are about average. Given these high rates of unemployment and low rates of growth, reforms in Belgium may be likely, but I admit that these reforms would unlikely be in response to trends in global market integration.

The Influence of Institutions on the Feasibility of Reforms

Reforms of social insurance programs would alleviate financial pressures they are now experiencing. But reforms are also likely to meet with resistance from those who relying on social insurance benefits, who also may not realize how these reforms may eventually benefit them. As I argued in Chapter III, the extent to which political institutions foster or inhibit "responsible" policymaking will influence the likelihood of reforms being adopted in response to these financial pressures. Those countries with enabling electoral institutions, strong social corporatism, and concentration of political authority (as represented by low or negative scores for the measure of disabling institutions or decentralization of political authority) should be the most likely to adopt reforms.[22]

As indicated in Table 9, Belgium, Denmark, and Finland have the most enabling electoral institutions as a result of electoral laws instituting proportional representation that contributes to the existence of large numbers of effective parties. Italy and Sweden also have fairly enabling electoral institutions, while the Netherlands' electoral institutions are highly enabling in the 1970s and less so in subsequent periods. Norway's electoral institutional are also fairly enabling, becoming more so in the 1990s. If economic conditions for reform are ripe, the effect of enabling electoral institutions in these countries should be to facilitate such reforms. In contrast, electoral institutions in Austria, France, and Germany are less enabling, so the adoption of responsible social insurance policies in response to the financial pressures stemming from globalization should be more difficult. Finally, the electoral institutions of Canada, the U.K., the U.S., and to a lesser extent Japan are highly disabling, indicating that coordinated and responsible policymaking is unlikely. Certainly, these four countries stand out as the most

economically liberal of the countries examined here. To the extent that right-wing parties control government, they can and have adopted reforms of social welfare and insurance programs. The disabling effects of these political institutions should be more evident during the times that the left and secular center control government.

As I argued in Chapter III, strong social corporatism should also facilitate the adoption of responsible economic and welfare policies aimed at restoring the competitiveness of a given country's industries. In addition to enabling electoral institutions, Denmark, Finland, Norway, and Sweden all have strong social corporatist traditions (see Table 9). Social corporatism is also fairly strong in Belgium and Austria, as well as The Netherlands until the late 1980s and Italy until the 1990s. Finally, social corporatism is very weak in Canada, France, Japan, the U.K., the U.S and (at this for the period under observation) Germany. This lack of social corporatist bargaining, combined with the lack of enabling electoral institutions, renders these countries less likely to adopt responsible economic and social policies that would contradict the short-term interests of large numbers of recipients.

Disabling political institutions, represented by the presence of strong bicameralism and federalism, are intended to provide divide policymaking authority among various branches of government and inhibit policy change of any kind. The intent, therefore, is to protect the status quo. As indicated in Table 9, these political institutions are most disabling in Germany, the U.S. and to a lesser extent in Canada. These institutions are also fairly disabling in Belgium. In contrast, the configuration of political institutions concentrates policymaking authority more so in Austria and to a lesser extent in Italy, Japan, and the Netherlands. And finally, policymaking authority is most concentrated in Denmark, Finland, France, Norway, Sweden, and the U.K. Among this latter group of countries, those with enabling electoral institutions and strong social corporatism should be most likely to adopt reforms of their social insurance programs in response to economic imperatives to do so.

PREDICTIONS FOR REFORMS

The economic and political factors included in all of the figures and tables above that should influence the incidence of reform are summarized in Table 14. In order to determine if these economic trends and political variables were "very low," "low," "mid," "high," or "very high," I compared the average value for the entire period (e.g. average unemployment rate or

average value of social corporatism for 1973 to 1995) for a given country to the first quartile, median, and third quartile for the entire group. Of course some judgment calls were needed, based on peculiarities of the data. Nevertheless, these categorizations should provide useful information for predicting reforms in each country. Values of "very low" or "low" for economic trends indicate that financial pressures for reform should not be present. Conversely, values of "high" and "very high" should indicate the presence of financial pressures. Values of "very low" or "low" for Enabling Institutions and Social Corporatism indicate that institutions are not enabling, so reforms are likely if financial pressures are present. Conversely, values of "high" or "very high" for these variables indicate that lack of enabling institutions should inhibit reforms even where financial pressures for reform are present. In contrast, high values for Disabling Institutions should inhibit reforms, whereas low values should foster them.

Given their negative responses to globalization and the presence of enabling electoral institutions, strong social corporatism, and concentration of policymaking authority, Denmark, Finland, and Belgium should be the most likely of these countries to adopt significant reforms of their social insurance programs. Sweden's electoral institutions are not quite enabling, although government authority is highly concentrated, and social corporatism is strong. Therefore, Sweden is also likely to adopt fairly significant reforms. These predictions stands in stark contrasts to the predictions put forth in virtually all of the literature examining the relationship between trends in global market integration and the development of social welfare and insurance policies.

The Netherlands has also experienced negative responses to globalization, as has Italy in the 1990s. Both of these states have moderately enabling social and political institutions. Government authority is slightly dispersed and social corporatism wanes from moderate to weak. Still, given the importance that enabling political institutions should play, modest reforms of social insurance policies in both countries are likely in these countries as well. However, they should be more limited, or the adoption of such policies may be delayed when compared to the countries with more enabling policymaking institutions, more concentrated authority, and stronger social corporatism.

As indicated above, both Austria and France have experienced trade and investment deficits, as well as high unemployment rates in recent years. Government authority is fairly concentrated in Austria and social corporatism is strong. Additionally, government authority is

highly concentrated in France, although social corporatism is weak. However, electoral institutions in Austria and France are weakly exclusive, making reforms of social insurance programs more difficult than in the countries addressed above. As a result, reforms in Austria and France should be fairly limited.

The U.K. experienced deficits in investment and investment, slowed economic growth, and nearly a 100% increase in its unemployment in the 1970s. Canada experienced similar trends in investment, unemployment, and growth, but not until the 1990s. Economic pressures to reform social insurance programs should have been fairly strong for these two countries, although at different times. However, given the lack of enabling electoral institutions or social corporatist bargaining, combined with fairly decentralized policymaking authority, reforms in Canada are unlikely. Policymaking authority is more concentrated in the U.K., but given the lack of enabling electoral institutions and social corporatism, reforms are unlikely when other than right-wing parties control government.

Finally, responses to globalization have been largely favorable in Norway, Germany, Japan, and the United States. In addition, these latter three countries lack enabling electoral institutions, social corporatism is weak, and policymaking authority is decentralized. So, even if economic trends warranted reforms, they would likely be politically infeasible unless right-wing parties enjoy popular mandates to reform these programs.

POLICY OUTCOMES

Trends in adjusted replacement rates for all four social insurance programs for each country are presented in Figures 5 through 18. Instead of addressing each in detail, this section compares policy outcomes to my predictions outlined above. The assessment as which each of these countries has adopted significant, modest, or minimal reforms, is of course, open to interpretation. The assessments below are based on the relative sizes of each of the programs, the number of programs affected, and the size of the reductions in adjusted replacement rates for benefits.

First, these programs differ considerably in the size of aggregate expenditures and the rates of payroll contributions that fund them. Old age pensions constitute the largest social insurance expenditures in all fourteen countries, increasing from an average of 6.1% of GDP for all fourteen countries in 1980s to an average of 7.7% of GDP in 1995. Unemployment cash

benefits constitute the second largest amount of expenditures, from 1.4% of GDP in 1980 to a high of 2.3% of GDP in 1993, falling to 1.9% of GDP by 1995. Expenditures on disability benefits were, on average, nearly as large as expenditures on unemployment benefits; the average for these countries grew from 1.5% of GDP in 1980 to 1.9% of GDP in 1995. Finally, sickness benefits constitute by far the smallest expenditures, from around 0.8% and 0.9% of GDP in the 1980s, and falling to between 0.6% and 0.7% of GDP in the early 1990s (OECD sources). Therefore, reforms of old age pension benefits will constitute the most significant reforms, followed by reforms of unemployment and disability pensions, and then by sickness benefits. The number of programs reformed will also determine the extent to which reforms are significant, modest, or minimal. In general, a country that has reformed all four programs will certainly have adopted more significant reforms than a country that has reformed one or two programs, particularly if old age pensions are not among them. Finally, the size of the reduction in adjusted replacement rates (ARRs) is important. For example, a country in which ARRs for old age pensions have ten percentage points or more will have adopted more significant reforms than a country in which ARRs for old age pensions have dropped by smaller increments.

Reforms in most of these fourteen countries support my predictions. In most cases, the combination of financial pressures on social insurance programs and enabling political institutions produced reforms aimed at alleviating these financial pressures. It is important to note that the countries whose reforms contradict my predictions do so because reforms were more significant or widespread than I predicted based on the disabling nature of their political institutions. In several of these countries economically liberal, right-wing parties control government. That fact that right-wing parties adopted these reforms is certainly in line with their values, and with the predictions of several scholars addressing the role of partisanship on welfare state policy development. These results indicate that these right parties were able to adopt reform despite the inability to avoid blame for these reforms. In that sense they contradict my predictions.

What is more noteworthy is that the significant reforms in several of these countries with inclusive political institutions, social corporatist bargaining, and left and Christian Democratic parties controlling government do, indeed support my predictions. The bulk of the comparative literature claims that reforms in most OECD countries have been very limited largely where

these domestic political factors all temper financial pressures for reform. The results presented here, as well as the regression results that follow, largely contradict this popular view.

In order to assess the overall impact of reforms of these four programs across all fourteen countries, I developed and index that multiplies the change in adjusted replacement rates times the size of the program (in terms of GDP) in the year the change in ARRs first started. I added each of the products for each of the four programs to arrive at the value of the index of reforms. These fourteen countries vary in both the timing and direction of policy changes (i.e. increase or decrease in ARRs). If the ARR for a given program increased throughout the period, I subtracted the highest value from the lowest, producing a negative number that indicates the absence of reform. If the value of ARRs decreased throughout the period, I subtracted the lowest value from the highest, producing a positive number indicating substantial reform. If the values of ARRs followed a curvilinear pattern, as they do in many cases, computing the index for reform was not as straightforward.

ARRs for these benefits in many of the fourteen countries generally follow the pattern that I predicted in Chapter III; they increase from the early 1970s to some point around the mid-1980s or 1990s, then they decrease as a result of reforms. Yet the post-reform value of ARRs in the 1990s might still be above the lowest value in the early 1970s. In order to capture the incidence of reform of these programs, I subtracted from the highest ARR the value of the lowest ARR <u>following</u> this high point. Conversely, a few countries adopted reforms that reduced ARRs by the early 1980s, but then subsequent policy changes caused ARRs to increase once again. In order to capture the nature of policy changes in these instances, I calculated the index of reform in two different ways. For the first index I subtracted from value for ARRs in 1973 the lowest value that followed (usually around the mid-1980s) producing a positive number indicating the incidence of reform. For the second index I subtracted the value for ARRs in 1995 from the lowest value preceding it, producing a negative number indicating the absence of reforms.

Adjusted replacement rates in ten of these fourteen countries generally follow one of the first three patterns described above. As a result, the values of the two indices were very close, if not identical. For the remaining four countries the values of the two indices differ, but not enough to change their relative rankings, nor the general assessment of the extent to which they reformed their social insurance programs.

Table 15 shows that reforms in most of the countries corresponded with the predictions outlined above. Generally, enabling political institutions allowed policymakers to respond to high rates of unemployment and economic growth that were in part due to trade and investment deficits, social insurance policy reforms are substantial. Conversely, where economic trends made reforms necessary but political institutions rendered them difficult to adopt, reforms were more modest. And finally, where economic trends made reforms unnecessary, they are either modest or non-existent.

Significant or widespread reforms were adopted in the Netherlands and Denmark, and to a lesser extent Germany and Belgium. Based on economic trends and political institutions in Denmark and Belgium, I predicted significant reforms in these two countries. I also predicted fairly significant reforms in the Netherlands due largely enabling political institutions. However, the results for Germany contradict my prediction. Germany's unemployment rate hovers around seven percent, which is higher than, for example, the U.S. and Japan, but lower than many European countries. In contrast, its total employer contributions are significantly lower than only Italy and Sweden. Still, given its disabling political institutions, these substantial reforms are surprising.

Reforms were also prevalent in Japan, Sweden, and to a lesser extent the United Kingdom. I predicted fairly significant reforms in Sweden, based on economic trends and enabling political institutions. However, by focusing on only the interactions of trends in globalization and political institutions and putting aside the influence of domestic demographic and economic trends, as well as partisanship, I predicted only moderate reforms in the U.K. and no reforms in Japan. The scale of Japan's overall reforms is driven almost entirely by reductions in adjusted replacement rates for old age and disability pensions. Japan experienced a rapid and substantial increase in the proportion of the elderly population in the 1970s and 1980s, placing significant financial pressures on its pension programs. Despite its disabling political institutions, Japan's right-wing Liberal government was able to adopt reforms to ease these financial pressures. When Prime Minister Thatcher took office in the U.K., unemployment and growth rates were modest and total employer contributions were lower than in any other European country except Denmark. Therefore, it does not appear that reforms were financially motivated. Instead, the ideological motivation behind Thatcher's reforms is well documented in the literature. Despite the fact that the U.K.'s institutions made it impossible for Thatcher or the

MPs to avoid blame for these reforms, they instituted them without any political backlash – at least not for many years.

As indicated in Table 15, Austria, Finland, Canada, France, and Italy all instituted modest overall reforms of their social insurance programs. The results for Austria and France are right in line with my predictions. Finland's economy has suffered in the 1990s and its political institutions are highly enabling. Therefore, I anticipated very significant reforms in the 1990s, but the reforms were modest. I also predicted reforms in Italy to be more prevalent than they turned out to be. Conversely, based on its disabling institutions, I expected reforms in Canada to be more slightly more modest than the value in Table 15 indicate. But the specific trends in adjusted replacement rates in Figure 7 for Canada are enlightening. The overall value of the index of reforms for Canada is driven almost entirely by reduction in unemployment insurance benefits. ARRs for old age, disability, and sickness benefits have been constant for several years. Therefore, the scope of reforms in Canada is actually very limited.

The policy outcomes in a few of these countries either contradicted or at least did not fully realize my predictions. However, most of my predictions made based on my central arguments presented in Chapter III applied to the economic trends presented in this chapter are support by the results outlined above. Two very significant results bear repeating. First, reforms in Denmark and Belgium are widespread, and reforms in Sweden have been substantial. Norway did not reform its programs, but also lacked the economic imperative to do so. Two contributing groups of factors led to these reforms. First, Denmark and Sweden incurred fairly large investment deficits in the 1980s, Denmark incurred substantial trade deficits in the 1980s, economic growth rates were very low for one or more five-year periods, and unemployment rates rose sharply above levels observable in the 1970s. Additionally, Belgium experienced high unemployment and slow economic growth in the late 1980s and 1990s. Sweden has experienced high unemployment and slow economic growth in recent years and has among the highest rates of total payroll contributions of all fourteen countries. Given these negative economic trends, purely financial incentives to reform these social insurance programs should have been strong. The second factor that led to these reforms was the configuration of social and political institutions that encouraged social corporatist bargaining, enabled policymakers through their electoral rules, and concentrated policymaking authority. All these factors encourage responsible policymaking that provides for the adoption of reforms aimed at controlling costs

and restoring competitiveness, even when doing so is contrary to the short-term interests of many constituents. Again, my arguments as to the effects that these institutions should have on facilitating the adoption of reforms runs contrary to the bulk of the scholarly research on the subject. Further, these results for Denmark and Sweden, while contradicting the dominant arguments in the literature, largely support my arguments presented in Chapter III.

The second significant result presented above included policy responses in both Canada and the United States. These two countries produced fairly different economic trends during this period. The U.S. responded generally favorably to globalization, so economic pressures to reform social insurance programs should have been weak. In contrast, Canada incurred large investment deficits, very high rates of unemployment, and very low rates of growth in the 1990s. Therefore, economic pressures to reform programs in Canada should have been strong in the 1990s. These two countries are similar in that their social and political institutional arrangements discourage social corporatist bargaining, electoral rules discourage inclusive policymaking (i.e. they lack enabling features), and policymaking authority is highly decentralized. As a result, these countries lack institutions that would encourage responsible policymaking that might contradict the short-term interests of constituents in order to secure broader long-term economic goals. Of course these disabling institutions are more relevant for Canada, given its economic hardships, than the U.S. Nevertheless, the policy outcomes in both countries are similar. Cost-saving reforms in both countries are modest at best, and in fact adjusted replacement rates for pensions – by far the costliest of all social insurance programs – increased in both countries just as most other countries examined here were reducing adjusted replacement rates. These outcomes again lend support to my predictions based on my central arguments presented in Chapter III, and contradict the bulk of the comparative literature that claims that these same political institutions should lead to less generous social welfare and insurance expenditures.

Regression Results

I now turn my attention to the results of my regression analysis, which will show that several of the relationships I addressed above are statistically significant, lending further support to my hypotheses. The coefficients for many of the variables included in the regression equations for long-term unemployment benefits were statistically significant, but so small as to

render them substantively insignificant. Therefore, although I presented trends in ARRs for these benefits in Figures 5 through 18 above, I exclude them from my discussion of the regression analysis that follows.

The curvilinear relationship that should exist between trends in global market integration and net replacement rates for these social insurance programs should result from two separate effects. First, financial pressures that these economic trends may cause will produce pressures to reform these social insurance programs independent of the effects of domestic political institutions and partisan preferences. Policymakers may respond affirmatively to calls for increased benefits from those workers dislocated by these trends in globalization to a certain point. However, as revenues from payroll contributions that finance these benefits fail to keep pace with increasing demands for these benefits, policymakers may be forced to reform these programs in efforts to curb aggregate expenditures. Second, where either political institutions create incentives to adopt responsible legislation aimed at increasing demand for labor and encouraging growth, or where parties in power are committed to fostering full employment, these political incentives may mitigate or even counter popular calls for increased benefits that may threaten employment and growth.

The regressions below were run using pooled cross-sectional and time series data (or panel data) including observations from the fourteen countries included in this study, for odd years from 1973 to 1995. The regressions were run with country dummies to control for fixed effects, as well as with lagged dependent variables. Because I include the lagged value of the dependent variables in these regressions, observations from 1973 were actually dropped and only odd years 1975 through 1995 are included. Therefore, a total of eleven years and fourteen countries are included in each regression, for a total of 154 observations. As the United States has no national sickness benefits program, the U.S. is excluded from the analysis for sickness benefits, so this regression has only 143 pooled observations.

The adjusted replacement rates for benefits are comprised of replacement rates and eligibility criteria in effect as of January 1st of each year. For reforms to be captured in this measure, they would have to be adopted in the previous year. Therefore, I lagged the political institutional and partisan variables by one year. The influence of economic variables on social insurance reforms will be less direct. Policymakers adopting a reform that becomes effective in year *T* must adopt such reform in year *T-1* at the latest. If financial pressures provide the

incentives for such reforms, then the lag between the onset of financial pressures and the adoption of these reforms would be even greater. Therefore, the most recent economic data including in the regressions are from *T-2*. Short-term fluctuations in trade and investment would affect unemployment and growth rates, but these latter economic trends are unlikely to prompt social insurance reforms. As I expect policymakers to adopt such reforms only after high unemployment rates and low economic growth rates have persisted for some time, I chose to smooth these fluctuations in trade and investment by creating moving averages. For each year included I created a moving average for exports as a percentage of total trade, outward FDI as a percentage of total FDI, and employer contributions, using the values in years *T-2, T-3,* and *T-4*. This smoothing prevents such short-term fluctuations to otherwise influence the regression results, as in reality they are unlikely to influence long-term unemployment rates or policy reforms. Data on the proportion of the population employed in services, female participation in labor force participation, and the proportion of the population over 65 do not fluctuate, though these figures have grown incrementally each year. Therefore, I use only lagged values of these measures, rather than lagged moving averages.

In sum, in the analysis that follows I regress adjusted replacement rates on lagged adjusted replacement rates, employer payroll tax rates the percentage of the workforces in services, the ratio of outward FDI to total FDI, and the ratio of imports to total trade, as well as squared terms for each of these economic variables. Further, I include my measures of enabling institutions, disabling institutions, social corporatism, as well as the proportion of cabinet occupied by left, Christian Democratic, and secular center parties. Finally, I include interactions between all of the economic and political variables.

To simplify this discussion, I refer to the ratio of outward FDI to total FDI as investment deficits, and the ratio of imports to total trade as trade deficits. In fact, only values of these two ratios above .50 represent deficits. But the relationships between these trends and reforms of social insurance programs should be strongest when deficits do occur, and the labels will simplify the discussion that follows. The regressions included here include squared terms for trade and investment deficits, as well as the ratio of the population employed in services, Iversen's (1998) measure for deindustrialization.

Where the coefficient for either trade or investment deficits are positive and statistically significant and the coefficient for the squared term for that variable is negative and statistically

significant, these results would indicate the curvilinear relationship between these economic trends and net replacement rates that I predict are indeed present. The same results for the interactions of these economic trends and the political variables I include would indicate that these political variables magnify this curvilinear relationship, which would give further support to my arguments in Chapter III.

Several scholars have denied that recent reforms of social welfare and insurance programs are the result of fiscal crises stemming waning competitiveness in the face of global market openness. Instead, these scholars claim that domestic developments such as the shift from manufacturing to less productive services, as well as maturing populations, are responsible for the fiscal pressures that have led to reforms. The results below will show that the relationship between negative responses to global market openness and reforms of social insurance programs is statistically significant independent of these domestic developments. Therefore, I first dispense with the results for these domestic trends. The coefficients for Services are positive, while the coefficient for Services-squared is negative, for unemployment cash benefits, disability pensions, and sickness cash benefits. These results indicate that the effect of the shift towards services is similar to my argued effects of global market integration for those countries that respond negatively to this integration. Holding all else constant, the effect of shifts towards services on adjusted replacement rates (ARRs) for these three programs is curvilinear; ARRs initially rise in response to increases in the proportion of the population employed in services, but then fall after a critical point is reached. Generally, when adjusted replacement rates rise up to the point at which the proportion of the population employed in services reaches roughly 60% for unemployment and sickness benefits, and 55% for disability benefits, and then fall as the proportion of the population employed services rises above these points. The proportion of the population employed in services exceeded 60% in most of these fourteen countries by the early 1980, and in all of these countries by 1990. According to these results, then, deindustrialization is indeed associated with reductions in benefits for these three programs presented above.

As shown in Tables 17 and 18, the coefficients for the proportion of the population over age 65 – Elderly – are negative, indicating essentially that increases in the number of retirees is associated with decreases in adjusted replacement rates for both old age and disability pensions. These results contradict central arguments of power resource theory, which would predict that growing numbers of retirees would exercise increasing influence on the policymaking process

and secure more generous benefits for themselves. In contrast, while this relationship is unrelated to globalization, it is related to my central argument that financial pressures on these social insurance programs should suffice to prompt reforms of social insurance benefits even though these programs enjoy popular support.

Independent Effects of Trends in Globalization

I included all of the economic and political variable specified above in each of the four regression equations. But for some programs none of these variables were significant, whether on their own or interacted with other variables. This was the case for the measure of social corporatism. While these variables were included in the regressions, they were excluded from the results in the figures below in order to simplify the presentation of the regression output. The full regression results are included Tables 3 through 6 in the Appendix. The independent effects of trends in globalization on reforms of social insurance programs are limited to old age and disability pensions. For these programs, the coefficients for trade deficits are positive, while the coefficients for the squared values of these variables are negative, and all are statistically significant. These results indicate that, independent of the either contravening or reinforcing effects of the political variables included in these regressions, the relationships between these trends in globalization and old age and disability pension benefits are curvilinear. All else being equal, increases in net investment deficits are associated with increase in old age pension ARRs until outward FDI reaches 60% of total investment, at which point ARRs decline. Similarly, increases in trade deficits are associated with increases in ARRs until the point at which imports constitute about 52% of total trade, at which point ARRs decline. As indicated in Tables 3 and 6, these levels of trade and investment deficits were common among the fourteen countries included here, especially in the 1980s and early 1990s. These results indicate that the curvilinear relationship between these economic trends and reforms of old age and disability pension benefits for many of these countries that are presented above are statistically significant.

Interactive Effects of Political Institutions

The coefficients for trade deficits interacted with enabling political institutions presented in Table 15 indicate that the interactive effects of these variables on adjusted replacement rates for short-term unemployment benefits are curvilinear. Increases in imports relative to exports in

states with enabling political institutions are associated with increases in ARRs for unemployment benefits until the ratio of imports to total trade reaches 50% and trade deficits are incurred. Beyond that point, further increases in imports are associated with reductions in unemployment benefits. The coefficients for the interactive effects of trade deficits and institutional variables are not statistically significant for the remaining three programs. However, the interactive effects of trade deficits with partisan variables are statistically significant. These results are discussed below, following the discussion of the interactive effects of trade deficits with institutional political variables.

The interactive effects of rising outward FDI relative to total volumes of FDI with each of the three types of institutional variables are statistically significant for several of these social insurance programs. Table 19 shows that for sickness cash benefits, the relationship between the interaction of investment deficits and enabling institutions on the one hand, and ARRs is curvilinear. Where electoral institutions are inclusive, increases in outward FDI relative to inward FDI are associated with increases in adjusted replacement rates until the point at which outward FDI reaches roughly 66% of total FDI. Increases in net investment deficits beyond this point are associated with decreases in ARRs for sickness benefits.

The relationship shown in Table 18 between the interaction of investment deficits and disabling political institutions on the one hand, and ARRs for disability pensions on the other would seem to logically follow from these argument. The coefficients indicate that in those states where disabling institutions are lacking (i.e. policymaking authority is concentrated) the relationship between trade deficits and ARRs for disability pension benefits is also curvilinear.

Table 16 shows that the relationship between the interaction of investment deficits and disabling political institutions on the one hand and short-term unemployment cash benefits on the other also indicate a curvilinear relationship, but these results do not support my hypotheses. Generally speaking, in states with institutions that decentralize policymaking authority or lack social corporatist bargaining, increases in outward FDI are associated with increases in adjusted replacement rates for unemployment benefits to a point, beyond which these replacement rates decrease. Given the extent to which these institutional configurations should discourage coordinated, responsible policymaking, these relationships are unexpected.

In Table 17 the coefficients for the relationship between the interaction of investment deficits and enabling political institutions and ARRs for old age pensions also shows a

relationship that is predominantly negative. However, at very high levels of investment deficits, this relationship but becomes weakly positive (producing a slight curvilinear relationship). While this result does not support my predictions about the initially positive relationship between dislocating effects of globalization and reforms of social insurance programs, it also seems to contradict the bulk of the literature that would claim that trade deficits leading to dislocation of workers should lead to increases in social insurance benefits.

Employer contributions of course are independent of trends in globalization. However, they are related to globalization in that increases in employer contributions may render domestic industries less competitive in international markets because these contributions increase the cost of production and decrease profits. The coefficient for employer contributions alone is statistically significant only for short-term unemployment benefits, but the result support my central claims. The negative coefficient indicates that increases in employer contributions are associated with decreases in ARRs for short-term unemployment benefits. This relationship is magnified by the interaction between employer contributions and social corporatism for unemployment cash benefits.

Interactive Effects of Partisanship

These regression equations include coefficients for the independent effects of government partisanship, but only the coefficient for secular center parties is statistically significant for old age pensions, while the coefficients for secular center, left, and Christian Democratic parties are significant for disability pensions. These coefficients are not surprising; they indicate that, independent of trends in globalization – and by extension, trends in unemployment and growth – adjusted replacement rates these pension benefits are higher where these parties control government than where right-wing parties control government.

The relationship between total employer payroll contributions and unemployment benefits is negative, and this relationship is reinforced by the presence of strong social corporatist bargaining. However, this relationship is countered by the interaction of employer contributions and the incumbency secular center parties, and in countries in which social corporatism is weak, the negative effect of increases in employer contributions may be completely offset. While the coefficients for total employer payroll contributions is not statistically significant for the other programs, the interactive effect of employer payroll

contributions with secular center parties is positive and statistically significant for old age pensions, and positive and statistically significant for disability pensions. These results indicate that the downward pressure on net replacement rates that employer contributions create are strongest when right wing parties control government, and are mitigated when parties center or left parties. These results support the wealth of literature arguing the tendency of left and even center parties to favor social welfare and insurance benefits more so than right parties.

In contrast to the relationship between the interactive effect of left and center parties and payroll taxes on ARRs for three of these programs, the relationship between the interaction of these parties and trends in globalization on ARRs is quite different. The coefficients for investment and trade deficits interacted with left and secular center parties indicate that the effects of these interactions on ARRs for old age pensions and disability pensions are negative. (The coefficients for the squared terms of trade deficits are positive, but the based on the size of the coefficients, these relationships would only become weakly negative at values of trade deficits of 0.52, 0.53 or higher.) As indicated in Table 3, deficits this large were rare, especially after the 1970s. Where center or left parties occupy government cabinets, the effect of rising trade or investment deficits is to push down adjusted replacement rates for these benefits. These results seem to counter the literature arguing that these parties should increase social insurance benefit above the levels that right-wing parties do. While I reserve my discussion of proposed effects of partisanship for the next chapter, these results deserve note. Again, contrary to the predictions of much of the literature, the influence of left and center parties on adjusted replacement rates for social insurance benefits when trends in globalization should produce financial pressures on these programs is to reduce benefits.

The results presented above indicate that several of the relationships between globalization and social insurance policy reforms implied by the predictions and policy outcomes presented here are statistically significant. These results lend considerable support to my hypotheses presented in Chapter III. These results also contradict the arguments put forth in the literature about the effects that state institutions and parties should have on policies responses when financial pressures for reform are present. However, based on the enabling effects of the institutions, these outcomes are to be expected. Of course there is considerable variation across these fourteen countries both in the timing of their reforms (e.g. the extent to which policy responses following the onset of financial pressures with either immediate or delayed) and the

types of reforms adopted (e.g. cutting gross replacement rates versus tightening eligibility criteria, or cutting benefits for universal pensions or more targeted unemployment benefits). These differences, and the extent to which partisanship of government affect these differences, are presented in Chapter V.

As discussed throughout Chapters I through III, several scholars have claimed that exposure resulting from trade openness (expressed as total trade as shares of GDP) puts workers at risk of dislocation, and therefore should be associated with pressures for greater social welfare and insurance expenditures. Conversely, some sholars argue that geater capital market openness (often expressed as the ratio of inward and outward FDI to GDP) gives owners of capital an exit option and should therefore be associated with reforms of social welfare and insurance programs. I have argued that directions of trade and investment, and not levels of openness, should affect unemployment and economic growth, and should therefore be associated with changes in social insurance legislation. The results presented above to support my claims. To test alternative claims about the influence of openness, I ran regressions for these social insurance programs with all of the same independent variables, substituting measures of trade and investment openness for my original measures of imports as a percentage of total trade and outward FDI as a percentage of total FDI and omitting any squared terms. These results are presented in Tables A-7 through A-10 in the Appendix. For unemployment benefits, the coefficient for Trade Openness is positive and statistically significant, but is entirely offset when interacted with either Left or Secular Center parties (Table A-7). The results for the other three programs are weak and really inconclusive.

As an additional test of alternatives to my arguments, I ran another set of regressions that duplicate my originals, except omitting the squared terms for the economic variables. These regressions therefore tested for linear relationships – either posititive or negative – between economic trends and reforms of social insurance programs. The results, are presented in Tables A-11 through A-14 in the Appendix. Table A-11 shows that the coefficient for Imports as a Percentage of Total Trade is negative and statistically significant, but neither trade nor investment are statistically significant for any of the other programs. These results give greater support my original findings, which showed that direction, and not just volumes, of trade and investment has an impact on social and insurance programs, and there is support for the claim that relationship between these trends and social insurance programs is curvilinear.

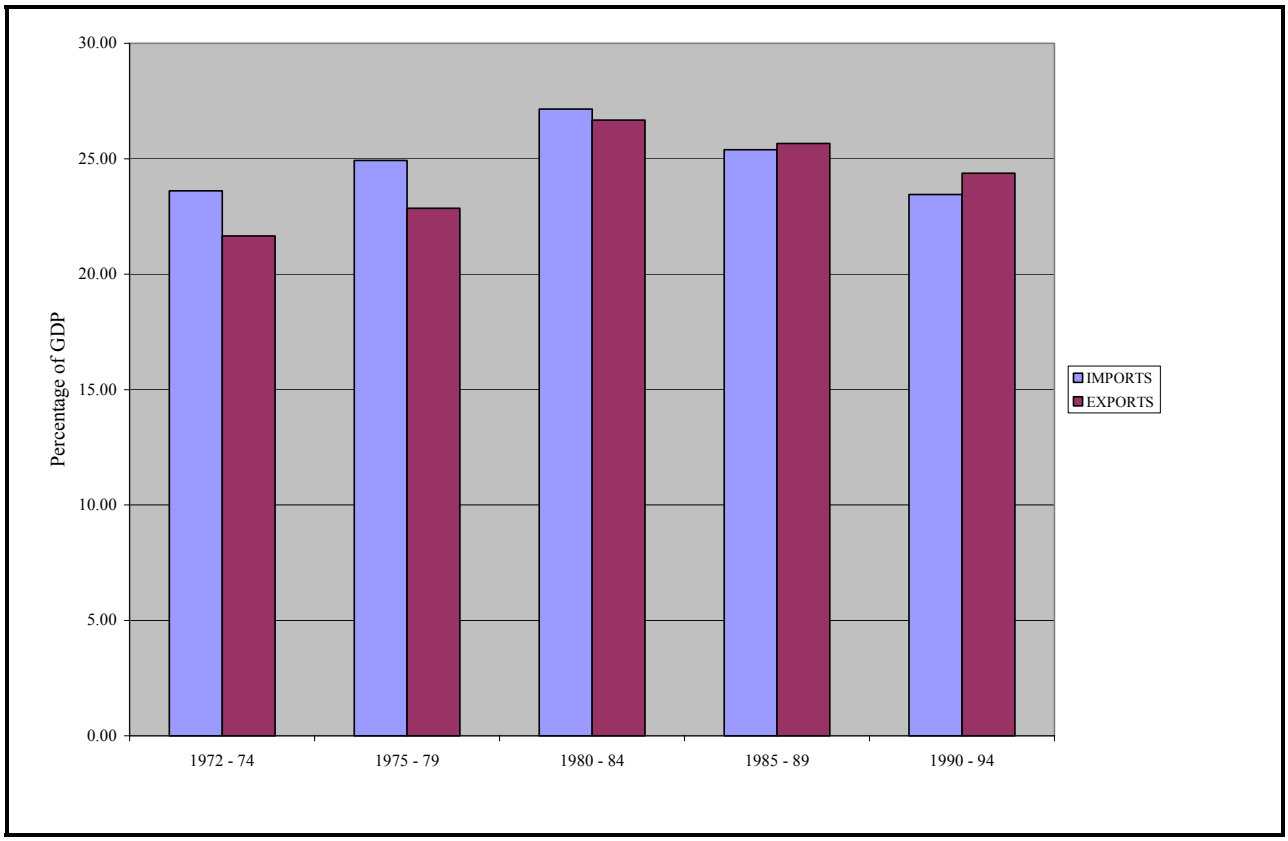

Figure 3: Imports versus Exports, Percentage of GDP, Five Year Averages

Table 1: Imports, Percentage of GDP, Five Year Averages

	1972 - 74	1975 - 79	1980 - 84	1985 - 89	1990 - 94
Belgium	49.1	51.3	66.6	62.0	58.1
Netherlands	40.4	41.5	47.1	44.7	40.0
Austria	26.0	27.4	29.8	29.4	28.9
Denmark	27.2	28.0	29.9	26.4	22.7
Sweden	22.6	24.6	27.0	25.9	21.9
Norway	32.4	31.4	24.5	24.7	21.2
Finland	24.9	25.0	27.2	22.2	20.9
Germany	16.6	19.5	23.9	22.3	20.3
Canada	19.3	21.0	21.2	22.1	23.0
United Kingdom	22.4	24.0	21.0	22.8	21.6
France	16.1	17.4	20.6	19.0	18.1
Italy	17.6	19.7	21.1	17.7	15.9
United States	5.8	7.6	8.5	8.9	9.1
Japan	10.2	10.5	11.7	7.2	6.5

Table 2: Exports, Percentage of GDP, Five Year Averages

	1972 - 74	1975 - 79	1980 - 84	1985 - 89	1990 - 94
Belgium	49.0	47.7	60.9	61.6	55.6
Netherlands	39.1	39.7	48.7	46.5	43.3
Sweden	23.8	25.4	30.7	30.6	24.8
Norway	24.3	24.6	29.7	26.0	28.0
Denmark	22.2	22.0	27.8	26.1	26.0
Germany	20.4	22.5	26.1	27.9	22.4
Finland	21.5	23.2	26.7	22.6	24.0
Canada	20.7	21.8	24.6	23.9	24.3
Austria	19.8	20.5	23.0	24.6	23.8
United Kingdom	17.5	20.6	19.8	19.1	18.9
France	15.0	16.4	18.2	17.8	17.7
Italy	14.4	18.2	17.8	16.3	16.1
Japan	10.2	11.0	12.7	10.4	9.0
United States	5.3	6.5	6.7	5.7	7.1

Table 3: Ratio of Imports to Total Trade, Five Year Averages

	1972 - 74	1975 - 79	1980 - 84	1985 - 89	1990 - 94
United States	0.52	0.54	0.56	0.61	0.56
Austria	0.57	0.57	0.56	0.54	0.55
United Kingdom	0.56	0.54	0.51	0.55	0.53
Italy	0.55	0.52	0.54	0.52	0.50
Denmark	0.55	0.56	0.52	0.50	0.47
France	0.52	0.52	0.53	0.52	0.51
Belgium	0.50	0.52	0.52	0.50	0.51
Finland	0.53	0.52	0.50	0.50	0.47
Norway	0.57	0.56	0.45	0.49	0.43
Netherlands	0.51	0.51	0.49	0.49	0.48
Canada	0.48	0.49	0.46	0.48	0.49
Sweden	0.48	0.49	0.47	0.46	0.47
Germany	0.45	0.46	0.48	0.44	0.48
Japan	0.50	0.49	0.48	0.41	0.42

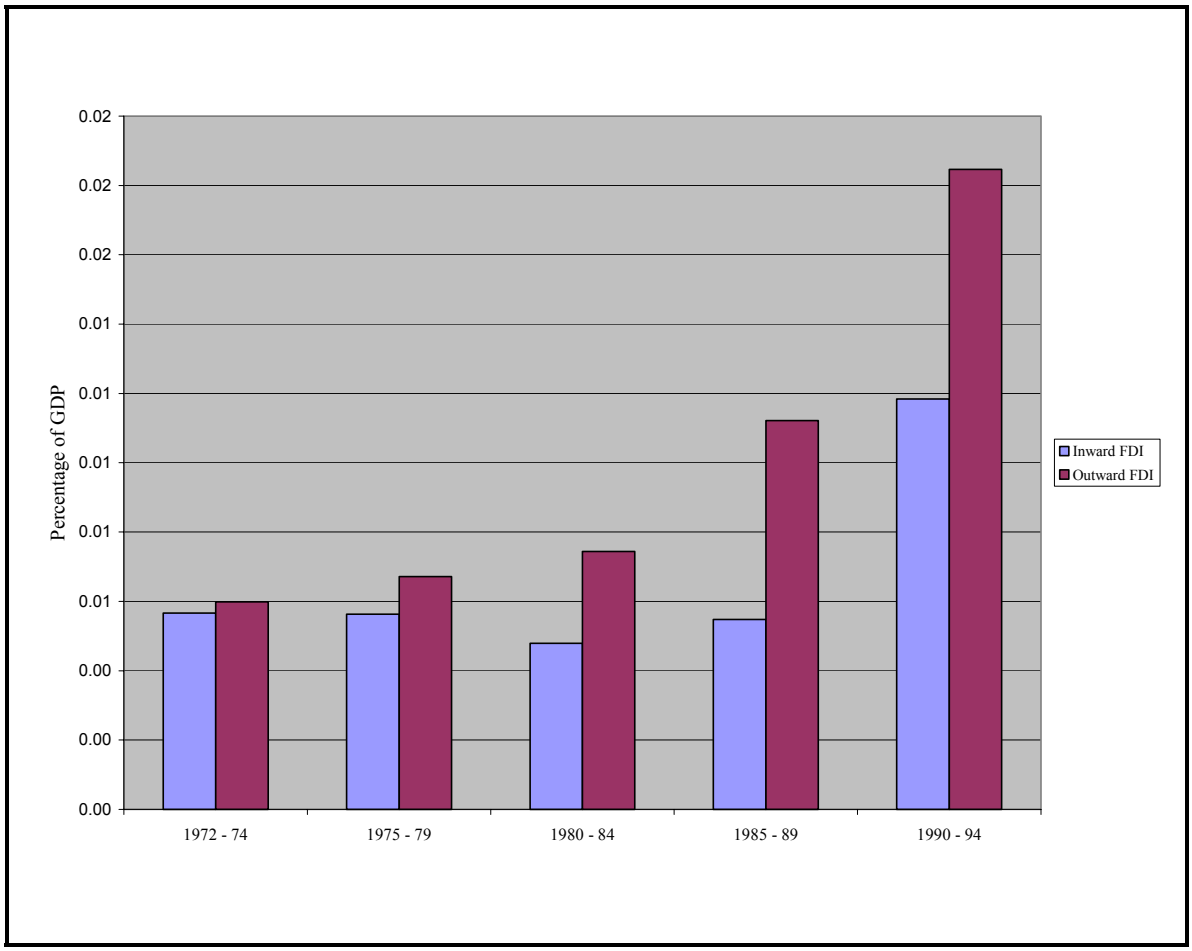

Figure 4: Inward versus Outward Foreign Direct Investment, Five Year Averages for Fourteen Countries

Table 4: Inward Foreign Direct Investment, Percentage of GDP, Five Year Averages

	1972 - 74	1975 - 79	1980 - 84	1985 - 89	1990 - 94
Japan	0.03	0.02	0.02	0.01	0.04
Germany	0.64	0.23	0.11	0.21	0.15
Italy	0.40	0.22	0.23	0.37	0.36
Finland	0.14	0.13	0.10	0.39	0.67
Austria	0.37	0.19	0.33	0.43	0.62
Canada	0.53	0.24	0.27	0.58	1.00
Norway	0.96	1.18	0.49	0.67	0.68
Denmark	0.67	0.23	0.12	0.39	1.45
United States	0.16	0.21	0.55	0.99	0.58
France	0.40	0.43	0.40	0.69	1.37
Sweden	0.15	0.08	0.25	0.69	1.71
United Kingdom	1.49	1.44	0.99	2.22	1.79
Netherlands	1.61	0.89	1.18	2.04	2.79
Belgium	1.33	1.38	1.31	2.29	4.52

Table 5: Outward Foreign Direct Investment, Percentage of GDP, Five Year Averages

	1972 - 74	1975 - 79	1980 - 84	1985 - 89	1990 - 94
Netherlands	3.14	3.03	3.14	2.95	4.83
United Kingdom	1.35	1.89	2.14	2.66	2.87
Sweden	0.50	0.69	0.74	2.22	3.62
Belgium	0.46	0.48	0.45	0.94	3.43
France	0.24	0.34	0.48	0.63	2.08
Canada	0.29	0.44	0.94	1.04	1.00
Norway	0.23	0.45	0.30	1.34	1.04
Finland	0.33	0.12	0.24	0.97	1.48
Germany	0.51	0.56	0.59	0.85	1.24
Japan	0.18	0.30	0.31	0.59	1.12
Denmark	0.31	0.25	0.17	0.54	1.28
United States	0.52	0.61	0.53	0.35	0.60
Italy	0.19	0.14	0.22	0.41	0.53
Austria	0.13	0.10	0.16	0.22	0.73

Table 6: Ratio of Outward Foreign Direct Investment to Total Foreign Direct Investment, Five Year Averages

	1972 - 74	1975 - 79	1980 - 84	1985 - 89	1990 - 94
Japan	0.91	0.95	0.93	0.98	0.95
Germany	0.49	0.72	0.85	0.85	0.88
Sweden	0.81	0.89	0.80	0.83	0.65
Finland	0.54	0.54	0.82	0.79	0.50
Canada	0.46	0.76	0.83	0.71	0.52
Netherlands	0.69	0.77	0.73	0.63	0.63
Denmark	0.35	0.49	0.68	0.73	0.54
United Kingdom	0.59	0.57	0.69	0.63	0.57
Norway	0.25	0.23	0.59	0.73	0.52
Italy	0.26	0.42	0.59	0.59	0.66
France	0.41	0.46	0.55	0.60	0.61
Austria	0.21	0.36	0.37	0.40	0.59
United States	0.75	0.78	0.30	0.33	0.58
Belgium	0.24	0.32	0.17	0.48	0.36

Table 7: Total Employer Contributions for all Social Insurance Programs, Five Year Averages

	1975 - 79	1980 - 84	1985 - 89	1990 - 94
Italy	28.9	32.7	34.5	34.2
Sweden	27.2	30.3	31.0	31.5
France	22.8	24.8	25.1	25.2
Norway	20.0	20.9	21.2	21.5
Finland	17.7	19.6	20.7	23.2
Germany	16.2	17.5	21.8	25.1
Austria	14.7	19.7	21.8	22.8
Belgium	11.5	12.1	18.5	20.0
Netherlands	16.0	16.9	12.0	7.8
United States	8.2	8.7	12.0	12.4
United Kingdom	10.3	12.7	9.3	8.5
Japan	8.4	9.7	10.1	10.7
Canada	3.2	4.3	4.8	5.9
Denmark	0.6	3.1	5.3	7.1

Table 8: Proportion of Cabinet Government Occupied by Left, Christian Democratic, Secular Center, and Right Parties

	1972-1974				1975-1978				1979-1982				1983-1986				1987-1990				1991-1994			
	Left	CD	Cent	Rt.	Left	CD	Cent	Rt.	Left	CD	Cent	Rt.	Left	CD	Cent	Rt.	Left	CD	Cent	Rt.	Left	CD	Cent	Rt.
Austria	100	0	0	0	100	0	0	0	100	0	0	0	82	0	0	18	47	47	0	0	50	45	0	0
Belgium	35	47	0	18	16	60	0	23	31	54	1	14	0	53	0	47	30	46	0	25	52	46	0	2
Canada	0	0	100	0	0	0	100	0	0	0	81	19	0	0	44	56	0	0	0	100	0	0	31	69
Denmark	67	0	0	33	95	0	0	5	87	0	1	12	0	5	19	76	0	3	15	82	19	0	7	75
Finland	52	0	48	0	50	0	51	0	64	0	36	0	52	0	48	0	44	0	19	36	3	5	57	35
France	0	0	3	97	0	0	11	89	13	0	38	50	100	0	0	0	44	0	0	56	81	0	0	19
Germany	74	0	26	0	73	0	27	0	69	5	26	0	0	82	18	0	0	80	20	0	0	76	25	0
Italy	9	80	9	3	4	93	3	0	8	87	5	1	19	66	12	3	22	64	11	3	27	64	7	3
Japan	0	0	0	100	0	0	0	100	0	0	0	100	0	0	0	100	0	0	0	100	12	0	6	81
Netherlands	21	38	1	38	52	29	6	14	3	62	1	33	4	57	5	35	2	66	0	33	48	52	0	0
Norway	69	8	22	0	100	0	0	0	69	0	0	31	17	16	13	54	75	8	8	10	100	0	0	0
Sweden	100	0	0	0	44	0	36	18	6	0	68	24	100	0	0	0	100	0	0	0	25	12	23	35
United Kingdom	28	0	0	72	100	0	0	0	8	0	0	92	0	0	0	100	0	0	0	100	0	0	0	100
United States	0	0	0	100	0	0	50	50	0	0	50	50	0	0	0	100	0	0	0	100	0	0	50	50

Table 9: Indices of Political Institutional Configurations: Inclusive Electoral Institutions, Decentralization of Government Authority, and Social Corporatism

	Inclusive Electoral Institutions				Decentralization of Government Authority				Social Corporatism			
	1974-79	1980-84	1985-89	1990-94	1974-79	1980-84	1985-89	1990-94	1974-79	1980-84	1985-89	1990-94
Austria	-0.17	-0.16	-0.07	0.07	-0.18	-0.18	-0.18	-0.18	0.26	0.24	0.20	0.12
Belgium	1.01	1.56	1.52	1.77	0.04	0.20	0.31	0.31	0.12	0.43	0.23	-0.03
Canada	-1.27	-1.29	-1.49	-1.31	0.36	0.36	0.36	0.36	-0.53	-0.94	-0.95	-0.95
Denmark	1.07	0.85	0.81	0.62	-0.72	-0.72	-0.72	-0.72	1.07	0.56	0.60	0.29
Finland	0.91	0.85	0.84	0.82	-0.72	-0.72	-0.72	-0.72	0.81	0.65	0.84	0.88
France	0.01	-0.40	-0.17	-0.48	-0.72	-0.72	-0.72	-0.72	-0.59	-0.67	-0.74	-0.81
Germany	-0.03	0.10	0.20	0.29	1.89	1.89	1.89	1.89	-0.62	-0.63	-0.68	-0.69
Italy	0.21	0.30	0.47	0.69	0.04	0.04	0.04	0.04	0.31	0.35	0.06	-0.21
Japan	-0.52	-0.51	-0.55	-0.51	0.04	0.04	0.04	0.04	-0.47	-0.52	-0.57	-0.62
Netherlands	0.97	0.42	0.34	0.34	0.04	0.04	0.04	0.04	0.19	0.10	-0.36	-0.37
Norway	0.36	0.14	0.14	0.51	-0.72	-0.72	-0.72	-0.72	1.23	1.19	0.86	1.48
Sweden	0.24	0.22	0.23	0.44	-0.72	-0.72	-0.72	-0.72	1.75	1.76	1.17	1.52
United Kingdom	-1.35	-1.38	-1.38	-1.35	-0.72	-0.72	-0.72	-0.72	-0.12	-0.55	-0.83	-0.92
United States	-1.47	-1.46	-1.45	-1.45	1.89	1.89	1.89	1.89	-0.98	-1.20	-1.25	-1.28

Table 10: Unemployment Rates, Five Year Averages

	1972 - 74	1975 - 79	1980 - 84	1985 - 89	1990 - 94
Belgium	2.3	6.2	11.1	11.0	10.6
Italy	5.9	6.8	8.6	11.3	11.1
Canada	5.7	7.5	9.8	8.8	10.2
France	2.7	4.9	8.0	10.1	10.5
United Kingdom	2.5	4.6	9.5	9.6	8.6
Netherlands	2.4	5.1	9.9	9.7	6.8
Denmark	1.8	6.6	9.5	6.6	9.0
Finland	2.1	5.0	5.1	4.6	12.0
United States	5.3	6.9	8.2	6.1	6.5
Germany	1.3	3.8	6.2	7.5	6.9
Norway	1.6	1.9	2.5	3.0	5.6
Sweden	2.4	1.9	2.9	2.1	5.2
Austria	1.0	1.7	2.9	3.4	3.6
Japan	2.4	2.7	2.2	2.7	2.4

Table 11: Real Economic Growth Rates, Five Year Averages

	1971 - 75	1976 - 80	1981 - 85	1986 - 90	1991 - 95
Sweden	2.6	1.3	1.8	2.3	0.4
Belgium	3.5	3.1	0.8	3.0	1.2
Italy	2.8	4.5	1.5	3.0	1.1
Finland	4.1	2.8	2.8	3.4	-0.4
France	3.5	3.1	1.5	3.2	1.1
Denmark	2.0	2.5	2.7	1.3	2.1
Netherlands	3.2	2.6	1.3	3.1	1.9
Austria	4.0	3.3	1.4	3.2	2.0
United Kingdom	2.1	1.9	2.0	3.3	1.3
United States	2.3	3.3	2.6	2.7	1.9
Canada	5.2	3.9	2.9	2.9	1.5
Germany	1.8	3.4	1.2	3.3	3.8
Norway	4.6	4.9	3.2	1.7	3.6
Japan	4.4	4.8	3.7	4.5	1.5

Table 12: Regression Analysis for Unemployment Rates

Sample: 1974 1995
Included observations: 22
Number of cross-sections used: 14
Total panel (balanced) observations: 308

Variable Name	Coefficient	t-Statistic	
Unemployment Rate - lagged	0.82	25.47	**
Domestic Political Variables			
Left	-0.02	-0.34	
Secular Center	0.06	0.90	
Right	0.04	0.73	
Social Corporatism	-0.04	-1.65	*
Foreign Direct Investment			
Outward FDI - % of Total FDI	0.02	2.03	**
Left * Outward FDI - % of Total FDI	-0.01	-0.94	
Secular Center * Outward FDI - % of Total FDI	-0.02	-0.96	
Right * Outward FDI - % of Total FDI	-0.04	-2.87	**
Social Corporatism * Outward FDI - % of Total FDI	-0.01	-1.20	
Trade			
Imports - % of Total Trade	0.18	2.63	**
Left * Imports - % of Total Trade	-0.07	-0.87	
Secular Center * Imports - % of Total Trade	-0.18	-1.55	
Right * Imports - % of Total Trade	-0.14	-1.94	*
Social Corporatism * Imports - % of Total Trade	0.02	0.73	
Deindustrialization			
Services	0.13	1.81	*
Left * Services	-0.07	-1.11	
Secular Center * Services	-0.11	-1.01	
Right * Services	-0.10	-1.20	
Social Corporatism * Services	0.06	2.40	**
Employers' Payroll Tax			
Employers' Payroll Tax	0.06	2.35	**
Left * Employers' Payroll Tax	-0.08	-2.27	**
Secular Center * Employers' Payroll Tax	0.00	-0.06	
Right * Employers' Payroll Tax	-0.06	-1.53	
Social Corporatism * Employers' Payroll Tax	-0.06	-1.53	
Female Labor Force			
Female Labor Force	-0.26	-2.39	**
Left * Female Labor Force	0.30	3.05	**
Secular Center * Female Labor Force	0.28	1.57	
Right * Female Labor Force	0.32	2.21	**
Social Corporatism * Female Labor Force	0.00	-0.11	

** Significant at 0.05.

* Significant at 0.10.

Table 12, continued

Fixed Effects

Austria	-0.14
Belgium	-0.11
Canada	-0.13
Denmark	-0.13
Finland	-0.11
France	-0.09
Germany	-0.10
Italy	-0.07
Japan	-0.13
Netherlands	-0.15
Norway	-0.18
Sweden	-0.17
United Kingdom	-0.12
United States	-0.13

Weighted Statistics

R-squared	0.92		Mean dependent var	0.08
Adjusted R-squared	0.91		S.D. dependent var	0.05
S.E. of regression	0.02		Sum squared resid	0.06
Log likelihood	901.93		F-statistic	110.36
Durbin-Watson stat	0.59		Prob(F-statistic)	0.00

Unweighted Statistics

R-squared	0.79		Mean dependent var	0.06
Adjusted R-squared	0.76		S.D. dependent var	0.03
S.E. of regression	0.02		Sum squared resid	0.07
Durbin-Watson stat	0.51			

Table 13: Regression Analysis for Real Economic Growth Rates

Sample: 1974 1995 Included observations: 22 Number of cross-sections used: 14 Total panel (balanced) observations: 308			
Variable Name	**Coefficient**	**t-Statistic**	
Real Economic Growth - lagged	0.17	3.05	**
Imports - % of Total Trade	-0.16	-3.09	**
Outward FDI - % of Total FDI	-0.02	-2.60	**
Services	0.08	2.06	**
Elderly - % of Population	-0.69	-3.52	**

** Significant at 0.05.

* Significant at 0.10.

Table 13, continued

Fixed Effects

Austria	-0.14
Belgium	-0.11
Canada	-0.13
Denmark	-0.13
Finland	-0.11
France	-0.09
Germany	-0.10
Italy	-0.07
Japan	-0.13
Netherlands	-0.15
Norway	-0.18
Sweden	-0.17
United Kingdom	-0.12
United States	-0.13

Weighted Statistics

R-squared	0.92		Mean dependent var	0.08
Adjusted R-squared	0.91		S.D. dependent var	0.05
S.E. of regression	0.02		Sum squared resid	0.06
Log likelihood	901.93		F-statistic	110.36
Durbin-Watson stat	0.59		Prob(F-statistic)	0.00

Unweighted Statistics

R-squared	0.79		Mean dependent var	0.06
Adjusted R-squared	0.76		S.D. dependent var	0.03
S.E. of regression	0.02		Sum squared resid	0.07
Durbin-Watson stat	0.51			

Table 14: Predictions for Reform

	Economic Variables Creating Pressures for Reforms					Political Variables Fostering or Inhibiting the Adoption of Reforms		
	Rising Import to Total Trade Ratio	**Rising Outward to Total FDI Ratio**	**Rising Unemployment**	**Slowed Growth**	**High Employer Contributions**	**Enabling Institutions**	**Social Corporatism**	**Disabling Institutions**
Austria	Low	Very High	Mid	Mid	High	Low	Mid	Low
Belgium	High	High	High	Mid	Mid	Very High	Mid	High
Canada	Mid	High	Low	High	Very Low	Very Low	Very Low	High
Denmark	Mid	High	Very High	Very Low	Very Low	High	High	Very Low
Finland	Very Low	Mid	Very High	Very High	High	High	High	Very Low
France	High	Mid	Mid	Mid	Very High	Low	Very Low	Very Low
Germany	High	High	Very High	Mid	High	Mid	Very Low	Very High
Italy	Very Low	Very High	Low	High	Very High	Mid	Mid	Mid
Japan	Very Low	Very Low	Very Low	High	Low	Low	Very Low	Mid
Netherlands	Low	Low	High	Low	Low	Mid	Low	Mid
Norway	Very Low	Very High	Mid	High	High	Mid	Very High	Very Low
Sweden	Mid	Very Low	Low	Low	Very High	Mid	Very High	Very Low
United Kingdom	Very Low	Low	Mid	Low	Low	Very Low	Very Low	Very Low
United States	Very High	Very Low	Very Low	Very Low	Low	Very Low	Very Low	Very High

Figure 5: Adjusted Replacement Rates for Austria, 1973-1995

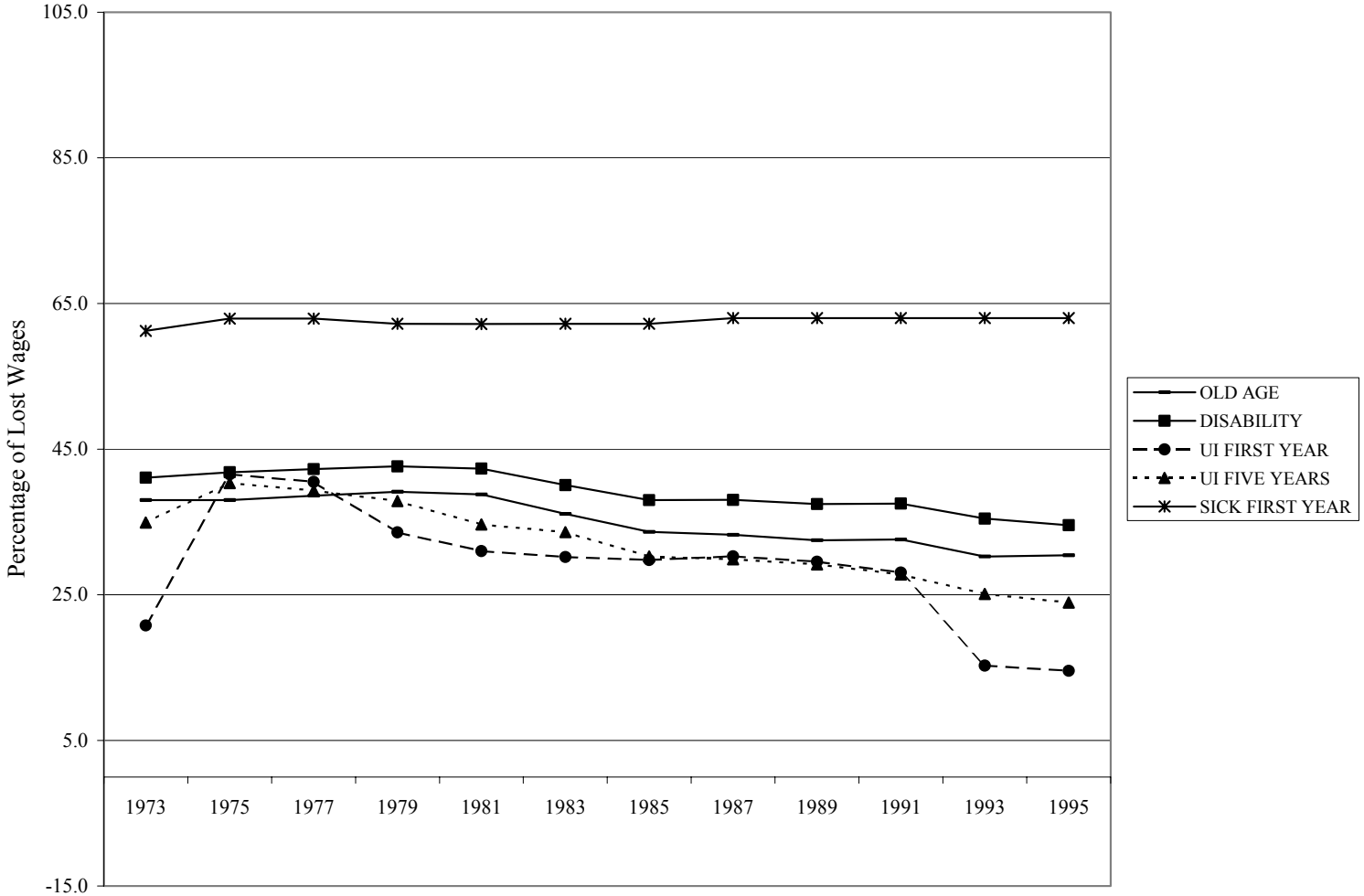

Figure 6: Adjusted Replacement Rates for Belgium, 1973-1995

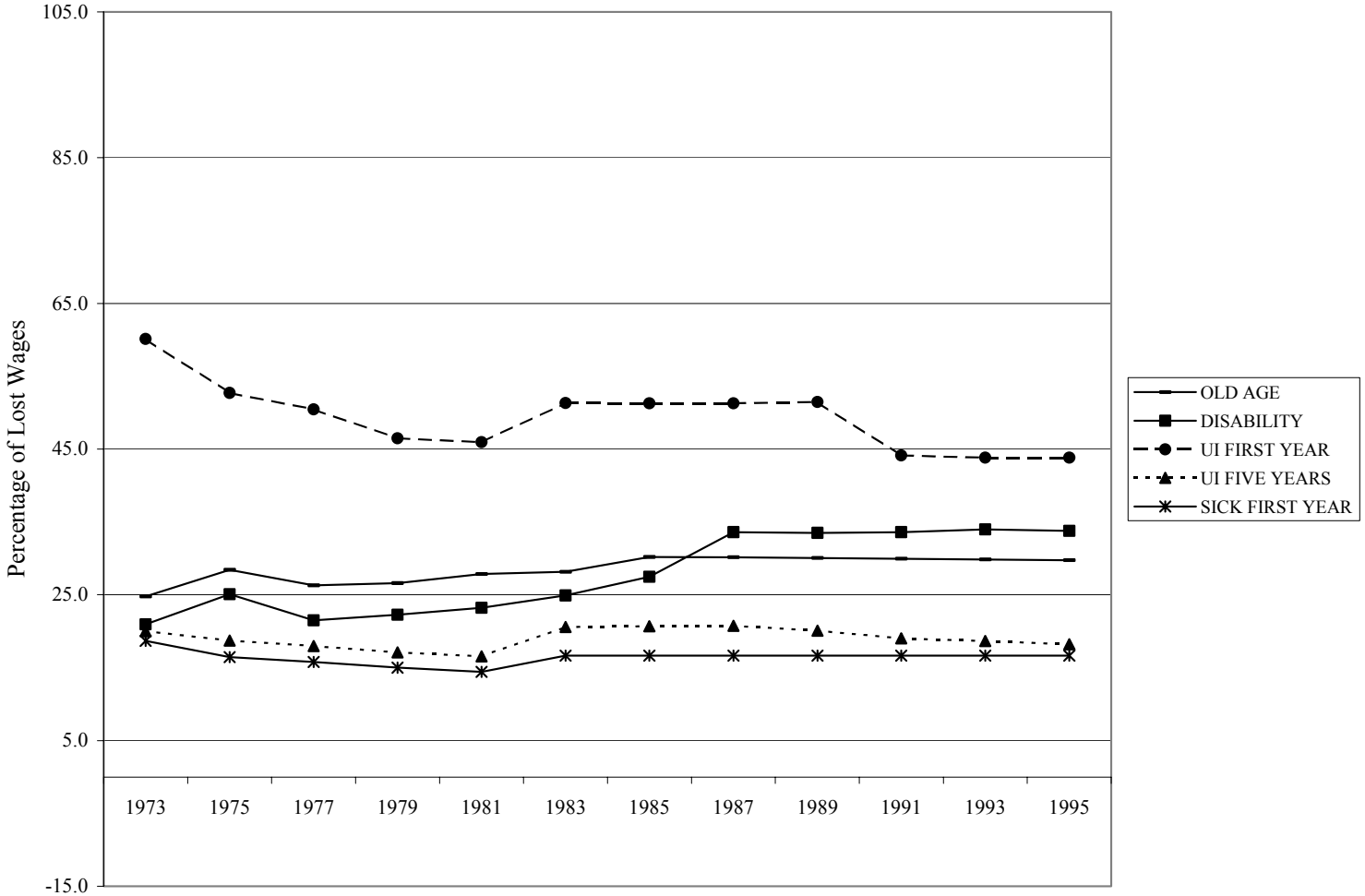

Figure 7: Adjusted Replacement Rates for Canada, 1973-1995

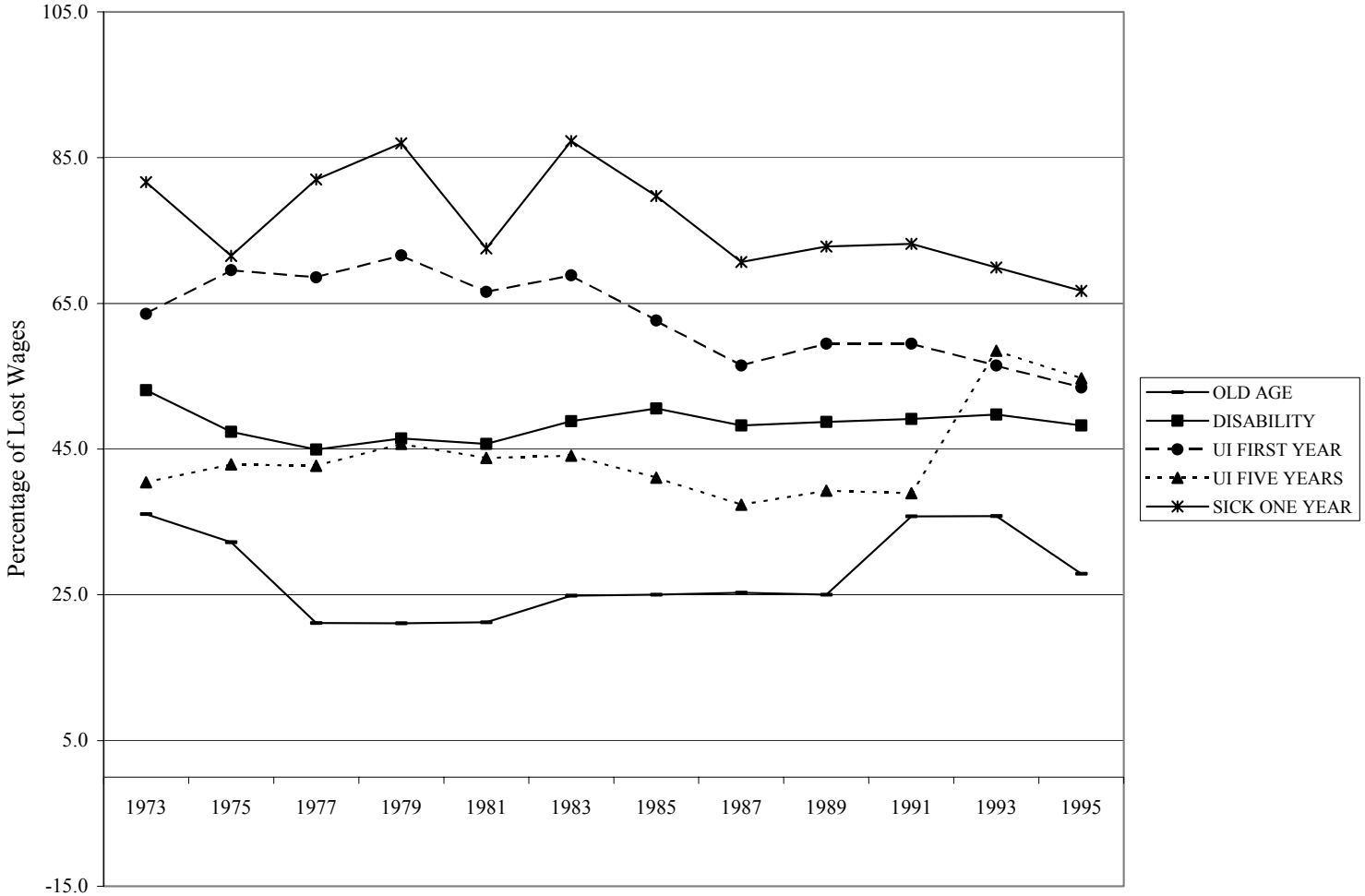

Figure 8: Adjusted Replacement Rates for Denmark, 1973-1995

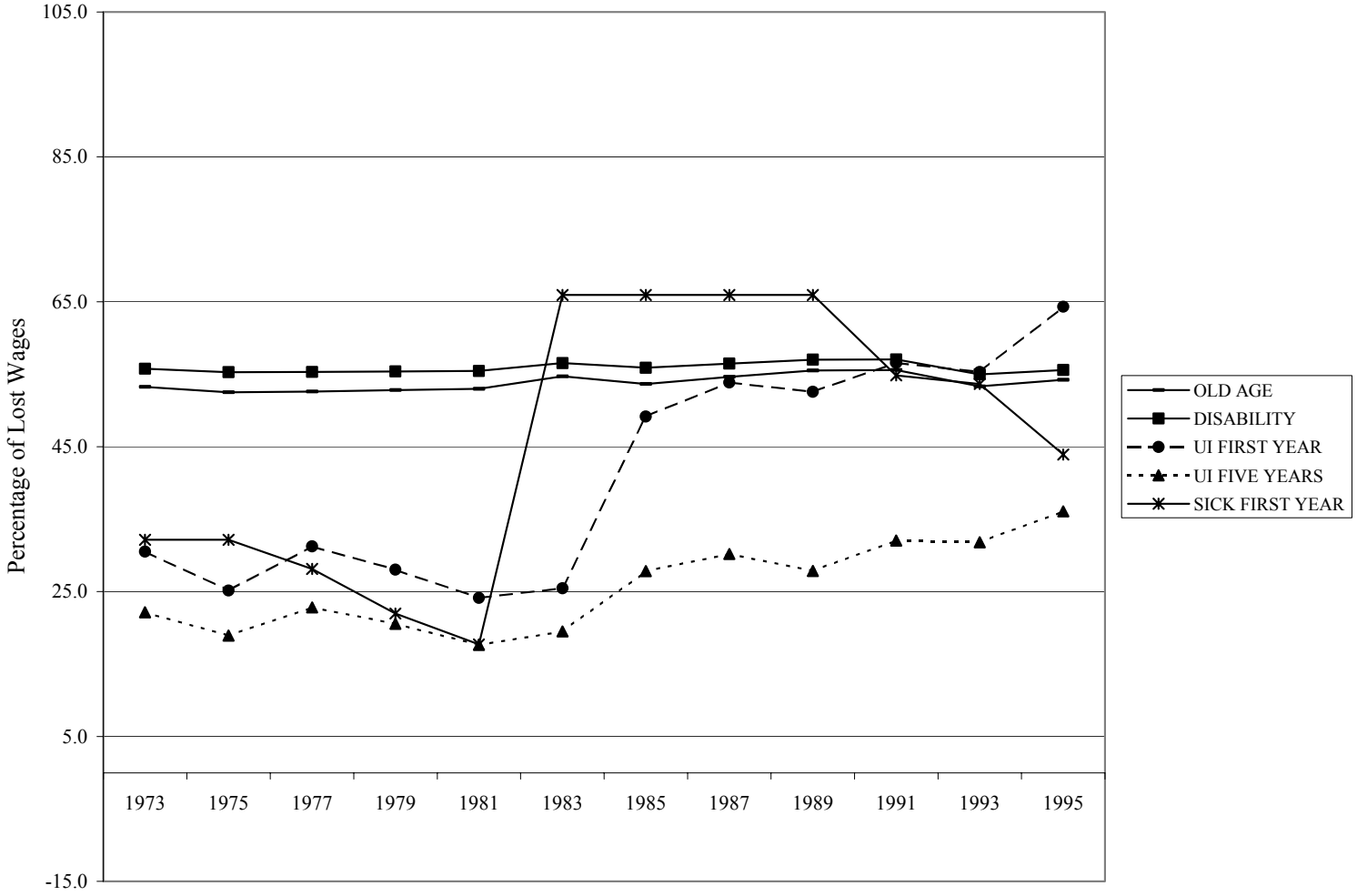

Figure 9: Adjusted Replacement Rates for Finland, 1973-1995

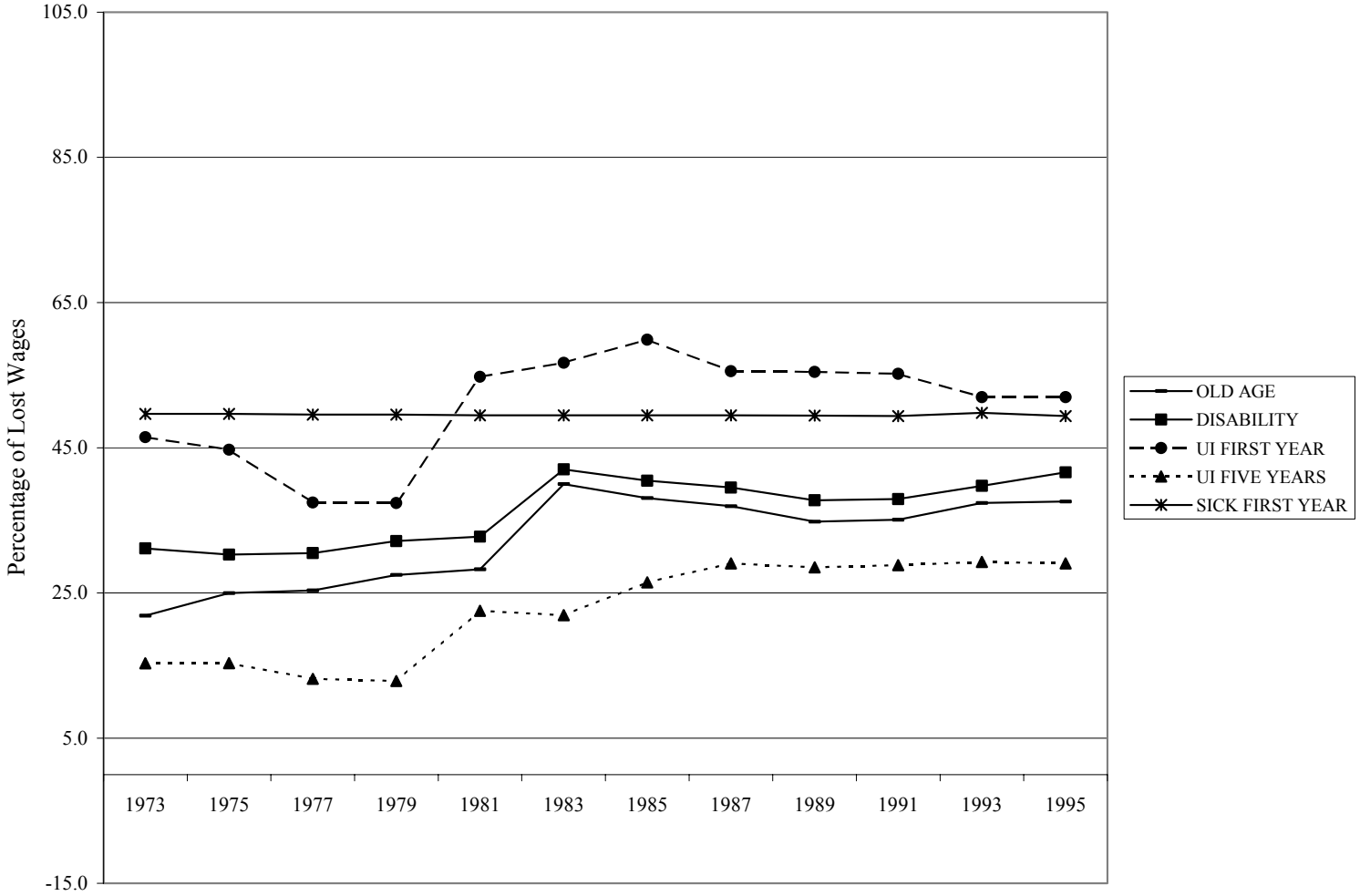

Figure 10: Adjusted Replacement Rates for France, 1973-1995

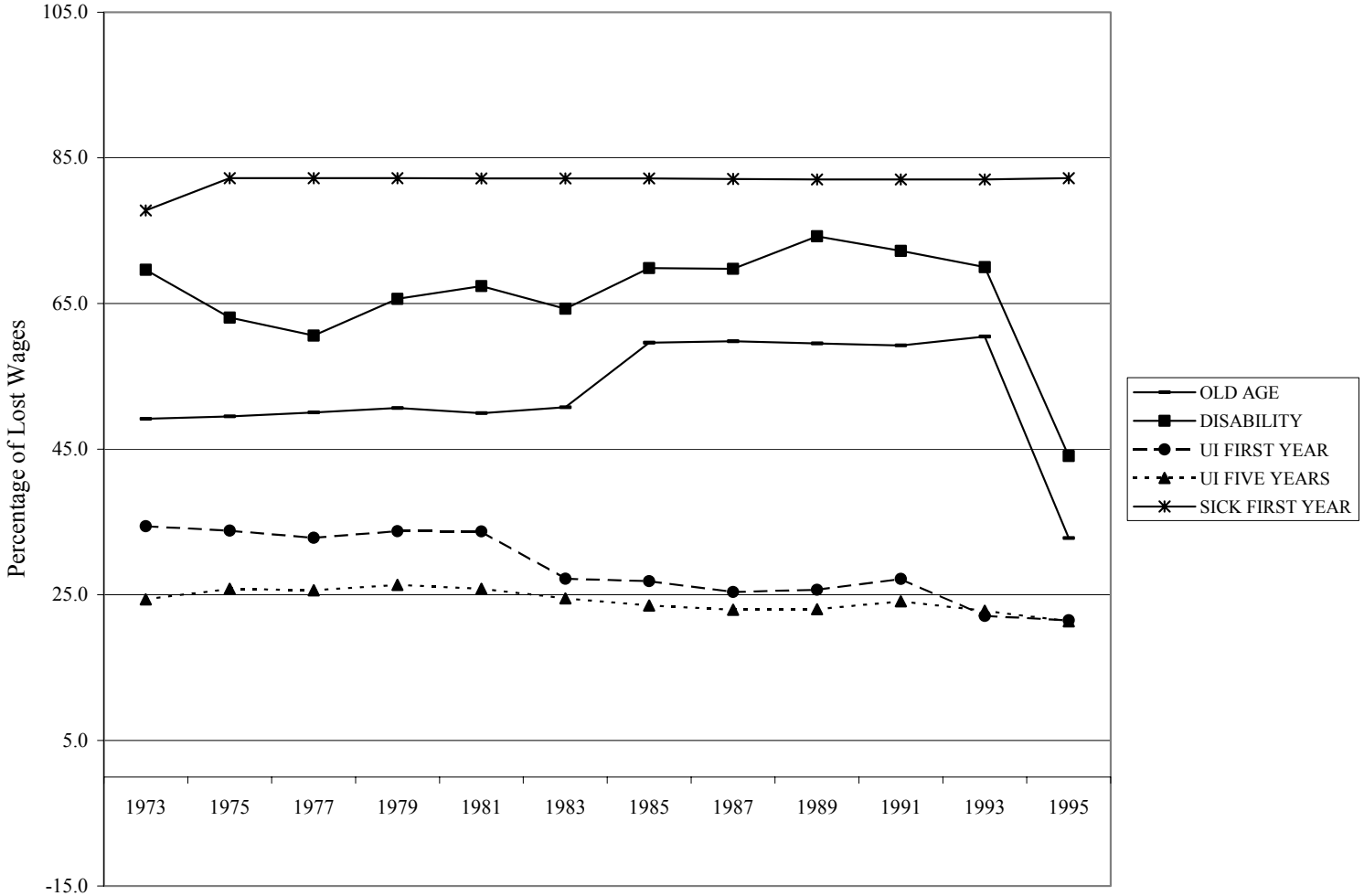

Figure 11: Adjusted Replacement Rates for Germany, 1973-1995

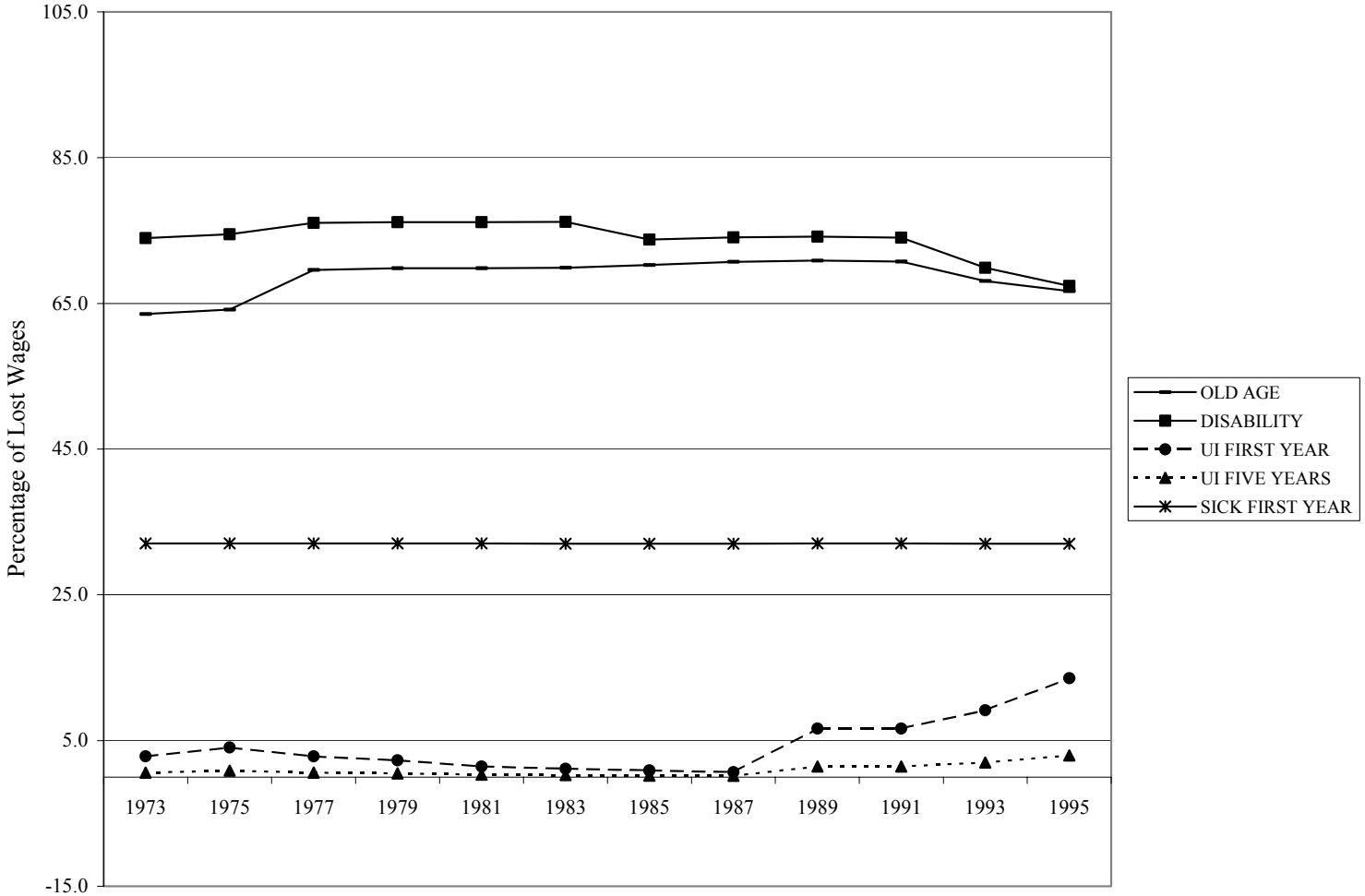

Figure 12: Adjusted Replacement Rates for Italy, 1973-1995

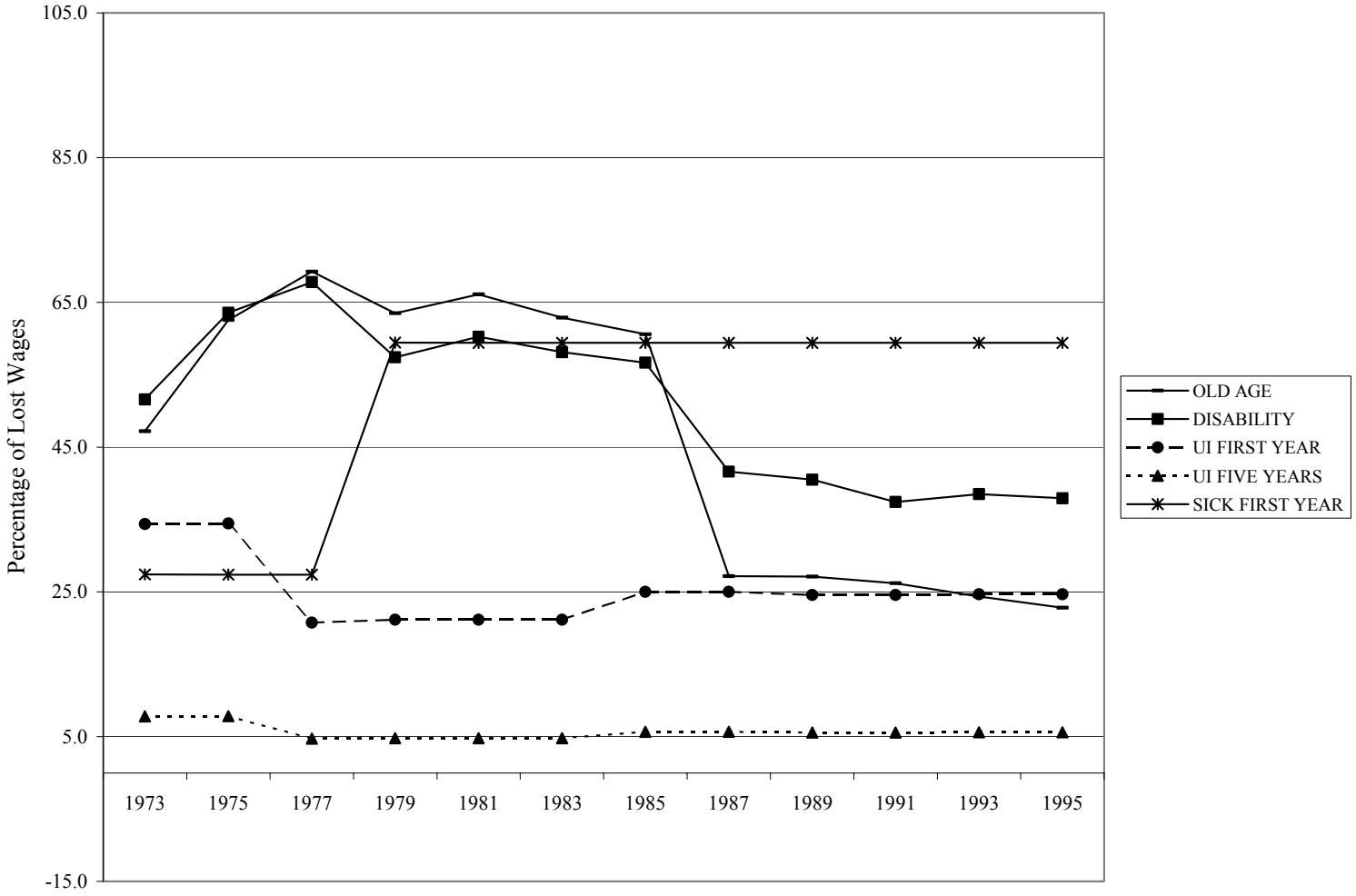

Figure 13: Adjusted Replacement Rates for Japan, 1973-1995

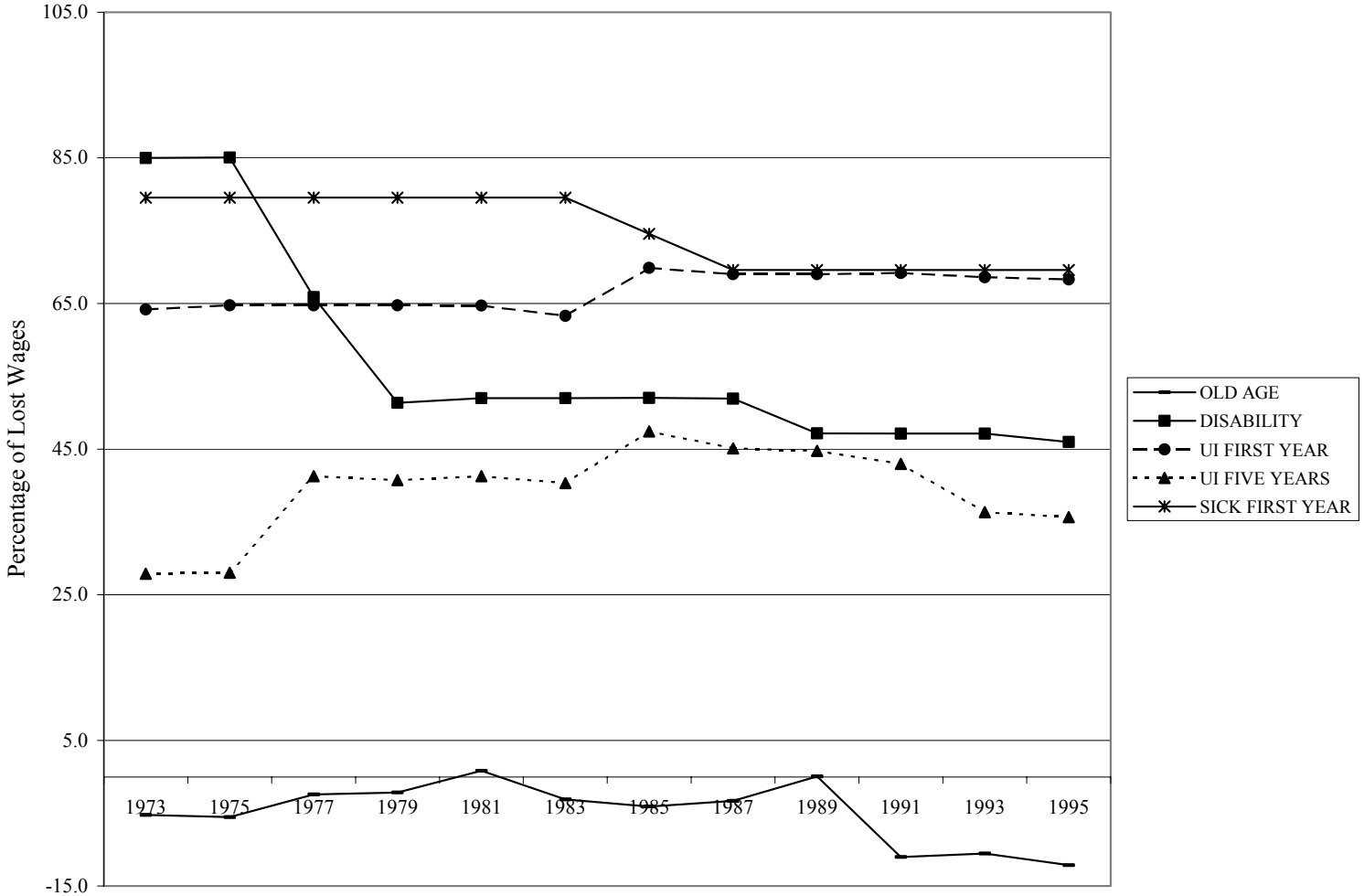

Figure 14: Adjusted Replacement Rates for Netherlands, 1973-1995

Figure 15: Adjusted Replacement Rates for Norway, 1973-1995

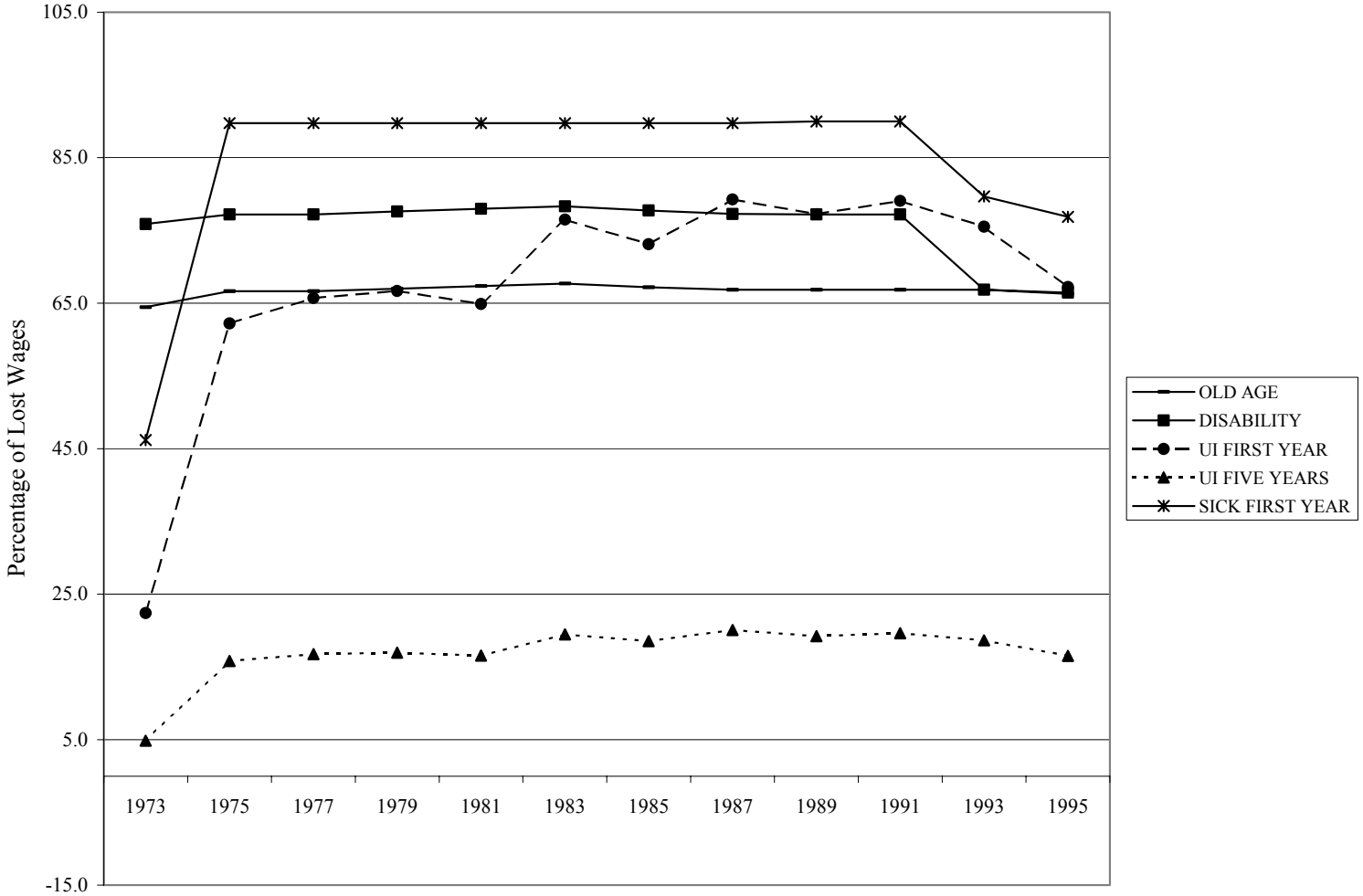

Figure 16: Adjusted Replacement Rates for Sweden, 1973-1995

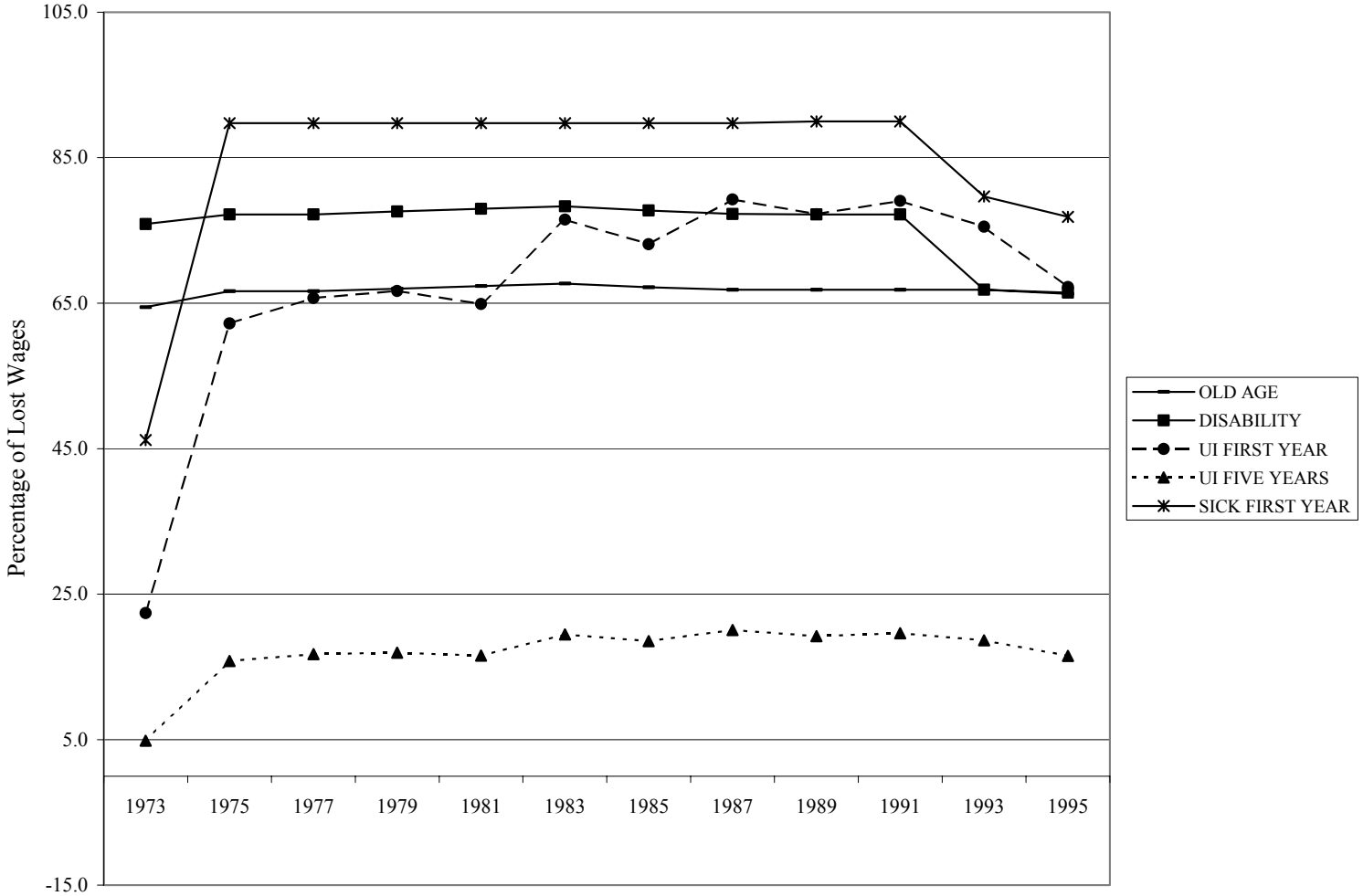

Figure 17: Adjusted Replacement Rates for the United Kingdom, 1973-1995

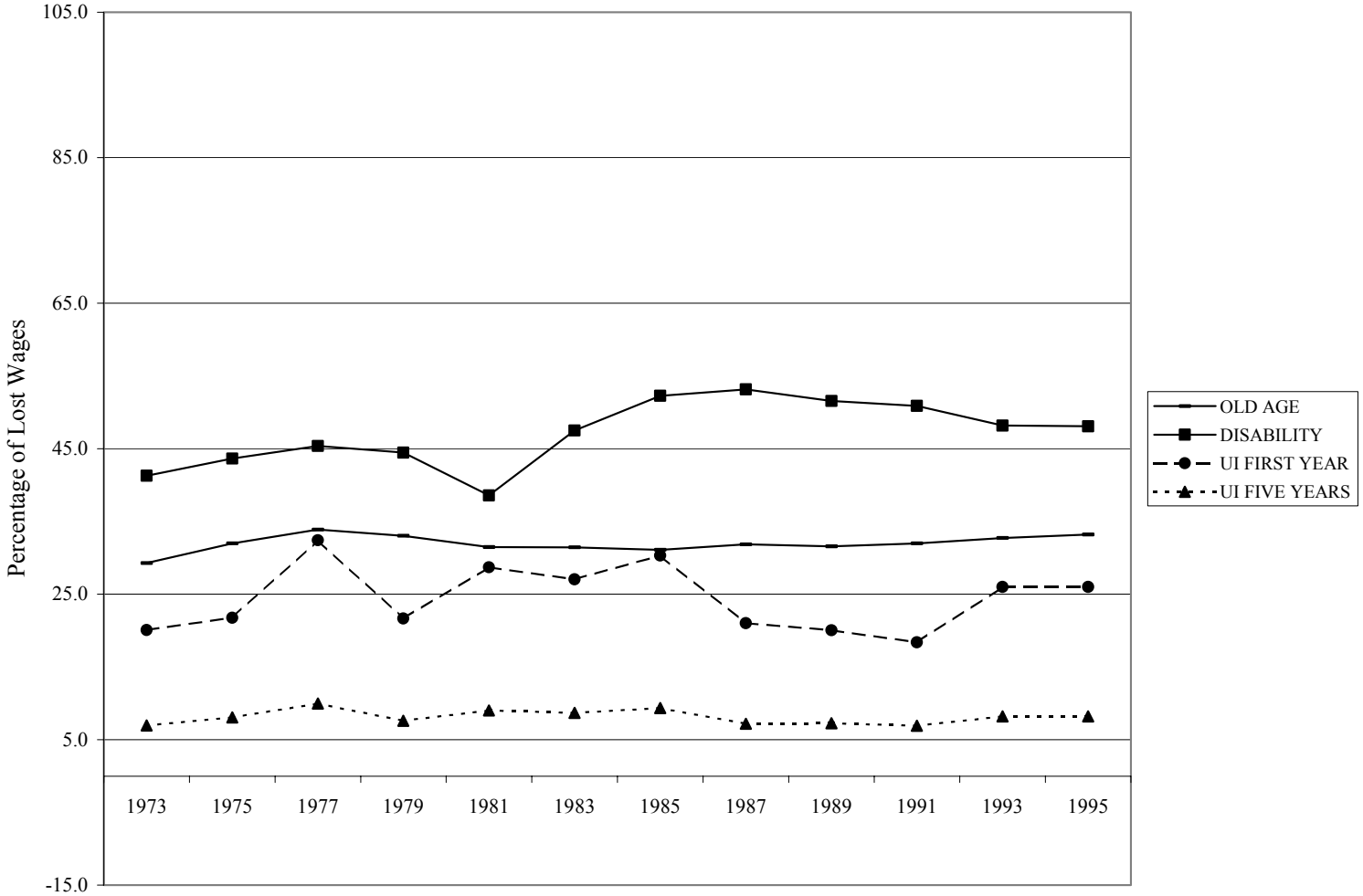

Figure 18: Adjusted Replacement Rates for The United States, 1973-1995

Table 15: Index of Reforms

	Old Age		Disability		Unemployment (1st Year)		Sickness		Reform Index
	%Change ARR	% GDP	%Change ARR	% GDP	%Change ARR	% GDP	%Change ARR	% GDP	
Netherlands	12.7	6.8	48.6	4.5	1.0	3.1	9.9	2.80	**337.5**
Denmark	12.6	6.0	19.7	1.8	15.1	5.0	16.2	2.09	**220.5**
Germany	14.1	9.5	14.7	0.9	12.3	0.8	0.1	0.47	**156.5**
Belgium	8.6	6.8	2.9	1.7	26.1	2.5	-0.8	0.79	**128.7**
Japan	25.8	3.5	21.8	0.2	9.8	0.3	-32.0	0.09	**96.0**
Sweden	1.3	7.5	24.2	2.1	6.9	0.7	11.7	2.20	**91.2**
United Kingdom	9.8	5.1	1.5	1.3	13.6	1.1	7.1	0.30	**68.1**
Austria	2.3	9.5	2.3	1.4	8.1	0.9	0.0	0.25	**33.1**
Finland	9.5	5.0	1.8	2.7	-35.0	1.0	17.1	0.61	**29.2**
Canada	4.2	2.8	1.4	0.4	7.8	1.6	2.9	0.05	**24.5**
France	1.5	8.8	-5.2	1.0	6.3	2.4	0.1	0.62	**23.5**
Italy	1.8	9.3	8.7	1.1	-10.6	1.1	0.0	0.27	**15.4**
United States	-1.9	5.6	4.6	0.8	2.7	0.5	0.0	0.25	**-5.7**
Norway	13.9	4.5	6.9	1.9	-42.8	0.4	-70.8	1.47	**-43.2**

Table 16: Regression for Unemployment Insurance Adjusted Replacement Rates

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable Name	Coefficient	t-Statistic	
Unemployment Insurance Cash Benefits - lagged	0.50	8.20	**
Deindustrialization			
% Workforce Employed in Services	3.11	2.49	**
% Workforce Employed in Services (squared)	-2.60	-2.53	**
Trends in Globalization			
Outward FDI - % of Total FDI	0.25	0.70	
Outward FDI - % of Total FDI (squared)	-0.25	-0.79	
Imports - % of Total Trade	2.89	0.44	
Imports - % of Total Trade (squared)	-3.08	-0.47	
Interactions of Globalization and Enabling Institutions			
Enabling Institutions	-3.16	-1.81	*
Enabling Institutions * Outward FDI - % of Total FDI	-0.01	-0.05	
Enabling Institutions * Outward FDI - % of Total FDI (squared	0.00	-0.01	
Enabling Institutions * Imports - % of Total Trade	12.81	1.84	*
Enabling Institutions * Imports - % of Total Trade (squared)	-13.03	-1.89	*
Interactions of Globalization and Disabling Institutions			
Disabling Institutions	-1.98	-1.61	
Disabling Institutions * Outward FDI - % of Total FDI	0.45	1.87	*
Disabling Institutions * Outward FDI - % of Total FDI (square	-0.45	-2.31	**
Disabling Institutions * Imports - % of Total Trade	7.11	1.55	
Disabling Institutions * Imports - % of Total Trade (squared)	-6.91	-1.60	
Employer Payroll Tax			
Employer's Payroll Tax	-0.67	-2.10	**
Social Corporatism	2.08	1.14	
Employer's Payroll Tax * Social Corporatism	-0.24	-1.88	*
Secular Center	4.37	1.23	
Secular Center * Employer Payroll Tax	0.90	2.77	**

** Significant at 0.05.
* Significant at 0.10.

Table 16, continued

Austria	-1.36
Belgium	-1.32
Canada	-1.33
Denmark	-1.36
Finland	-1.38
France	-1.31
Germany	-1.21
Italy	-1.37
Japan	-1.45
Netherlands	-1.17
Norway	-1.36
Sweden	-1.21
United Kingdom	-1.57
United States	-1.28

Weighted Statistics

R-squared	0.99		Mean dependent var	0.47
Adjusted R-squared	0.98		S.D. dependent var	0.31
S.E. of regression	0.04		Sum squared resid	0.18
F-statistic	183.78		Durbin-Watson stat	2.33
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.97		Mean dependent var	0.39
Adjusted R-squared	0.95		S.D. dependent var	0.21
S.E. of regression	0.05		Sum squared resid	0.22
Durbin-Watson stat	2.04			

Table 17: Regression for Old Age Pensions Adjusted Replacement Rates

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable Name	Coefficient	t-Statistic	
Old Age Pensions Adjusted Replacement Rates - lagged	0.51	6.89	**
Demographic Trends			
Elderly - % of Population	-1.40	-2.44	**
Employer's Payroll Tax			
Employer's Payroll Tax	-0.09	-0.49	
Left * Employer Payroll Tax	0.24	1.78	*
Trends in Globalization			
Outward FDI - % of Total FDI	0.26	0.91	
Outward FDI - % of Total FDI (squared)	-0.22	-0.90	
Imports - % of Total Trade	14.76	3.29	**
Imports - % of Total Trade (squared)	-14.30	-3.21	**
Interaction of Trends in Globalization and Enabling Institutions			
Enabling Institutions	-0.95	-0.72	
Enabling Institutions * Outward FDI - % of Total FDI	-0.37	-2.54	**
Enabling Institutions * Outward FDI - % of Total FDI (squared	0.31	2.47	**
Enabling Institutions * Imports - % of Total Trade	4.48	0.85	
Enabling Institutions * Imports - % of Total Trade (squared)	-4.85	-0.93	
Interactions of Trends in Globalization and Partisanship			
Christian Democrats	5.67	1.45	
Left	2.41	1.48	
Secular Center	8.34	3.68	**
Secular Center * Imports - % of Total Trade	-32.05	-3.64	**
Secular Center * Imports - % of Total Trade (squared)	30.96	3.61	**

** Significant at 0.05.
* Significant at 0.10.

Table 17, continued

Fixed Effects

Austria	-3.79
Belgium	-3.79
Canada	-3.87
Denmark	-3.89
Finland	-3.79
France	-3.93
Germany	-3.51
Italy	-3.67
Japan	-3.73
Netherlands	-4.05
Norway	-3.85
Sweden	-3.67
United Kingdom	-4.17
United States	-3.70

Weighted Statistics

R-squared	1.00		Mean dependent var	0.62
Adjusted R-squared	1.00		S.D. dependent var	0.54
S.E. of regression	0.03		Sum squared resid	0.10
F-statistic	970.77		Durbin-Watson stat	2.40
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.98		Mean dependent var	0.38
Adjusted R-squared	0.97		S.D. dependent var	0.22
S.E. of regression	0.04		Sum squared resid	0.16
Durbin-Watson stat	2.31			

Table 18: Regression for Disability Pensions Adjusted Replacement Rates

Sample: 1975 - 1995 (odd years) Included observations: 11 Number of cross-sections used: 14 Total panel (balanced) observations: 154			
Variable Name	Coefficient	t-Statistic	
Disability Adjusted Replacement Rates - lagged	0.59	8.01	**
Demographic Trends			
Elderly - % of Population	-1.42	-3.20	**
% Workforce Employed in Services	0.84	1.50	
% Workforce Employed in Services (squared)	-0.63	-1.30	
Interaction of Employer's Payroll Tax and Partisanship			
Employer's Payroll Tax	0.00	-0.02	
Christian Democrats * Employer Payroll Tax	-0.17	-0.40	
Left * Employer Payroll Tax	0.12	1.28	
Secular Center * Employer Payroll Tax	0.43	3.13	**
Trends in Globalization			
Outward FDI - % of Total FDI	0.26	1.18	
Outward FDI - % of Total FDI (squared)	-0.19	-1.01	
Imports - % of Total Trade	9.72	3.03	**
Imports - % of Total Trade (squared)	-9.54	-3.02	**
Interaction of Trends in Globalization and Disabling Institutions			
Disabling Institutions	0.64	0.78	
Disabling Institutions * Outward FDI - % of Total FDI	-0.56	-2.88	**
Disabling Institutions * Outward FDI - % of Total FDI (squared)	0.46	2.73	**
Partisanship			
Christian Democrats	5.68	1.73	*
Left	3.71	3.06	**
Secular Center	6.68	3.65	**
Interactions of Trends in Globalization and Partisanship			
Left * Outward FDI - % of Total FDI	-0.57	-2.29	**
Left * Outward FDI - % of Total FDI (squared)	0.48	2.27	**
Left * Imports - % of Total Trade	-13.99	-2.93	**
Left * Imports - % of Total Trade (squared)	13.71	2.90	**
Christian Democrats * Imports - % of Total Trade	-22.25	-1.73	*
Christian Democrats * Imports - % of Total Trade (squared)	21.77	1.73	*
Secular Center * Imports - % of Total Trade	-25.92	-3.64	**
Secular Center * Imports - % of Total Trade (squared)	25.35	3.65	**

** Significant at 0.05.

* Significant at 0.10.

Table 18, continued

Fixed Effects

Austria	-2.53
Belgium	-2.56
Canada	-2.63
Denmark	-2.56
Finland	-2.55
France	-2.65
Germany	-2.39
Italy	-2.42
Japan	-2.55
Netherlands	-2.57
Norway	-2.52
Sweden	-2.45
United Kingdom	-2.73
United States	-2.51

Weighted Statistics

R-squared	1.00		Mean dependent var	0.82
Adjusted R-squared	1.00		S.D. dependent var	0.57
S.E. of regression	0.03		Sum squared resid	0.08
F-statistic	1301.93		Durbin-Watson stat	2.17
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.97		Mean dependent var	0.50
Adjusted R-squared	0.94		S.D. dependent var	0.16
S.E. of regression	0.04		Sum squared resid	0.14
Durbin-Watson stat	1.85			

Table 19: Regression for Sickness Benefits Adjusted Replacement Rates

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 13
Total panel (balanced) observations: 143

Variable Name	Coefficient	t-Statistic	
Sickness Cash Benefits - lagged	0.42	5.31	**
Deindustrialization			
% Workforce Employed in Services	2.66	1.94	*
% Workforce Employed in Services (squared)	-2.23	-1.98	*
Foreign Direct Investment			
Outward FDI - % of Total FDI	-0.32	-0.58	
Outward FDI - % of Total FDI (squared)	0.25	0.55	
Enabling Institutions	-2.48	-1.08	
Enabling Institutions * Outward FDI - % of Total FDI	0.60	1.98	*
Enabling Institutions * Outward FDI - % of Total FDI (squared	-0.46	-1.70	*

** Significant at 0.05.
* Significant at 0.10.

Table 19, continued

Fixed Effects

Austria	1.78
Belgium	1.89
Canada	1.70
Denmark	1.99
Finland	1.86743
France	1.916655
Germany	1.946492
Italy	1.727292
Japan	1.867
Netherlands	1.966
Norway	2.002
Sweden	2.029
United Kingdom	1.671
United States	

Weighted Statistics

R-squared	0.99		Mean dependent var	0.74
Adjusted R-squared	0.99		S.D. dependent var	0.47
S.E. of regression	0.06		Sum squared resid	0.26
F-statistic	236.50		Durbin-Watson stat	2.08
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.94		Mean dependent var	0.54
Adjusted R-squared	0.91		S.D. dependent var	0.26
S.E. of regression	0.08		Sum squared resid	0.53
Durbin-Watson stat	2.15			

CHAPTER V

PARTISANSHIP AND PROTECTING OF TRADITIONAL VALUES

INTRODUCTION

The evidence presented in Chapter IV showed that trends in globalization have create financial pressures to reform social insurance programs in many of the fourteen countries examined here. First, growing deficits in trade and investment, as well as increases in employer payroll contributions, are associated with rising unemployment rates. Thus, these trends lead to depressed demand for labor as industries fail to compete in increasingly integrated markets. Also, growing deficits in trade and investment are associated with falling rates of real economic growth, even when controlling for "deindustrialization" and aging populations. These results provide support for the claim that waning competitiveness that leads to higher unemployment rates also depresses real economic growth. Additional results further show that these economic trends are associated with reforms of various social insurance programs that reduce adjusted replacement rates for these benefits, especially where enabling political institutions are present. In this chapter I will show that, while international economic trends may produce these purely financial pressures for reforms, partisan politics should play an important role in determining what types of reforms are adopted.

OPTIONS THAT ARE MARKET CONFORMING

As indicated in Chapter II, some scholars have interpreted the efficiency thesis as claiming that globalization should cause convergence around the residualist welfare state model that right-wing, economically liberal parties endorse. When no such evidence is found, these scholars claim that the efficiency thesis is weakened. But this line of reasoning is overdrawn. It's true that some aspects of social insurance programs are less "market conforming" than others. Virtually all social insurance programs serve dual functions; they provide an insurance function through horizontal transfers of funds from those who are employed to those who are not, and a redistributive function through vertical transfers that award low-income workers benefits that are disproportionately large relative to their wages and past contributions. Several of the countries examined here have universal, flat rate components to their old age and disability

pensions, and some UI cash benefits. These benefits represent vertical transfers because the same amount is awarded to all recipients regardless of past earnings or contributions. Every country examined here also provides benefits that are determined based on past earnings and contributions. These represent horizontal transfers between workers and benefit recipients with similar earnings.

Universal, flat rate benefits are the least market-conforming of the various components of the social insurance programs that these countries offer. They effectively transfer funds that the payroll taxes of high-income workers generate to low-income workers when they become sick, disabled, or unemployed, or when they retire. Because the amount of benefits that low-income workers will receive will likely exceed past contributions to social insurance funds, payroll taxes will have to increase in order to keep these insurance schemes viable as numbers of unemployed workers or pensioners increase. As a result, this component of social insurance programs is the least market conforming.

Generous social insurance benefits that require relatively high payroll taxes are also less market conforming than more meager benefits that require relatively low payroll contributions. Again, while financial pressures on these programs should not require policymakers to slash benefits to fractions of their previous levels, modest reductions in the replacement rates of these benefits in the face of high rates of unemployment and growing numbers of pensioners would forestall dramatic increases in employer payroll contributions.

Some might argue that policymakers in countries facing financial pressures on their social insurance programs should be forced to adopt more market conforming criteria for their social insurance programs. Such reforms would reduce aggregate expenditures, but they would also compromise relationships between citizens, the market, and the state that have been long established in countries in which left-wing and Christian Democratic parties control government. In contrast, I argue that policymakers have at their disposal a wide range of reform options, all of which would control the growth of aggregate expenditures and obviate significant increases in employer payroll contributions. So long as the growth of employer payroll taxes and, therefore, the costs of production are controlled, export industries should regain strength and capital flight should be less likely.

TRADITIONAL PARTISAN VALUES

The comparative literature has produced a host of works discussing the social welfare and insurance policy preferences of left-wing parties, Christian Democrats, and right-wing parties. What we know about the most important policy goals of parties and their constituents should guide their decisions as to which aspects of social insurance programs they will retain while reforming others in order to mitigate financial pressures on these programs.

Social Democratic parties have traditionally viewed a rather generous basic standard of living as a right of citizenship (Pontusson 1995; Esping-Andersen 1990). To achieve this end, social democratic parties support policies aimed at fostering full employment. However, this basic standard of living is a right earned by virtue of citizenship, and not a privilege earned through past employment. Therefore, the economic and labor market policies that Social Democratic parties adopt are also more likely than those policies that other parties adopt to "bypass" the market in order to counteract inequalities stemming from one's position in the labor market. Citizens are granted easy access to a wide range of social welfare and insurance benefits and services that the government provides directly to them in order to provide this basic standard of living. These benefits are provided to those who are separated from the labor market for any reason, as well as for any length of time, and are therefore more redistributive than benefits that Catholic/Christian Democratic parties (Stephens 1979) and certainly right wing parties provide.

Many states with strong left or Social Democratic traditions have a two tiered old age and disability pension scheme with a generous flat-rate component that serves to redistribute incomes (Iversen 1998), as well as an employment-related component that rewards those with long work histories prior to their departure from the labor market. Some have relatively generous flat-rate components of sickness and unemployment insurance benefits as well, even for those with short or sporadic histories of employment and contributions. In other words, eligibility criteria for benefits are very lenient, in keeping with the guarantee of a minimum standard of living as a right of citizenship (Wennemo 1992; Palme 1990). It is this guarantee of social rights that preserve the status of individuals by virtue of their citizenship, and not the generosity of the benefits, that constitutes the hallmark of welfare state programs that left-wing parties secure.

Members of Christian Democratic parties prefer welfare state programs that foster more conservative values than do left-wing parties. These programs support the "breadwinner" model in which the man of the household earns the only income while his wife cares for the home.

Christian Democratic (CD) parties also are less inclined than are left-wing parties to bypass market mechanisms to ensure employment opportunities and redistribute incomes. Therefore, while CD parties are also associated with relatively high welfare state expenditures, they focus more on transfer payments that are less redistributive than social welfare, flat-rate social insurance, and publicly provided services (Wilensky 1985; Castles 1982; Stephens 1979; Esping-Andersen 1990). These transfer payments generally serve to provide a decent standard of living when the breadwinner is temporarily separated from the labor market, but they also serve to replicate earned income inequalities.

Clearly, these CD parties strongly support social insurance benefits for those workers who are separated from the labor market. Maximum gross replacement rates often exceed the replacement rates that states with strong left parties grant. The assumption here is that if the sole income earner is no longer working due to unemployment, sickness, or disability, a substantial amount of his earnings must be replaced so that he can continue to support his family and maintain his status. However, these maximum gross replacement rates for social insurance benefits are awarded only to those who have "earned" them through past employment and contributions, so the defense of one's status is not a guarantee of citizenship. Benefits provided to those with shorter or more sporadic periods of work and contributions are much less generous than benefits provided to those with maximum contributions. The relatively tight eligibility criteria that govern the receipt of benefits and the amount of benefits provided are typical of welfare state programs that CD parties support.

Members of right-wing, economically liberal parties that are more prevalent among Anglo-Saxon countries believe that individuals should rely on the market not only for their wages, but also as a source of private insurance or investment to rely upon should their employment be interrupted for any reason (Iversen 1998; Rhodes 1996; Esping-Andersen 1990). Certainly, countries with traditionally strong right-wing parties have developed social welfare and insurance programs beyond the level that this description of them would imply. However, in countries where right-wing parties are strong, payroll taxes and replacement rates for social insurance benefits are far below those among countries with strong left or CD parties. These low levels of payroll taxes and allow individuals to retain larger portions of their earned incomes and, if they choose, use portions of this earned income to obtain private insurance. As a result, social insurance benefits are reserved only for those who are unable to rely on the market for their well-

being. Additionally, benefits are generally so meager as to render them qualitatively distinct from the benefits that left and CD parties support. These benefit levels are intended to discourage potential recipients from too easily relying on these benefits instead of employment for their livelihood. These aspects of social insurance programs are the mark of right-wing parties and reflect the values they support.

Secular center parties have not received as much attention in the comparative literature addressing welfare state development, as have these other three party classifications. While secular center parties would generally endorse welfare state programs more so than would right-wing parties, they certainly have not developed distinct commitments to particular aspects of welfare programs that left and Christian Democratic parties have either. Therefore, I set aside secular center parties and do not make predictions for the types of reforms of social insurance programs that they should adopt if these programs face financial pressures to do so. Evidence to support or refute such predictions would be limited in any case; secular center parties have enjoyed very little influence in government in most of the states under examination. The Liberals held a majority of cabinet seats in Canada throughout the 1970s. Several secular center parties comprised a majority of positions in the Swedish cabinet in the early 1980s, and about half of positions in the Finnish cabinet throughout the period under examination. Finally, the Democrats exercised considerable control over policymaking in the U.S. in the late 1970s and early 1990s.

Predictions for Reforms Based on Traditional Partisan Values

Evidence presented in Chapter IV indicate that the social insurance programs in several of the countries are experiencing financial strain because the numbers of individuals claiming benefits are growing relative to the numbers of workers whose payroll taxes finance these benefits. Contrary to the claim that more market conforming social insurance policies must be adopted, policymakers may alleviate these financial pressures by increasing aggregate social insurance revenues. They may accomplish this either by increasing payroll tax rates or adopting policies that will stimulate demand for labor and increase the number of contributors. Alternatively, they may alleviate financial pressures by decreasing aggregate expenditures. They may accomplish this either by cutting benefit amounts or tightening eligibility criteria to reduce the number of benefit recipients. The discussion that follows presents my predictions for which

options policymakers representing left-wing, Christian Democratic, and right-wing parties should choose.

The discussion that follows specifies reform options that parties should choose, and these options are presented in Figure 2 in Chapter III. Given the values that left wing parties traditionally uphold, one would not expect recent financial strains on social insurance programs to cause a tightening of eligibility criteria so as to discriminate among individuals based on their labor market involvement. For example, we should not expect to see greater penalties, such as increased waiting days for the receipt of unemployment benefits, or longer periods of disqualification from receipt of unemployment benefits (Option D). Nor should we expect these states to cut universal, flat-rate components of benefit calculations more severely than earning-related components. Doing so would reduce the effective replacement rate for those with short or sporadic work histories and limited payroll contributions more so than the effective replacement rate of those with maximum work contributions. Such reforms would significantly alter the relationships between the state, the market, and the citizenry, granting benefits in repayment for past contributions, rather than as a right of citizenship.[23]

Left-wing parties also should not discriminate among programs based on the functions they serve. For example, unemployment cash benefits should not be targeted more so than old age pensions, under the assumption that pensioners have "earned" their benefits and the unemployed have not. Instead, they should spread the burden equally among both contributors and benefit recipients.

Given the values that left-wing parties support, I predict that states in which these parties control government are likely to raise employee contributions (but may avoid increases in employer contributions) and cut earnings-related components of gross replacement rates while maintaining flat-rate components of these benefits (Options A and C). As a result, no specific group within the population should be at a greater disadvantage relative to other groups. In other words, these states should increase employee contributions and institute other reforms that encourage those workers who can remain in, or return to the labor market, but adequately provide for those who cannot. Additionally, they may increase the minimum length of time that one must work and contribute to social insurance schemes in order to receive the maximum gross replacement rate, so long as the ratio of benefits for those with less than maximum contributions is preserved (e.g. a 2% reduction in earnings-related benefits per year less than the maximum,

but no additional penalty for not achieving the maximum) (Option B). By adopting these reforms, Social Democratic parties would alleviate financial strains on their states' social insurance programs without changing the structure of these programs or limiting access to benefits, which would compromise the values most important to them.

Left-wing parties should be the slowest of the three party classifications to respond to economic pressures with reforms of their social insurance programs. This is because any cost-saving reform will place some sector at a disadvantage relative to others, according to differences in work history, past wages, or failure to meet other eligibility criteria. In other words, there are few, if any options that would preserve the status quo relationships between the state, citizens, and the market. And while any reforms would immediately disadvantage some members of society, any cost savings reaped may not improve international competitiveness, unemployment levels, growth rates, in the immediate future. As a result, these parties could be replaced and benefits reinstated before the economic advantages of reforms are realized.

Contrary to the values of left-wing parties cited above, CD parties favor transfer payments that award benefits based on past market involvement and contributions, thereby replicating income inequalities produced in the market. As such, one would not expect these parties to cut gross replacement rates of earnings-related benefits for those with maximum contributions, even if such reforms would yield the greatest cost savings (Option B). Instead, one would expect to find that states with strong CD parties would attempt to preserve relatively generous benefits for those with established histories of employment and contributions to social insurance schemes. In order to prevent rising expenditures on social insurance benefits, these states should tighten eligibility criteria for these benefits. Doing so would increase the number of workers contributing to these schemes (Option B) and decrease the number of individuals receiving benefits (Option D). Those states with flat-rate components to their benefits may also allow the implicit replacement rates of these components to fall (Option C) while maintaining the explicit replacement rate of earnings-related benefits (e.g. 1.5% of wages for each year of contributions, up to a maximum of 40 years, or 60%). Doing so may slightly decrease the total replacement rates for those with maximum contributions, but the reduction would be less severe than for those with less than maximum contributions.

Options B and D would disqualify very young workers with limited employment history (and without families) and those older workers with short or sporadic work histories (especially

married women). Also, increased waiting days and periods of disqualification should discourage "frivolous" claims on social insurance programs and encourage a return to the market as soon as possible. However, neither options B nor D would adversely affect individuals who have worked for many years and are willing to immediately return to work when an offered employment. By choosing these reforms, CD parties should be able to address the financial strains on their states' social insurance programs while still preserving the values most important to them. CD parties should also protect all four programs equally, but give priority to earnings-related components of benefits.

To the extent that CD parties are able to limit reforms to those cited above, they should respond to economic pressures to reform their programs more quickly than do left-wing parties. This is because these reforms would still serve the objective of providing relatively generous benefits to the typical breadwinner with extensive work experience and payroll contributions. These reforms alone may not suffice to control the growth of aggregate social insurance expenditures, however, and cutting gross replacement rates of maximum benefits would likely significantly reduce aggregate expenditures. If reductions in maximum gross replacement rates are necessary to address substantial financial burdens on social insurance funds, then CD parties should be slow to respond to these pressures. If countries with strong CD parties do reduce maximum gross replacement rates, one would expect them to do so only after other reforms are adopted, and after these economic pressures have persisted for some time.

In states in which right-wing parties have been very influential in formulating social welfare and insurance policies, faith in market efficiencies and the view that government should limit its intervention are evident in the roles these policies play. Programs are more targeted for the poor who have not or cannot support themselves through employment or private insurance and pensions. Given these values, one would not expect these states to increase employee or employer contributions to finance greater aggregate expenditures on these programs. Instead, one would expect states with strong right-wing parties to allow pressures for economic competitiveness to directly affect benefit recipients. When necessary, reforms should include reducing gross replacement rates (Option A), increasing the number of waiting days required for the receipt of benefits, and increasing the period of disqualification for violating eligibility criteria for the receipt of unemployment cash benefits (Option D). Further, these states should target unemployment and sickness cash benefits, under the assumption that recipients have not

"earned" these targeted benefits, as pensioners have. Finally, these states may adopt reforms that increase the length of required contributions for one to qualify for benefits, or at least for maximum benefits, which would reduce the number of claimants on these programs (Option B). In adopting such reforms, right-wing parties would be able to alleviate financial strains on their states' social insurance programs while obviating unpopular increases in employer contributions that divert earned incomes from private savings and insurance premiums. They should therefore respond to economic pressures to reform their social insurance programs more quickly than either left or CD parties. These reforms would reinforce the discipline that the market imposes on the workforce, in line with their underlying values of individualism and skepticism toward social solidarity.

In sum, my predictions for the effects of partisan influences on reforms are as follows. First, of course one would not expect reforms of these programs where no economic incentives or pressures for reform exist. The literature has shown time and again that purely ideological reforms of social welfare and insurance programs (e.g. initiated by right-parties) are difficult to accomplish and therefore unlikely. Second, as indicated in Chapter IV, reforms will be more likely when political institutions provide policymakers with incentives to act responsibly and adopt policies aimed at fostering long-term competitiveness and economic growth, even if these reforms cause short-term financial hardships for social insurance recipients. Third, to the extent that reforms are adopted, the partisanship of government should influence the character of reforms. My specific hypotheses are presented below:

1) Social Democratic parties faced with financially strained social insurance programs should be willing to impose direct costs on both employees and benefit recipients. They will choose Options A and C in order to distribute the growing burden of these programs among all citizens, regardless of their labor market involvement. They may also choose Option B by extending contributions periods as long as the ratio of benefits for those with less than maximum contributions remains the same. Both options A and B increase revenues, which reduces pressures to cut benefits.

2) Christian Democratic parties faced with financially strained social insurance programs should choose Options B and D in order to limit access to benefits. Doing so will disqualify workers with short or sporadic work histories from receiving benefits so that generous benefits for those with long histories of employment and contributions can be preserved. They may also allow flat-rate components of benefits to fall while maintaining earnings-related components (Option B) that, in combination with Option B will reduce aggregate expenditures.

3) Right wing parties faced with financially strained social insurance programs should be motivated primarily to reduce aggregate expenditures. They should Options C and D in order to reduce aggregate expenditures and obviate increases in either employer or employee payroll contributions and reinforce the discipline of the market

4) Also, left parties will respond less quickly to signs of economic trouble and financial strain, whereas right parties will takes these signs as a pretext to retrenchment. CD parties will respond more quickly than SD parties to adopt reforms that tighten eligibility criteria, but should be much slower than right parties to reduce maximum earnings-related benefits.

Specific Reforms of Social Insurance Programs

Reductions in gross replacement rates of these benefits were more common than I expected. These reforms were certainly adopted by left and CD parties more often than the literature would predict. Also, reforms of eligibility criteria among CD parties were limited by the fact that these criteria were very tight before reforms were necessary. Still, as the discussion below will show, there is some evidence that partisan values influenced the types of reforms chosen when they were financially necessary.

The Influence of Left-Wing Parties

Left-wing parties have been the more dominant than right-wing and Christian Democratic parties among these fourteen countries. Left parties controlled the cabinets for most of the 24-year period examined here in Austria, Norway and Sweden (See Table 8). These left-wing parties controlled government for ten years or more in Denmark, Finland, and Germany through the mid-1980s, and in France from the mid-1980s to the 1990s. Given the abiding influence that left-wing parties exercise over the policymaking process in these countries, I expect that reforms of social insurance policies will conform to the predictions outlined above.

Overview of Programs

Total employer payroll taxes in five of these countries are lower than only Italy; Denmark has much lower rates of total payroll taxes. These taxes fund very generous benefits for unemployment and sickness benefits, and old age and disability pensions. Six of the seven countries in which left-wing parties have been very influential in government provide universal,

flat-rate old age and pension benefits. Additionally, four of these countries do not require any contributions to old age and disability pensions schemes to receive substantial disability benefits.

These countries have among the shortest waiting periods for sickness benefits of among these fourteen countries. In fact, left-wing parties dominate in four of the six countries not requiring any waiting periods for sickness benefits. Among the seven countries that do not require waiting periods for the receipt of unemployment insurance benefits (at least by 1995), left-wing parties have controlled government for roughly half of these 23 years or more in five of those countries. Also, these countries have among the shortest periods of disqualification for quitting work or turning down offers of employment. Given the commitment of left-wing parties not to discriminate among benefit recipients based on their employment histories or the reasons for which they are separated from the labor market, these lenient eligibility criteria are expected.

Reforms of Gross Replacement Rates

I predicted that left-wing governments facing financial pressures are likely to reduce gross replacement rates of benefits, but reductions in benefits for those with less than maximum contributions should not be more severe than benefits for those with maximum contributions. As Tables 20, 22, and 24 show, six of those countries in which left-wing parties traditionally control government reduced maximum gross replacement rates (GRRS) unemployment insurance benefits, but few reduced GRRs for old age or disability benefits.

Gross replacement rates for unemployment insurance benefits fell in Finland, Denmark, and Germany in the early 1980s, and France and Sweden from the mid-1980 through the 1990s, and in Austria in the 1990s. In all six of these countries in which benefits were cut while left-wing parties controlled government, the ratios of the replacement rates for those with 2/3 of average earnings and those with average earnings remained constant. These lend support for to my expectation that left-wing parties would be likely to cut replacement rates for benefits, but to spread the cuts across all recipients, regardless of past earnings or contributions.

For old age pensions, Norway reduced gross replacement rates in the early 1980s and the 1990s, while France cut GRRs in the mid-1980s and Austria cut GRRs in the 1990s. In Norway the flat-rate component of old age pensions fell very slightly while the earnings-related component buoyed maximum GRRs in the early 1980s. However, when replacement rates were cut again in the 1990s, the flat-rate component remained constant while the replacement rate for

maximum benefits fell. In France the replacement rate of flat-rate benefits fell by one percentage point effective in 1987 while maximum replacement rates remained constant. In Austria, GRRs for those with half the maximum contributions started to fall in the mid-1980s when the Socialists controlled government, while GRRs for those with maximum contributions remained constant. However, the minimum flat-rate benefit was also retained, and even rose slightly in 1993 when maximum GRRs fell. Additionally, the flat-rate component of old age pensions rose relative to the earnings-related component in Finland effective in 1977, yielding higher adjusted replacement rates for those with less than maximum contributions. In each of these countries, cuts in replacement rates for disability pensions mirrored those for old age pensions. Except for the very slight reduction in minimum flat-rate pensions relative to maximum pensions in France, these results lend support to my predictions.

Reforms of Eligibility Criteria

In both France and Sweden total employee contributions to all social insurance schemes increased relative to employer contributions in the late 1980s and early 1990s, respectively. In Finland employer contributions rose relative to employee contributions in the mid-1970s, but both have remained constant since then. These policy developments in France and Sweden in particular reduce the welfare burden on employers, which renders these programs more market conforming, while imposing costs on employees to keep these benefits programs viable.

Five of the fourteen countries under examination increased the duration that one must work before becoming unemployed in order to receive maximum replacement rates for unemployment benefits (Table 21). Of these, left-wing parties controlled government in three countries when the changes were adopted. The German Social Democrats adopted the reform that took effect by 1983, the Socialists in France adopted the reform that became effective by 1985, and the Belgian Socialists did the same in 1995. However, both France and Germany provide relatively generous benefits (through flat-rate components and means-tested supplements) to those who fail to meet requirements for earnings-related benefits.

Another five countries increased the duration of employment and contributions required to receive maximum replacement rates for old age pensions, and left-wing parties controlled government in two of these countries (Table 23). The Labour Party in Norway increased the duration of contributions required for maximum old age pension benefits 1989 through 1995.

An increase in the duration of contributions that started under right-wing Conservatives in Sweden in the early 1980s continued under the Swedish Social Democrats in the late 1980s. Increases in the minimum age at which one must retire in order to receive full pension benefits were also fairly rare, as only three countries instituted such reforms. Of these three, only the Socialists in France increased the retirement age from 60 to 65 years old effective in 1995. However, it should be noted that the ratios of GRRs for those without maximum contributions and those with maximum contributions were maintained in all three of these countries despite these changes.

Reforms that tightened eligibility criteria unrelated to work history and contributions were also relatively rare among the countries under observation. The Social Democrats in Sweden raised the percentage of disability required for one to qualify for maximum disability pension benefits effective in 1993, one of only two countries to do so (Table 24). Four countries increased the period for which one is disqualified from receiving unemployment insurance benefits for voluntarily quitting their jobs or turning down offers of employment. Of these, the Socialists held a slight majority of cabinet seats over the Christian Democrats, Belgium effective in 1993. Finally, no left-wing parties instituted or increased waiting periods for the receipt of unemployment benefits or sickness benefits. In fact, Sweden's Social Democrats repealed the waiting period for unemployment insurance benefits effective in 1993. Left-wing parties in Austria and Norway repealed their waiting period for sickness benefits effective in 1975 and 1979, respectively (Table 25).

In sum, while tightening eligibility criteria was a rare occurrence, left-wing parties seemed even less likely than other parties to adopt such reforms. These parties were responsible for less than half of the occurrences of reform, even though they are the most dominant of any of these classifications of parties throughout the period under examination. Left-wing parties controlled government in three of the five countries increasing the period of employment required to qualify for maximum unemployment insurance benefits, but two of the three provided generous minimum benefits to those not qualified. Additionally, only Belgium's Socialists increased the disqualification period for unemployment benefits while left-wing parties in two countries repealed waiting days. Also, in each case in which left-wing parties increased the retirement age or the number of years one must work in order to qualify for maximum replacement rates for old age pensions, flat-rate components of these benefits remained generous

for those who failed to meet the new criteria. These policy changes generally support my predictions that left-wing parties were likely to cut replacement rates increase work requirements while preserving the gross replacement rates of benefits for those not qualified for maximum benefits.

However, those left-wing parties that responded to economic pressures with these types of reforms were quick to do so. When comparing the timing of reforms to the first onset of economic hardships – as indicated by rising deficits in trade and investment, rising unemployment rates, and slowed economic growth – these reforms were generally adopted within a year or two of the onset of these financial pressures. Only one exception to this trend stands out. Belgium experienced dramatic increases in unemployment rates and substantial decreases in growth rates in the early 1980s, yet the one reform of eligibility criteria – the increase in the disqualification period for unemployment benefits – was not adopted until the early 1990s. So while in general left-wing parties did not seem eager to adopt reforms that penalized those with limited work histories more so than those with more established work histories, those parties that did adopt such reforms did so more quickly after the onset of financial pressures than the current literature would predict.

The Influence of Christian Democrats

Christian Democrats have exercised the most control over the governments of Belgium, Germany, Italy, and the Netherlands during the period under examination (See Table 8). Given the enduring influence of Christian Democratic parties in these countries, they should have been able to exercise the character of reforms of social insurance programs during these periods. Therefore I expect that, to the extent that reforms are adopted, they are likely to limit the number of workers qualifying for benefits in order to preserve the amount of benefits awarded to those with the greatest past contributions.

Overview of Programs

The Netherlands and Germany have among the highest total employee payroll taxes, but these rates Belgium and Italy are closer to the average for all of the countries included here. In contrast, while Italy has the highest total employer payroll tax rates, these rates in the other three countries are closer to the average for all of the countries included here. Given these moderate

payroll tax rates, these countries have very tight criteria that determine the receipt of very generous maximum gross replacement rates. Maximum gross replacement rates for old age pensions in Italy, Germany, and Belgium are among the highest five rates provided among these fourteen countries (Table 22). Three of these countries do not have universal, flat-rate components to their old age and disability pension programs; Italy is the only exception. The others provide social welfare benefits to those failing to qualify for pensions, but these are not part of the social insurance programs. Therefore, these very generous replacement rates in Belgium and Germany are entirely dependent on employment and contributions.

The Netherlands and Belgium have among the greatest number of years of employment necessary to qualify for maximum replacement rates, at 50 years and 45 years, respectively, although these requirements in Germany and Italy are just 15 years (Table 23). These longer required durations are especially noteworthy, given that they do not provide universal, flat-rate benefits for those who do not meet maximum requirements. Germany and Belgium two of the four longest contributions periods for maximum unemployment benefits. Additionally, Belgium, Germany, and Italy are three of the top five longest periods of disqualification for quitting one's job or turning down offers of employment.

Reforms of Gross Replacement Rates

In both Belgium and Germany the gross replacement rate for old age and disability pensions for those with maximum contributions fell in the 1990s (Table 22). And while GRRs for those with half the maximum contributions also fell, the ratio between those with half and full contributions was preserved. The GRR for both old age and disability pensions for those with maximum contributions rose in the Netherlands in 1981, but the GRR for those with half contributions did not. As a result, after 1981 the ratio of benefits for those with half and full contributions was not preserved. This policy change is in line with my prediction above.

In contrast, in Italy the flat rate component of both old age and disability benefits (and, as an extension, the GRR for those with half of max contributions) rose slightly relative to max contributions in the mid-1970s. However, this contrast only brought the ratio of benefit for those with half contributions up to half of those with full contributions, so this policy change does not further redistribute benefits. Gross replacement rates for unemployment benefits fell in Belgium in the mid-1980s and Germany in the 1990s. In Germany the ratio of replacement rates for those

earning average wages and 2/3 average wages was preserved while the replacement rate for those with average earnings fell faster in Belgium. In the Netherlands, gross replacement rates for sickness benefits were cut substantially in the 1980s, but not in these other countries (Table 20).

Reforms Eligibility Criteria

Contrary to the hypothesis above, the criteria that determine ones access to old age and disability benefits did not change very often while Christian Democratic parties controlled government. Increases in the minimum age at which one can retire and still receive full pension benefits were rare; only Italy gradually increased this retirement age from 60 to 61 and then 62 from 1991 to 1995 (Table 24). There is tremendous variation across these countries in the amount of time that one must contribute to receive maximum disability benefits, but none of these countries lengthened this period. There is also considerable variation across countries in the degree of disability that is required for receiving maximum disability benefits. Still, twelve of the fourteen countries made no changes to this policy; among the countries dominated by CD parties, only Italy increased the disability requirement from 2/3^{rds} to 5/6^{ths} disability beginning in 1983.

Tightening of eligibility criteria for the receipt of maximum unemployment insurance (UI) cash benefits was slightly more common, as four of these countries adopted these reforms (Table 21). In two of these countries, CD parties instituted reforms that increased the period of required employment and payroll contributions to qualify for either short-term or long-term unemployment insurance cash benefits. These reforms took effect in Germany by 1985 and in the Netherlands by 1987. Belgium and Germany were two of only four countries to increase the period of disqualification for violating any of the eligibility criteria that determines one's access to unemployment insurance benefits. Belgium increased the duration of its disqualification period in 1979, and Germany was next in 1985.

In sum, tightening of eligibility criteria was not as common among these fourteen countries as I expected. Still, CD parties adopted these reforms about as often as left-wing parties did. Given that CD parties have not controlled government nearly as much as left-wing parties have (see Table 8), its appears that they were slightly more willing to adopt such reforms than were left-wing parties. This is especially noteworthy, given that these countries already had among the more stringent eligibility criteria in the period before reforms were financially

motivated. However, these Christian Democratic parties did tend to adopt these reforms soon after the onset of financial pressures on these programs. Italy may be considered an exception, as the timing of reforms was either well before, or several years after, the onset of high unemployment rates and low economic growth in the mid- 1980s.

The Influence of Right-Wing Parties

Right wing parties have exercised considerable control over the governments of Japan, the United Kingdom, and the United States for many years throughout the period under examination. Right-wing parties also held majorities of cabinet seats in Canada and Denmark from the mid-1980s to the end for the period, and in France until 1982 (see Table 8). I expect that to the extent that right-wing parties in these countries adopt reforms, these reforms should place the burden of growing expenditures on benefit recipients in order to obviate increases in payroll taxes.

Overview of Programs

As one would expect, both payroll taxes and social insurance benefits in countries dominated by right-wing parties are among the lowest of the fourteen countries examined here. Total employee contributions in Japan and France are fairly high, but these contributions in the remaining four countries are lower than all others except Finland and Sweden. More notably, only France has relatively high employer contributions; the remaining five countries in which right-wing parties have controlled government for many years have the five lowest average rates of total employer contributions. In short, the social insurance programs in these five countries place the least burden on employers. Given what the literature tells us about the values of right-wing parties, these trends are to be expected.

Japan, the U.S., and the U.K. provide lower unemployment insurance benefits than all other countries included here except Italy (Table 20). Even gross replacement rates for old age pensions in these six countries are lower than almost all other countries examined here; only GRRs in the Netherlands are lower than four of these countries. Additionally, three of these countries have among the longest waiting periods for the receipt of unemployment and sickness benefits and among the longest periods of disqualification from receiving unemployment benefits for violating eligibility criteria. Again, given that right-wing parties typically seek to

encourage employment, private savings and insurance as the primary sources of one's income, these stringent eligibility criteria are to be expected.

Reforms of Gross Replacement Rates

Gross replacement rates for unemployment benefits for workers with average earnings increased in Canada in the late 1980s and 1990s (Table 20). They fell slightly in Japan in the 1990s after rising in the mid-1980s. In contrast, GRRs were cut substantially in the U.K. and the U.S. in the early 1980s shortly after Thatcher and Reagan, respectively, took office. In Denmark GRRs fell significantly in 1985, soon after the Radical Liberals gained control of cabinet. In each of these countries trends in GRRs for workers earning 2/3 average wages followed similar patterns, except in Denmark where the decline in GRRs was not as substantial as that for workers with average earnings. Additionally, gross replacement rates for those with 2/3 of average earnings fell relative to GRRs for those with averages earnings in France in the early 1980s when right-wing parties controlled government. However, when GRRs for those with maximum earnings fell in the 1990s when left-wing parties controlled government, GRRs for those with 2/3 of average earnings remained constant. Gross replacement rates for sickness benefits feel substantially in Denmark in 1985, after the Radical Liberals took control of government. GRRs for sickness benefits also fell several percentage points in the U.K. in the late 1980s, following a steady increase in the early 1980s. GRRs for sickness benefits remained constant in Canada and Japan, and the United States has no national sickness program (Table 25).

In Denmark the Social Democrats controlled government for almost all years until 1982, and during this time the gap in GRRs for old age pensions between minimum and maximum contributions started to close (Table 22). However, when a coalition of right-wing parties controlled government starting in the mid-1980s, the gross replacement rates of the universal, flat-rate of old age pensions started to fall relative gross replacement rates for those with maximum contributions. The minimum, means-tested component of the pension program started to fall relative to maximum benefits in the same year. In the United Kingdom the adoption of the State Earning Related Pension Scheme (SERPS) explicitly shifted the program away from the flat-rate, universal pension to a focus on an earnings-related component. As a result, while the replacement rate for workers with maximum contributions remained constant, the replacement rate for those with less than maximum contributions fell several percentage points in the late

1980s and 1990s. Japan abolished the flat-rate component of its old age pensions. So while replacement rates fell for workers with maximum contributions as well, this policy change had a greater impact on those with minimal contributions who would rely heavily on flat-rate benefits. Neither Canada nor the U.S. adopted reforms that cut gross replacement rates for old age pensions. Reforms of disability pensions were similar in all of these countries except the U.S., in which maximum gross replacement rates for disability pensions fell substantially from the mid-1980s to the mid-1990s.

Reforms of Eligibility Criteria

As outlined above, one would expect states in which right wing parties dominate to institute reforms that penalize those receiving benefits (Table 21). This would include increases in periods of disqualification from receiving UI benefits for either quitting a recent job or turning down an offer of employment while collecting unemployment insurance benefits. Only four countries adopted such reforms, and in two of these countries the reforms took effect while right parties controlled government. Canada increased this period from three weeks to nine and a half weeks beginning in 1991. The U.K. increased from three weeks to thirteen weeks beginning in 1993. Canada has a relatively generous flat-rate, universal component to its old age pension benefit, which is earned by virtue of residency in Canada, with 40 years required for the maximum. The Progressive Conservatives increased the minimum contribution required to receive earnings-related old age pension to one year, effective 1991.

There is significant variation across countries in the number of weeks required to qualify for sickness benefits (Table 25). Relatively long periods of employment and contributions effectively disqualify those workers with short or sporadic work histories. Six countries require only current coverage in order to qualify for benefits. At the other extreme, Canada and the United Kingdom are among a few countries that require several months of contributions to qualify for benefits. Additionally, when the coalition of right wing parties controlled the Danish cabinet, they increased the number of weeks of required contributions for sickness benefits from one week to three weeks beginning in 1991. They also increased required disability required to receive maximum pensions from 50% to 67% effective in 1985.

Although the countries in which right parties exercise considerable influence in government generally have among the most stringent eligibility criteria, reforms that further

tightened these criteria were rare. Four of the fourteen countries increased the duration of contributions required for maximum old age pension benefits, and in half of these cases right-wing parties controlled government. The Conservatives in the U.K. increased this period substantially from 36 years to 49 years, effective 1981, and the Japanese Liberal Democrats increased this requirement after 1985, and again after 1991. Additionally, the Republicans in the U.S. adopted reforms that incrementally increased the retirement age starting in 1983.

Six of the fourteen countries have no waiting periods for unemployment insurance cash benefits (Table 21). Conversely, the waiting periods in Canada (two weeks) and the U.S. (one week) are the only ones to exceed a few days. Yet while the waiting periods that dominant right-wing parties produced are the longest of these fourteen countries, they did not increase during this period. It should be noted that, among the six countries in which right-wing parties controlled government for extended periods of time, reforms were not financially necessary in Japan or the U.S. All four of the remaining countries (Canada, Denmark, France, and the U.K.), reduced gross replacement rates for unemployment benefits, as one would expect based on the priorities of these parties.

Reforms such as these by right wing parties are to be expected, as they place the burden of growing financial pressures on benefit recipients themselves. When facing financial pressure to reform their social insurance programs, right-wing parties should be able to enact such reforms more easily than left or Christian Democratic parties because these reforms reinforce, rather than compromise, their traditional values.

As many of the countries in which left-wing parties typically control government also faced growing financial pressures to reform their social insurance programs, the frequency of reforms is not surprising. Given that these countries rarely tightened eligibility criteria, it is not surprising that they cut maximum gross replacement rates of many benefits. However, it is very noteworthy that most of these parties retained the flat-rate components of their old age pension benefits as maximum earning-related replacement rates fell. Two tiered pension systems have always discriminated between benefits recipients based on past employment and contributions, but generous flat-rate benefits have also ensured the economic well-being of those with limited work experience. In allowing maximum gross replacement rates to fall while supporting the replacement rates of flat-rate benefits, these left-wing parties preserved their traditional values while reducing aggregate expenditures.

As indicated above, I was surprised by the frequency with which Christian Democrats cut earnings-related components of generous gross replacement rates. But again, options to tighten eligibility criteria were limited by the fact that they were very tight before financial imperatives for reform set in. Nevertheless, these results do also give support to my arguments that, while economic pressures have made reforms of these programs necessary and political institutions make these reforms possible, the character of these reforms tend more often than not to preserve the dominant values of parties that control government when these reforms are adopted.

Table 20: Comparison of Gross Replacement Rates for Unemployment Benefits, Workers with 2/3 Average Wages vs. Average Wages

	Gross Replace, Workers with 2/3 Average Wages				Gross Replace, Workers with Average Wages			
	A *	**B ***	**C ***	**D ***	**A ***	**B ***	**C ***	**D ***
Austria	28.8	34.3	35.5	34.4	21.6	32.8	34.6	32.8
Belgium	59.8	59.2	58.2	56.7	49.5	45.3	41.4	38.0
Canada	65.1	57.8	57.8	57.8	58.9	53.3	57.8	57.8
Denmark	90.0	90.0	89.3	86.2	67.7	69.7	61.0	58.0
Finland	44.5	39.9	59.5	65.4	29.8	26.6	52.9	59.2
France	51.6	58.2	61.2	60.4	43.0	49.9	58.0	56.0
Germany	40.1	40.8	39.1	38.4	38.1	38.1	36.6	36.4
Italy	5.4	2.7	3.8	10.9	3.5	1.8	3.1	10.9
Japan	35.5	27.1	31.8	31.1	35.2	25.0	29.3	29.0
Netherlands	65.0	65.0	70.0	70.0	65.0	65.0	70.0	70.0
Norway	21.6	43.4	61.5	61.5	20.1	42.6	61.5	61.5
Sweden	72.8	90.3	90.8	90.0	55.5	76.4	84.3	80.7
United Kingdom	40.0	36.3	27.9	27.0	28.1	25.8	18.4	18.1
United States	31.6	33.8	30.9	27.6	24.8	26.3	24.3	23.9

Definitions of Periods: A = average for 1973-77, B = average for 1979-83, C = average for 1985-89, and D = average for 1991-95

Table 21: Program Summary for Unemployment Benefits

	Employee Contribution				Employer Contribution				Maximum Duration				Disqualification				Waiting Period			
	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *
Austria	1.0	1.3	2.3	2.6	1.0	1.3	2.3	2.6	156	156	156	156	4.0	4.0	4.0	4.0	0.6	0.4	0.1	0.0
Belgium	1.2	1.1	0.9	0.9	1.7	1.4	7.3	6.3	48	48	48	54	15.0	14.5	13.5	24.5	0.0	0.0	0.0	0.0
Canada	1.3	1.8	2.2	2.8	1.9	2.5	3.1	3.9	20	20	20	20	1.5	2.5	3.0	9.5	2.0	2.0	2.0	2.0
Denmark	0.9	1.3	2.9	3.1	0.2	1.7	4.5	6.3	26	26	26	26	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Finland	0.9	0.8	0.9	0.2	0.4	0.8	1.0	1.7	26	26	26	26	0.0	0.0	0.0	0.0	0.7	0.7	0.5	0.0
France	0.3	1.0	1.7	2.6	1.3	3.0	4.3	4.2	13	13	33	61	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Germany	1.1	1.6	2.1	2.9	1.1	1.8	2.1	2.9	104	129	156	156	3.0	3.0	6.0	6.0	0.0	0.0	0.0	0.0
Italy	0.0	0.0	0.0	0.0	2.4	3.3	4.1	4.3	52	0	0	0	4.3	4.3	4.3	4.3	0.0	0.3	0.8	1.0
Japan	0.6	0.6	0.6	0.5	0.8	0.9	0.9	0.8	26	26	26	26	6.4	6.4	6.4	6.4	1.0	1.0	1.0	1.0
Netherlands	1.2	2.1	0.9	1.7	1.2	0.7	1.1	1.9	19	19	33	40	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	0.1	0.4	0.5	0.9	0.2	0.7	1.0	1.9	30	39	39	39	4.0	4.0	4.0	4.0	0.4	0.4	0.4	0.4
Sweden	0.4	0.3	0.2	0.3	0.3	0.4	1.5	2.9	52	22	22	22	4.0	4.0	4.0	4.0	0.7	0.7	0.7	0.2
United Kingdom	0.9	1.3	1.0	0.7	1.5	2.9	1.7	0.9	50	50	50	50	3.0	3.0	3.0	9.7	0.4	0.4	0.4	0.4
United States	0.0	0.0	0.0	0.0	3.2	3.3	6.2	6.2	0	0	0	0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0

Definitions of Periods: A = average for 1973-77, B = average for 1979-83, C = average for 1985-89, and D = average for 1991-95

Table 22: Old Age Pensions, Gross Replacement Rates for Workers with Minimum Contributions, Half of Maximum Contributions, and Maximum Contributions

	Flat Rate w/ Supplement				GRR Half Maximum Contribution				GRR Maximum Contribution			
	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *
Austria	40.0	40.0	40.0	41.3	50.0	50.0	45.2	42.8	79.5	79.5	79.5	79.5
Belgium	0.0	0.0	0.0	0.0	30.0	30.8	31.4	30.4	60.0	61.7	62.7	60.8
Canada	15.0	15.0	15.0	15.0	30.3	25.4	32.3	32.8	34.9	36.5	40.0	40.0
Denmark	29.5	29.9	31.2	31.2	21.1	20.1	22.4	24.9	34.3	32.7	36.0	36.0
Finland	31.2	30.2	28.0	20.5	28.4	37.0	36.1	35.9	60.0	60.0	60.0	60.0
France	14.7	19.6	19.8	18.6	30.9	41.6	46.4	43.6	30.9	42.1	50.0	50.0
Germany	0.0	0.0	0.0	0.0	33.6	34.2	34.3	31.1	68.0	68.0	68.0	61.7
Italy	11.1	12.1	12.7	12.6	41.2	43.3	43.3	43.3	82.3	86.7	86.7	86.7
Japan	3.7	7.0	2.4	0.0	33.8	37.1	25.2	20.0	67.5	74.2	50.4	40.0
Netherlands	0.0	0.0	0.0	0.0	16.5	16.5	16.5	16.5	33.7	36.9	37.8	37.8
Norway	25.0	24.3	20.8	17.5	41.1	41.4	38.5	35.2	58.5	58.5	55.1	53.1
Sweden	21.2	28.5	27.8	28.2	41.8	43.8	42.9	42.0	66.3	67.4	67.0	66.7
United Kingdom	21.1	23.7	21.5	19.5	9.5	11.9	11.2	10.6	21.1	26.2	27.8	29.5
United States	0.0	0.0	0.0	0.0	33.3	33.6	33.9	34.8	44.4	44.8	45.2	46.4

Definitions of Periods: A = average for 1973-77, B = average for 1979-83,
C = average for 1985-89, and D = average for 1991-95

Table 23: Program Summary for Old Age Pensions

	Employee Contribution				Employer Contribution				Maximum Duration				Retirement Age (Men)			
	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *
Austria	8.8	9.6	10.3	10.3	8.8	11.0	12.5	12.6	45	45	45	45	65	65	65	65
Belgium	6.0	6.8	8.1	8.1	8.0	8.6	8.9	9.0	45	45	45	45	65	65	65	65
Canada	1.1	1.3	1.7	2.2	1.1	1.3	1.7	2.2	0	0	0	1	65	65	65	65
Denmark	1.6	3.5	3.8	0.4	0.6	0.5	0.8	1.0	40	40	40	40	67	67	67	67
Finland	0.0	0.0	0.0	2.3	13.7	16.5	17.9	19.7	40	40	40	40	65	65	65	65
France	3.2	4.7	6.6	6.9	6.9	8.2	8.2	8.2	36	38	38	38	60	60	60	62
Germany	7.6	7.6	3.8	5.3	9.0	9.0	9.4	9.0	15	15	15	15	65	65	65	65
Italy	6.9	7.2	7.2	7.9	14.2	17.0	17.8	20.3	15	15	15	15	60	60	60	61
Japan	4.1	5.8	6.8	8.3	3.5	4.4	5.0	6.0	30	30	35	39	63	63	63	63
Netherlands	13.5	21.1	25.2	28.6	6.7	10.6	6.2	0.0	50	50	50	50	65	65	65	65
Norway	4.8	5.4	7.0	7.8	16.7	16.7	17.0	15.9	30	30	30	32	63	63	63	63
Sweden	1.7	0.0	0.0	0.0	15.1	19.9	19.9	19.7	20	22	27	30	66	65	65	65
United Kingdom	4.6	5.8	6.0	6.9	6.2	9.7	7.3	7.3	36	45	49	49	65	65	65	65
United States	4.9	5.3	5.8	6.2	4.9	5.3	5.8	6.2	10	10	10	10	65	65	66	67

Definitions of Periods: A = average for 1973-77, B = average for 1979-83, C = average for 1985-89, and D = average for 1991-95

Table 24: Program Summary for Disability Pensions

	Flat Rate w/ Supplement				GRR Maximum Contribution				Maximum Duration				Percent Disability			
	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *
Austria	40.0	40.0	40.0	41.3	79.5	79.5	79.5	79.5	40	40	40	40	50	50	50	50
Belgium	0.0	0.0	0.0	0.0	63.5	65.3	66.8	65.0	0	0	0	0	67	67	67	67
Canada	0.0	0.0	0.0	0.0	19.1	20.4	28.7	31.5	10	8	3	2	100	100	100	100
Denmark	57.6	58.0	59.9	57.7	57.6	58.0	59.9	57.7	0	0	0	0	50	50	67	67
Finland	31.2	30.2	28.0	20.5	60.0	60.0	60.0	60.0	0	0	0	0	100	100	100	100
France	14.7	19.6	19.8	18.6	50.0	50.0	50.0	50.0	0	0	0	0	50	50	50	50
Germany	0.0	0.0	0.0	0.0	67.2	68.3	68.6	62.1	5	5	5	5	75	75	75	75
Italy	11.1	12.1	12.7	12.6	82.3	86.7	86.7	86.7	5	5	5	5	56	67	83	83
Japan	4.6	13.9	4.4	6.8	47.8	42.0	37.0	35.8	7	7	7	7	88	88	88	88
Netherlands	0.0	0.0	0.0	0.0	73.3	45.0	43.3	40.0	0	0	0	0	80	80	80	80
Norway	25.0	24.3	20.8	17.5	59.2	58.3	56.5	53.2	3	3	3	3	100	100	100	100
Sweden	24.7	37.0	37.1	37.2	66.3	67.4	67.0	66.7	3	3	3	3	83	83	83	94
United Kingdom	19.0	21.3	19.8	18.7	19.8	19.7	22.3	21.1	3	1	1	1	100	100	100	100
United States	0.0	0.0	0.0	0.0	44.4	44.4	56.8	51.9	10	10	10	10	100	100	100	100

Definitions of Periods: A = average for 1973-77, B = average for 1979-83, C = average for 1985-89, and D = average for 1991-95

Table 25: Program Summary for Sickness Benefits

Table 25: Program Summary for Sickness Benefits

	Gross Replace				Employee Contribution				Employer Contribution				Maximum Duration				Waiting Period			
	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *	A *	B *	C *	D *
Austria	31.4	36.5	36.5	36.5	3.3	3.2	3.2	3.6	3.3	7.0	7.0	7.4	0.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0
Belgium	62.7	62.6	63.1	63.4	1.1	1.1	1.2	1.2	1.8	1.9	2.3	2.2	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0
Canada	17.0	15.4	16.7	16.7	0.8	0.8	0.8	0.8	.	.	.	.	.	.	.	.	0.0	0.0	0.0	0.0
Denmark	78.4	82.3	74.4	70.0	0.3	1.0	1.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Finland	30.8	35.2	65.9	50.8	0.1	0.1	0.1	0.1	2.0	1.9	1.8	2.8	0.3	0.3	0.3	0.3	7.0	7.0	7.0	8.3
France	50.0	50.0	50.0	50.0	3.8	5.2	5.6	6.8	12.8	13.5	12.6	12.7	.	.	.	.	3.0	3.0	3.0	3.0
Germany	80.8	82.3	82.3	82.3	5.4	6.3	10.3	11.1	5.4	6.4	10.4	11.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Italy	32.0	32.0	32.0	32.0	0.2	0.4	1.0	1.0	10.8	11.5	12.6	10.3	0.0	0.0	0.0	0.0	3.0	3.0	3.0	3.0
Japan	27.7	60.0	60.0	60.0	3.4	4.2	4.2	4.1	3.7	4.2	4.2	4.1	0.0	0.0	0.0	0.0	3.0	3.0	3.0	3.0
Netherlands	80.0	80.0	71.7	70.0	1.2	1.1	1.0	1.1	6.8	5.9	4.8	4.5	0.0	0.0	0.0	0.0	2.0	2.0	2.0	2.0
Norway	29.2	76.2	71.4	90.5	4.2	4.4	3.5	1.4	3.2	3.2	3.2	2.8	0.0	0.0	0.0	0.0	3.0	0.0	0.0	0.0
Sweden	75.4	90.0	90.0	83.3	0.1	0.0	0.0	1.3	6.1	10.2	9.6	8.3	0.0	0.0	0.0	0.0	1.0	1.0	0.7	5.0
United Kingdom	14.2	8.2	11.9	10.0	0.2	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.5	0.5	0.5	0.5	3.0	3.0	3.0	3.0
United States					.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.

Definitions of Periods: A = average for 1973-77, B = average for 1979-83, C = average for 1985-89, and D = average for 1991-95

CHAPTER VI

CONCLUSION

INTRODUCTION

There has been an ongoing debate in the comparative literature in recent years over the effects of global market integration on the modern welfare state. There is general agreement among scholars that as patterns of trade and investment change in response to market integration, many workers in advanced capitalist countries will become unemployed or underemployed as labor markets adjust to these changes. However, there is considerable disagreement over welfare state policy responses to this worker dislocation. The compensation thesis posits that policymakers will provide generous social welfare and insurance benefits to workers as side-payments to secure their continued support for market integration. In contrast, the efficiency thesis posits that benefits will have to be cut in order to reduce the welfare burden on owners of capital and prevent capital flight.

Of course, globalization itself is not "bad" for to the welfare state. Both market integration and reforms of welfare state programs are the result of the democratic policymaking process in these countries. Policymakers in many OECD countries began repealing policies that once protected their industries as evidence of faith in classical economic theory, which dictates that gains from trade and specialization will maximize exploitation of the world's resources, and all countries will benefit. So why are the economies of some OECD countries suffering?

Some scholars argue that worker dislocation in many OECD countries represents a transitional phase. Many newly industrialized countries (NICs) are producing high quality goods that compete with those produced in OECD countries in world markets. These NICs are also attracting foreign direct investment. OECD countries should, and are, shifting to technology and services that take advantage of skilled labor. Many workers in these OECD countries lack the skills that our labor markets now demand, and until they gain those skills they will not find long-term employment. The compensation thesis assumes that market integration has this effect on the economies of OECD countries. Dislocated workers push for generous social welfare or insurance benefits as a condition to supporting continued integration.

In contrast, the efficiency thesis argues owners of capital are investing outside the OECD and other countries are importing less from, and exporting more to, OECD countries because our costs of production are too high. Corporate income taxes and employer payroll taxes comprise a substantial portion of these costs, and they must be cut in order to restore. The implication is that leaner welfare state programs are the new reality in competitive world markets.

This issue is important to the study of comparative politics because it appear to raise the question of whether or not global market integration undermines the autonomy of the nation state, and the ability of policymakers to serve constituents' interests. These interests include both income redistribution and economic growth. I have tried to show here that recent reforms of social insurance programs should serve constituents' interests by bolstering demand for labor, investment, production, and growth in an increasingly competitive world economy.

CONTRADICTIONS IN THE LITERATURE

The compensation thesis claims that domestic political forces can counteract financial pressures on social welfare and insurance programs stemming from global competition, worker dislocation, and rising aggregate expenditures. Conversely, the efficiency thesis claims that open capital markets render all social welfare and insurance programs vulnerable to cuts in order to prevent the growth of corporate income and payroll taxes that would prompt capital flight. While both arguments do have their strengths, I have attempted to show in this dissertation that both theses are oversimplified. Evidence in support of the efficiency thesis is lacking due to disagreement over three important issues: 1) whether global market integration is linked to rising unemployment and lagging economic growth in OECD countries; 2) the extent of reforms of welfare state programs in these countries; and 3) the relationship – if any – between market integrations and reforms.

Recently, some scholars acknowledging financial pressures on welfare state programs have produced evidence of limited reforms or "adjustments" of these programs. Yet these scholars view these financial pressures as the results of changes in domestic demographic and economic trends, such as the shift from industry to services and aging populations, rather than global economic trends. Further, several scholars view these financial pressures as temporary; once labor markets adjust to these changes, governments should be able to reinstate more generous social welfare and insurance benefits to past levels. But the coincidence of shifting

trends in international markets for goods with increasingly mobile capital with reforms of social insurance programs called for a reexamination of the relationship between the two.

The Contribution of this Dissertation

As I argued in Chapter II, early research espousing the compensation thesis did not address waning competitiveness in export markets. Instead this literature addressed fluctuations in international demand for a few small countries' exports that produced short-term bouts of unemployment (Cameron 1973; Katzenstein 1985). In recent years scholars have extended the logic of these works to open markets for both goods and capital among all advanced capitalist countries. The liberalization of policies that once limited international trade and investment in order to protect domestic industries from international competition has made global market integration possible. Some scholars have focused on these policies in examining the relationship between market integration and the welfare state. Others have defined global market integration as increasing volumes of international trade and investment that the repeal of protectionist policies has made possible.

In this dissertation I proposed an alternative to both the efficiency thesis and the compensation thesis. The effect of globalization on welfare states should be mitigated by both economic and political factors. First, the effects of market openness on the ability to maintain capital investment, compete in trade, and sustain acceptable levels of production and growth depend on the competitiveness of domestic industries. I argue that consistent trade and investment deficits resulting from the combination of market exposure and less competitive industries are responsible for rising unemployment and slowed economic growth. These trends are in turn producing financial pressures to reform social insurance programs in some OECD countries. For this reason, I limited my inquiry to a group of advanced capitalist countries, many of which are struggling.

But in fact, there is no relationship between market openness and deficits in trade or FDI. Some of the most "open" OECD countries (as determined by the size of markets for foreign trade and investment relative to GDP) are thriving by earning trade surpluses and very modest investment deficits. Unemployment rates are manageable and economic growth is stable. In contrast, some of the countries in which trade and foreign investment represent smaller portions of their economic activity, trade and investment deficits are contributing to persistently high rates

of unemployment and low rates of economic growth. Therefore, research must focus on cross-national differences in markets for trade and investment and their effect on the health of their economies.

By differentiating between "positive" and "negative" trends in trade and investment, I was able to show statistically significant relationships between these "negative" trends and high unemployment and low levels of economic growth. As claims on social insurance benefits rise and aggregate payroll taxes fall, financial pressures on these programs build, creating an imperative to reform these programs in some way. Therefore, the relationship between global market integration and reforms of welfare state programs relies heavily on cross-national differences in competitiveness, which produce differences in unemployment rates, economic growth rates, and the ability to finance social insurance programs.

However, increasing numbers of constituents are relying on program benefits, so these programs are still very popular. Therefore, as these reforms must be adopted through the democratic process, initial resistance to them will slow their adoption. In fact, I agree with much of the literature, claiming that social insurance benefits should expand in response to worker dislocation to a point. However, as financial pressures on these programs grow, policymakers must choose between further increases in employer payroll taxes or cuts in benefits. Given the need to control production costs, attract capital investment, stimulate demand for labor, and boost economic growth, I argue that expenditures will have to be cut. This dissertation therefore refines the efficiency thesis, claiming that the relationship between these trends in trade and investment and the generosity of social insurance benefits should be curvilinear.

These reforms should be difficult for policymakers to enact even if financial pressures to do so are strong. Such reforms would produce immediate and significant hardships for those receiving benefits, while not necessarily realizing economic gains for those contributing to social insurance schemes. The comparative literature has given much attention to this fact, even showing that right-wing politicians have had very limited success in reforming costly social welfare or insurance programs.

I started with the claim that reforms of these programs would slow the growth in payroll taxes and eventually bolster the competitiveness of industries. This would in turn foster strong economic growth. Therefore, these reforms represent short-term sacrifices specifically intended to bring about widespread benefits. The challenge, then, is for policymakers to succeed in

making these reforms without prompting electoral backlash. I focused on institutional variables that would simultaneously provide politicians with the incentives to cooperate with one another to adopt policy changes, while also allowing them to avoid blame for reforms. In so doing, I further refine the efficiency thesis claiming that enabling political institutions traditionally associated with the expansion of welfare state programs should be instrumental in adopting reforms where necessary. These conclusions directly contradict the bulk of the comparative literature examining the influence of institutions on welfare state policy development, giving further support to the view that global market integration has significantly changed the politics of welfare state policymaking.

By using a quantitative measure of adjusted replacement rates for social insurance programs, I was able to better test the link between trends in global market integration and policy reforms. The evidence from my regression analysis shown in Chapter IV showed that the relationship between trends in globalization and reforms of social insurance programs tend to be curvilinear. Further, enabling political institutions reinforce, rather than counteract this relationship.

I also showed that partisanship should play a role in determining the types of reforms that policymakers choose. The efficiency thesis claims that the threat of capital flight will force all countries with open markets to curtail welfare state expenditures. Some scholars have applied this argument in claiming that, if correct, this thesis would also predict a "race to the bottom" or convergence toward the residualist welfare state model with low taxes and meager, mean-tested benefit. Those states facing financial pressures should have to reduce aggregate expenditures in order to forestall increases in payroll taxes that may encourage capital flight. On this point I agree with the arguments of the efficiency thesis. But I argue that there is no need for convergence around the residualist model, or even for policymakers to adopt market conforming policy reforms. Instead, policymakers need only control the growth of expenditures and avoid substantial increases in payroll taxes. They have a wide range of choices for reform that will control the growth of aggregate expenditures while still preserving their traditional values.

Benefit replacement rates and aggregate expenditures are not the most important factor distinguishing between social insurance programs that left-wing parties, Christian Democrats, and right-wing parties support. In fact, while aggregate expenditures on old age pensions are lowest (as a percentage of GDP) in those countries in which right-wing parties typically control

government, no clear pattern among partisan influence, program type or aggregate expenditures is evident (OECD expenditure statistics).

It is not generous benefits that distinguish social welfare and insurance programs that strong left-wing parties have produced; rather, lenient eligibility criteria and relatively generous universal benefits distinguish these programs. In proving relatively generous benefits even to those with limited work histories, programs that left-wing parties have traditionally supported guarantee a decent standard of living as a right of citizenship, rather than a privilege earned through past employment.

In those countries in which Christian Democratic parties often control government, the values of gross replacement rates for those with maximum earnings and contributions are not substantially different from those provide by programs that left-wing parties support. What distinguishes programs that these parties support is the fact that benefits are closely tied to past income and contributions, and therefore replicate earned income inequalities. So those with maximum earnings and contribution do receive very generous incomes, but those with lower earnings or short or sporadic work histories receive more modest benefits. Eligibility criteria discourage reliance on benefits if workers can remain active in the labor market. But when workers reach retirement age or if they are unable to return to employment (due to sickness, disability, involuntary unemployment), then benefits provided can be very generous.

Finally, social welfare programs that right-wing parties typically support assess low payroll taxes and award meager, often means-tested benefits. These benefit levels are meant to discourage reliance on social welfare and insurance, thereby encouraging reliance on wages and private savings and insurance. Eligibility criteria are often even more stringent than those for programs that CD parties support, which discourages reliance on benefits, regardless of the reason for which recipients are inactive in the labor market.

Chapter V presented evidence supporting my claim that cross-national differences in partisanship yield different choices for reform. Left-wing parties have generally succeeded in protecting their traditional values when adopting reforms. By cutting maximum gross replacement rates for benefits but largely preserving flat-rate components of these benefits and maintaining lenient eligibility criteria, they have also adopted reforms that preserve the status of citizens regardless of past employment more so than Christian Democratic or right-wing parties have. Similarly, Christian Democratic parties have maintained very tight eligibility criteria in

order to control the growth of aggregate expenditures. They have cut maximum gross replacement rates more frequently than I predicted, but they did also tend to further tighten eligibility criteria in some cases in order to forestall more dramatic cuts. Finally, right-wing parties are able to most easily enact reforms that cut benefits and limit access to benefits because doing so reflects their conviction that individuals should rely on employment and private insurance to secure their own economic well-being.

Limitations of This Research

The data examined here extend only to 1995 due to limited availability of data on both intervening political variables and policy outcomes. But as I argued in Chapters One and Two, globalization still has not yet "happened," and certainly had not by 1995. The economies of OECD countries (and certainly non-OECD countries) are still far from integrated. In fact, domestic pressures are building within some of countries these countries to reinstate protectionist measures until others repeal theirs. These countries are likely to differ significantly in the future in the strength of their export markets, their ability to prevent capital flight and attract foreign capital, and levels of unemployment and economic growth. As deficits in trade and foreign direct investment continue to rise in some countries, and high rate of unemployment persist, pressures for reform will grow stronger. Where political conditions are right, these trends may have prompted reforms beyond those that were included here.

Also, all of the quantitative evidence presented in Chapter IV and most of the evidence in Chapter V applies only to adjusted replacement rates for those with average earnings and maximum contributions (e.g. the greatest number of years required to contribute to pension schemes to qualify for maximum replacement rates). However, there are so many criteria to qualify for these benefits that reforms may affect workers with different earnings and work histories much differently than workers with maximum contributions. Future research should examine the effects that these reforms have on individuals with differing work histories, employment levels, etc. This research might uncover more pronounced differences in policy reforms adopted by various parties.

Finally, some scholars have linked trends in globalization, political institutions, and partisanship to post tax and transfer inequalities, an important line of research. I only examine social insurance programs because those are the only ones that should be directly affected by

pressures to compete in the emerging global economy. So while I linked reforms to specific economic trends, I made no attempt to link these reforms to resulting redistribution of earned incomes. But reforms of social insurance benefits may be offset by expansions of other welfare state programs (specifically, social welfare programs). Such expansions would allow those in need to be as well off financially as they were before reforms of social insurance programs.

AVENUES FOR FURTHER RESEARCH

My argument contradicts the claim that global market integration and mobile capital render all countries vulnerable to cuts in their social welfare and insurance benefits. Rather, cross-national differences in the competitiveness of industries, strength of export markets, and the ability to attract capital investment are crucial in determining, financial pressures that may make reforms necessary. Therefore, the pace of market integration and country-specific patterns of trade and investment made possible by this integration – and not just "globalization" itself – are important factors. As I stated in Chapter II, market integration is not happening all at once to all countries. Rather, countries differ in the pace at which they are opening their borders to international trade and investment. Some restrictions on, for example, the volumes of certain goods, on types of investment, etc. remain. Some countries also have unrestricted trade or investment policies for some countries but not others. The European Union is a case in point, as barriers to trade and investment with countries outside the EU persist. In the future, EU member countries could either extend the same agreements to other countries or strengthen barriers to trade. The admittance of emerging economies with large supplies of inexpensive labor to the EU may also impact labor markets and financial pressures on social insurance programs. As more countries are admitted, resulting competition within the EU should place greater pressure on the social insurance schemes of those countries whose labor markets are currently benefiting from EU membership. Future research needs to continued to examine the effects of market openness, competition, trade and investment flows, and unemployment and growth rates – and not just broad measures of "globalization" – on financial pressures on social insurance programs and the likelihood of reforms.

Further research should use newer data, applying the index of adjusted replacement rates to policy outcomes beyond 1995. Some states are still thriving in recent years, so the economic imperative for reforms is lacking, but they may experience economic hardship in the future. It

would be interesting to see if they follow the same path of other countries examined here and institute reforms in order to control the growth of expenditures.

The dissertation shows that the imperative to reform comes from financial pressures such as slow growth and high unemployment resulting in part from trade and investment deficits. I do not address the idea that reforming these programs may render their industries more competitive. But this is certainly an important question. The economies of several of the states included here are doing better in recent years. Ratios of imports to total trade and outward FDI to total FDI are improving, and in some cases unemployment rates are falling. Using newer data would allow for the examination of whether or not these reforms are associated with economic recovery, or if economic recovery (regardless of the cause) would allow states to repeal recent reforms, producing more generous programs once again.

Finally, as NICs continue to gain from trade and grow wealthier, their citizens could call for more generous social welfare and insurance benefits. Doing so would increase production costs and may curb the competitiveness of their industries. At the same time, developing countries may improve their infrastructures and the skills of their laborers, much as the NICs have done in the past few decades. It will be interesting to see if NICs follow the same path of expansion and contraction of social insurance that many OECD countries have followed.

In closing, in this dissertation I attempted to show that global market integration has been an important factor in the development of social insurance policy reforms in recent years. In those countries whose industries are not competing well in open markets for goods and capital, high unemployment rates and slow economic growth are creating pressures to reform programs and forestall increases in employer payroll taxes. But these trends do not in any way indicate that globalization and the influence granted to owners of capital have tied the hands of policymakers striving to serve constituents' interests. Rather, policymakers should choose reforms specifically to foster stronger economic growth that would benefit virtually all citizens. Given that such reforms will produce short-terms costs as a means of securing long-term benefits, political institutions and the incentives they provide are important in determining the adoption of reforms when they are financially necessary. Additionally, these policymakers have at their disposal a range of options to control expenditures, many of which will preserve traditional values. In short, while globalization matters in the development of social insurance policies, domestic politics still very much matters as well.

APPENDIX

Table A-1: Correlations Among Independent Political Variables

Correlations Among Independent Variables

Simple Statistics						
Variable	**N**	**Mean**	**Std Dev**	**Sum**	**Minimum**	**Maximum**
LEFT	322	32.79354	38.6141	10560	0	100
CENTER	322	15.0705	26.67815	4853	0	100
RIGHT	322	34.17391	40.86259	11004	0	100
CD	322	17.56832	28.32604	5657	-1	100
ENABLE	322	0	0.892	0	-1.52602	1.96999
DISABLE	322	0	0.86708	0	-0.71973	1.89015
SOC_CORP	308	-0.0045	0.85	-1.38547	-1.33273	1.85022

Pearson Correlation Coefficients Prob > |r| under H0: Rho=0 Number of Observations							
	LEFT	**CENTER**	**RIGHT**	**CD**	**inclusive**	**DISABLE**	**SOC_CORP**
LEFT		-0.24644 <.0001 322	-0.60533 <.0001 322	-0.25685 <.0001 322	0.25494 <.0001 322	-0.32237 <.0001 322	0.44339 <.0001 308
CENTER			-0.29485 <.0001 322	-0.18163 0.0011 322	-0.16938 0.0023 322	0.18656 0.0008 322	-0.02246 0.6946 308
RIGHT				-0.33504 <.0001 322	-0.41726 <.0001 322	-0.00124 0.9823 322	-0.3965 <.0001 308
CD					0.40799 <.0001 322	0.27129 <.0001 322	-0.02172 0.7042 308
ENABLE						-0.28196 <.0001 322	0.61005 <.0001 308
DISABLE							-0.57602 <.0001 308
SOC_CORP							

ENABLE = Factor representing Enabling Institutions.
DISABLE = Factor representing Disabling Institutions.
SOC_CORP = Factor representing Social Corporatism.

Table A-2: Correlations Among Economic Trends

Correlations Among Economic Trends

Simple Statistics						
Variable	**N**	**Mean**	**Std Dev**	**Sum**	**Minimum**	**Maximum**
FDI_OPEN_GDP	322	0.01988	0.02063	6.40012	-0.00624	0.11387
FDI_OUT_PROP	322	61.05421	23.8064	19659	-8.52916	107.53065
TRADE_OPEN_GDP	322	0.0004408	0.0005268	0.14194	2.48E-06	0.0029
IMPORTS_PROP	322	50.55631	4.36549	16279	37.72704	64.04635

Pearson Correlation Coefficients, N = 322 Prob > |r| under H0: Rho=0				
	FDI_OPEN_GDP	**FDI_OUT_PROP**	**TRADE_OPEN_G**	**IMPORTS_PROP**
FDI_OPEN_GDP		-0.05932 0.2886	-0.06742 0.2276	-0.06218 0.2659
FDI_OUT_PROP			-0.34881 <.0001	-0.48369 <.0001
TRADE_OPEN_GDP				0.22158 <.0001
IMPORTS_PROP				

FDI_OPEN_GDP = Inward plus outward FDI, expressed as a proportion of GDP.
FDI_OUT_PROP = Ratio of Outward FDI to total FDI.
TRADE_OPEN_GDP = Imports plus Exports, expressed as a proportion of GDP.
IMPORTS_PROP = Ratio of Imports to total trade (Imports plus Exports).

Figure A-3, Unemployment Cash Benefits, Full Model

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Unemployment Benefits - lagged	0.50	8.20	**
Employer's Payroll Tax	-0.67	-2.10	**
% Workforce Employed in Services	3.11	2.49	**
% Workforce Employed in Services - Squared	-2.60	-2.53	**
Outward FDI - % of Total FDI	0.25	0.70	
Outward FDI - % of Total FDI - Squared	-0.25	-0.79	
Imports - % of Total Trade	2.89	0.44	
Imports - % of Total Trade - Squared	-3.08	-0.47	
Enabling Institutions	-3.16	-1.81	*
Disabling Institutions	-1.98	-1.61	
Social Corporatism	2.08	1.14	
Employer's Payroll Tax * Enabling Institutions	-0.09	-0.61	
Employer's Payroll Tax * Disabling Institutions	-0.12	-0.61	
Employer's Payroll Tax * Social Corporatism	-0.24	-1.88	*
Outward FDI - % of Total FDI * Enabling Institutions	-0.01	-0.05	
Outward FDI - % of Total FDI - Squared * Enabling Institutions	0.00	-0.01	
Outward FDI - % of Total FDI * Disabling Institutions	0.45	1.87	*
Outward FDI - % of Total FDI - Squared * Disabling Institutions	-0.45	-2.31	**
Outward FDI - % of Total FDI * Social Corporatism	0.36	1.12	
Outward FDI - % of Total FDI - Squared * Social Corporatism	-0.34	-1.29	
Outward FDI - % of Total FDI * Enabling Institutions	12.81	1.84	*
Outward FDI - % of Total FDI - Squared * Enabling Institutions	-13.03	-1.89	*
Outward FDI - % of Total FDI * Disabling Institutions	7.11	1.55	
Outward FDI - % of Total FDI - Squared * Disabling Institutions	-6.91	-1.60	
Outward FDI - % of Total FDI * Social Corporatism	-8.49	-1.16	
Outward FDI - % of Total FDI - Squared * Social Corporatism	8.55	1.17	
Christian Democrats	5.18	1.13	
Left	-0.88	-0.30	
Secular Center	4.37	1.23	
Employer's Payroll Tax * Christian Democrats	0.51	0.83	
Employer's Payroll Tax * Left	0.15	0.66	
Employer's Payroll Tax * Secular Center	0.90	2.77	**
Outward FDI - % of Total FDI * Christian Democrats	-0.89	-1.29	
Outward FDI - % of Total FDI - Squared * Christian Democrats	0.70	1.24	
Outward FDI - % of Total FDI * Left	0.11	0.23	
Outward FDI - % of Total FDI - Squared * Left	0.02	0.05	
Outward FDI - % of Total FDI * Secular Center	-0.96	-1.44	
Outward FDI - % of Total FDI - Squared * Secular Center	0.67	1.34	
Outward FDI - % of Total FDI * Christian Democrats	-18.01	-0.99	
Outward FDI - % of Total FDI - Squared * Christian Democrats	15.83	0.88	
Outward FDI - % of Total FDI * Left	3.59	0.31	
Outward FDI - % of Total FDI - Squared * Left	-3.94	-0.35	
Outward FDI - % of Total FDI * Secular Center	-15.48	-1.10	
Outward FDI - % of Total FDI - Squared * Secular Center	14.39	1.04	

** Significant at .05.
* Significant at .10.

Figure A-3, continued

Fixed Effects

Austria	-1.36
Belgium	-1.32
Canada	-1.33
Denmark	-1.36
Finland	-1.38
France	-1.31
Germany	-1.21
Italy	-1.37
Japan	-1.45
Netherlands	-1.17
Norway	-1.36
Sweden	-1.21
United Kingdom	-1.57
United States	-1.28

Weighted Statistics

R-squared	0.99		Mean dependent var	0.47
Adjusted R-squared	0.98		S.D. dependent var	0.31
S.E. of regression	0.04		Sum squared resid	0.18
F-statistic	183.78		Durbin-Watson stat	2.33
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.97		Mean dependent var	0.39
Adjusted R-squared	0.95		S.D. dependent var	0.21
S.E. of regression	0.05		Sum squared resid	0.22
Durbin-Watson stat	2.04			

Figure A-4: Old Age Pension Benefits, Full Model

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Old Age Pensions - lagged	0.51	6.89	**
Elderly - % of Population	-1.40	-2.44	**
Employer's Payroll Tax	-0.09	-0.49	
% Workforce Employed in Services	0.56	0.81	
% Workforce Employed in Services - Squared	-0.48	-0.82	
Outward FDI - % of Total FDI	0.26	0.91	
Outward FDI - % of Total FDI - Squared	-0.22	-0.90	
Imports - % of Total Trade	14.76	3.29	**
Imports - % of Total Trade - Squared	-14.30	-3.21	**
Enabling Institutions	-0.95	-0.72	
Disabling Institutions	0.76	0.69	
Social Corporatism	1.06	0.97	
Employer's Payroll Tax * Enabling Institutions	0.08	0.69	
Employer's Payroll Tax * Disabling Institutions	-0.07	-0.39	
Employer's Payroll Tax * Social Corporatism	0.01	0.07	
Outward FDI - % of Total FDI * Enabling Institutions	-0.37	-2.54	**
Outward FDI - % of Total FDI - Squared * Enabling Institutions	0.31	2.47	**
Outward FDI - % of Total FDI * Disabling Institutions	-0.15	-0.62	
Outward FDI - % of Total FDI - Squared * Disabling Institutions	0.10	0.48	
Outward FDI - % of Total FDI * Social Corporatism	0.05	0.28	
Outward FDI - % of Total FDI - Squared * Social Corporatism	-0.06	-0.39	
Outward FDI - % of Total FDI * Enabling Institutions	4.48	0.85	
Outward FDI - % of Total FDI - Squared * Enabling Institutions	-4.85	-0.93	
Outward FDI - % of Total FDI * Disabling Institutions	-3.10	-0.75	
Outward FDI - % of Total FDI - Squared * Disabling Institutions	2.97	0.75	
Outward FDI - % of Total FDI * Social Corporatism	-4.02	-0.93	
Outward FDI - % of Total FDI - Squared * Social Corporatism	3.71	0.86	
Christian Democrats	5.67	1.45	
Left	2.41	1.48	
Secular Center	8.34	3.68	**
Employer's Payroll Tax * Christian Democrats	0.17	0.42	
Employer's Payroll Tax * Left	0.24	1.78	*
Employer's Payroll Tax * Secular Center	0.16	1.14	
Outward FDI - % of Total FDI * Christian Democrats	0.48	0.86	
Outward FDI - % of Total FDI - Squared * Christian Democrats	-0.41	-0.82	
Outward FDI - % of Total FDI * Left	-0.37	-1.14	
Outward FDI - % of Total FDI - Squared * Left	0.27	0.98	
Outward FDI - % of Total FDI * Secular Center	-0.46	-0.93	
Outward FDI - % of Total FDI - Squared * Secular Center	0.38	1.00	
Outward FDI - % of Total FDI * Christian Democrats	-23.27	-1.52	
Outward FDI - % of Total FDI - Squared * Christian Democrats	23.27	1.56	
Outward FDI - % of Total FDI * Left	-9.47	-1.47	
Outward FDI - % of Total FDI - Squared * Left	9.62	1.49	
Outward FDI - % of Total FDI * Secular Center	-32.05	-3.64	**
Outward FDI - % of Total FDI - Squared * Secular Center	30.96	3.61	**

** Significant at .05.
* Significant at .10.

Figure A-4, continued

Fixed Effects

Austria	-3.63
Belgium	-3.62
Canada	-3.70
Denmark	-3.70
Finland	-3.63
France	-3.76
Germany	-3.35
Italy	-3.51
Japan	-3.57
Netherlands	-3.87
Norway	-3.68
Sweden	-3.51
United Kingdom	-3.99
United States	-3.53

Weighted Statistics

R-squared	1.00		Mean dependent var	0.61
Adjusted R-squared	1.00		S.D. dependent var	0.52
S.E. of regression	0.03		Sum squared resid	0.10
F-statistic	896.38		Durbin-Watson stat	2.38
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.98		Mean dependent var	0.38
Adjusted R-squared	0.97		S.D. dependent var	0.22
S.E. of regression	0.04		Sum squared resid	0.16
Durbin-Watson stat	2.30			

Figure A-5, Disability Pensions, Full Model

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Disability Pensions - lagged	0.59	8.01	**
Elderly - % of Population	-1.42	-3.20	**
Employer's Payroll Tax	0.00	-0.02	
% Workforce Employed in Services	0.84	1.50	
% Workforce Employed in Services - Squared	-0.63	-1.30	
Outward FDI - % of Total FDI	0.26	1.18	
Outward FDI - % of Total FDI - Squared	-0.19	-1.01	
Imports - % of Total Trade	9.72	3.03	**
Imports - % of Total Trade - Squared	-9.54	-3.02	**
Enabling Institutions	-0.46	-0.44	
Disabling Institutions	0.64	0.67	
Social Corporatism	-0.26	-0.28	
Employer's Payroll Tax * Enabling Institutions	-0.07	-0.68	
Employer's Payroll Tax * Disabling Institutions	0.08	0.47	
Employer's Payroll Tax * Social Corporatism	0.03	0.38	
Outward FDI - % of Total FDI * Enabling Institutions	-0.05	-0.44	
Outward FDI - % of Total FDI - Squared * Enabling Institutions	0.04	0.40	
Outward FDI - % of Total FDI * Disabling Institutions	-0.56	-2.88	**
Outward FDI - % of Total FDI - Squared * Disabling Institutions	0.46	2.73	**
Outward FDI - % of Total FDI * Social Corporatism	-0.17	-1.05	
Outward FDI - % of Total FDI - Squared * Social Corporatism	0.16	1.21	
Outward FDI - % of Total FDI * Enabling Institutions	2.00	0.48	
Outward FDI - % of Total FDI - Squared * Enabling Institutions	-2.13	-0.52	
Outward FDI - % of Total FDI * Disabling Institutions	-2.08	-0.59	
Outward FDI - % of Total FDI - Squared * Disabling Institutions	1.97	0.60	
Outward FDI - % of Total FDI * Social Corporatism	1.16	0.32	
Outward FDI - % of Total FDI - Squared * Social Corporatism	-1.18	-0.33	
Christian Democrats	5.68	1.73	*
Left	3.71	3.06	**
Secular Center	6.68	3.65	**
Employer's Payroll Tax * Christian Democrats	-0.17	-0.40	
Employer's Payroll Tax * Left	0.12	1.28	
Employer's Payroll Tax * Secular Center	0.43	3.13	**
Outward FDI - % of Total FDI * Christian Democrats	0.33	0.66	
Outward FDI - % of Total FDI - Squared * Christian Democrats	-0.42	-0.93	
Outward FDI - % of Total FDI * Left	-0.57	-2.29	**
Outward FDI - % of Total FDI - Squared * Left	0.48	2.27	**
Outward FDI - % of Total FDI * Secular Center	-0.44	-1.26	
Outward FDI - % of Total FDI - Squared * Secular Center	0.29	1.07	
Outward FDI - % of Total FDI * Christian Democrats	-22.25	-1.73	*
Outward FDI - % of Total FDI - Squared * Christian Democrats	21.77	1.73	*
Outward FDI - % of Total FDI * Left	-13.99	-2.93	**
Outward FDI - % of Total FDI - Squared * Left	13.71	2.90	**
Outward FDI - % of Total FDI * Secular Center	-25.92	-3.64	**
Outward FDI - % of Total FDI - Squared * Secular Center	25.35	3.65	**

** Significant at .05.
* Significant at .10.

Figure A-5, continued

Fixed Effects

Austria	-2.42
Belgium	-2.44
Canada	-2.53
Denmark	-2.44
Finland	-2.44
France	-2.54
Germany	-2.28
Italy	-2.31
Japan	-2.44
Netherlands	-2.46
Norway	-2.41
Sweden	-2.35
United Kingdom	-2.62
United States	-2.41

Weighted Statistics

R-squared	1.00		Mean dependent var	0.82
Adjusted R-squared	1.00		S.D. dependent var	0.57
S.E. of regression	0.03		Sum squared resid	0.08
F-statistic	1271.00		Durbin-Watson stat	2.18
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.97		Mean dependent var	0.50
Adjusted R-squared	0.94		S.D. dependent var	0.16
S.E. of regression	0.04		Sum squared resid	0.14
Durbin-Watson stat	1.85			

Figure A-6: Sickness Benefits, Full Model

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 13
Total panel (balanced) observations: 143

Variable	Coefficien	t-Statistic	
Sickness Benefits - lagged	0.42	5.31	**
Employer's Payroll Tax	0.00	-0.01	
% Workforce Employed in Services	2.66	1.94	*
% Workforce Employed in Services - Squared	-2.23	-1.98	*
Outward FDI - % of Total FDI	-0.32	-0.58	
Outward FDI - % of Total FDI - Squared	0.25	0.55	
Imports - % of Total Trade	-9.30	-0.85	
Imports - % of Total Trade - Squared	9.56	0.86	
Enabling Institutions	-2.48	-1.08	
Disabling Institutions	2.40	0.66	
Social Corporatism	3.44	1.11	
Employer's Payroll Tax * Enabling Institutions	-0.09	-0.59	
Employer's Payroll Tax * Disabling Institutions	0.15	0.61	
Employer's Payroll Tax * Social Corporatism	0.10	0.70	
Outward FDI - % of Total FDI * Enabling Institutions	0.60	1.98	*
Outward FDI - % of Total FDI - Squared * Enabling Institutions	-0.46	-1.70	*
Outward FDI - % of Total FDI * Disabling Institutions	-0.18	-0.43	
Outward FDI - % of Total FDI - Squared * Disabling Institutions	0.04	0.13	
Outward FDI - % of Total FDI * Social Corporatism	-0.23	-0.71	
Outward FDI - % of Total FDI - Squared * Social Corporatism	0.20	0.73	
Outward FDI - % of Total FDI * Enabling Institutions	8.81	0.96	
Outward FDI - % of Total FDI - Squared * Enabling Institutions	-8.31	-0.91	
Outward FDI - % of Total FDI * Disabling Institutions	-9.13	-0.62	
Outward FDI - % of Total FDI - Squared * Disabling Institutions	9.15	0.61	
Outward FDI - % of Total FDI * Social Corporatism	-12.90	-1.05	
Outward FDI - % of Total FDI - Squared * Social Corporatism	12.23	1.00	
Christian Democrats	-0.96	-0.13	
Left	0.20	0.05	
Secular Center	-4.16	-0.61	
Employer's Payroll Tax * Christian Democrats	0.15	0.22	
Employer's Payroll Tax * Left	-0.35	-1.54	
Employer's Payroll Tax * Secular Center	0.18	0.53	
Outward FDI - % of Total FDI * Christian Democrats	-0.64	-0.79	
Outward FDI - % of Total FDI - Squared * Christian Democrats	0.54	0.77	
Outward FDI - % of Total FDI * Left	-0.19	-0.33	
Outward FDI - % of Total FDI - Squared * Left	0.33	0.64	
Outward FDI - % of Total FDI * Secular Center	0.70	0.70	
Outward FDI - % of Total FDI - Squared * Secular Center	-0.51	-0.66	
Outward FDI - % of Total FDI * Christian Democrats	4.65	0.16	
Outward FDI - % of Total FDI - Squared * Christian Democrats	-4.73	-0.16	
Outward FDI - % of Total FDI * Left	0.08	0.01	
Outward FDI - % of Total FDI - Squared * Left	-0.63	-0.04	
Outward FDI - % of Total FDI * Secular Center	16.05	0.57	
Outward FDI - % of Total FDI - Squared * Secular Center	-16.51	-0.57	

** Significant at .05.
* Significant at .10.

Figure A-6, continued

Fixed Effects

Austria	1.78
Belgium	1.89
Canada	1.70
Denmark	1.99
Finland	1.87
France	1.92
Germany	1.95
Italy	1.73
Japan	1.87
Netherlands	1.97
Norway	2.00
Sweden	2.03
United Kingdom	1.67
United States	

Weighted Statistics

R-squared	0.99		Mean dependent var	0.74
Adjusted R-squared	0.99		S.D. dependent var	0.47
S.E. of regression	0.06		Sum squared resid	0.26
F-statistic	236.50		Durbin-Watson stat	2.08
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.94		Mean dependent var	0.54
Adjusted R-squared	0.91		S.D. dependent var	0.26
S.E. of regression	0.08		Sum squared resid	0.53
Durbin-Watson stat	2.15			

Figure A-7: Openness and Unemployment Benefits

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Unemployment Cash Benefits - Lagged	0.45	6.62	**
Employer's Payroll Tax	-0.49	-1.76	*
% of Workforce Employed in Services	0.19	1.47	
Investment Openness	0.01	0.58	
Trade Openness	1.07	2.54	**
Enabling Institutions	-0.03	-0.72	
Disabling Institutions	-0.24	-1.72	*
Social Corporatism	-0.01	-0.45	
Employer's Payroll Tax * Enabling Institutions	0.07	0.47	
Employer's Payroll Tax * Disabling Institutions	-0.12	-0.72	
Employer's Payroll Tax * Social Corporatism	-0.23	-1.94	*
Investment Openness * Enabling Institutions	0.00	0.55	
Investment Openness * Disabling Institutions	0.00	0.30	
Investment Openness * Social Corporatism	0.01	1.93	*
Trade Openness * Enabling Institutions	-0.15	-0.62	
Trade Openness * Disabling Institutions	1.03	2.18	**
Trade Openness * Social Corporatism	0.41	1.61	
Christian Democrats	0.01	0.07	
Left	0.15	2.51	**
Secular Center	0.02	0.42	
Employer's Payroll Tax * Christian Democrats	0.29	0.62	
Employer's Payroll Tax * Left	-0.21	-0.96	
Employer's Payroll Tax * Secular Center	0.60	1.94	*
Investment Openness * Christian Democrats	-0.01	-0.57	
Investment Openness * Left	-0.01	-1.20	
Investment Openness * Secular Center	-0.03	-1.12	
Trade Openness * Christian Democrats	-0.62	-0.70	
Trade Openness * Left	-1.34	-3.41	**
Trade Openness * Secular Center	-1.69	-2.55	**

** Significant at .05.

* Significant at .10.

Figure A-7, continued

Fixed Effects

Austria	0.02
Belgium	0.09
Canada	0.17
Denmark	0.06
Finland	0.11
France	0.01
Germany	0.50
Italy	0.01
Japan	0.05
Netherlands	0.27
Norway	0.09
Sweden	0.26
United Kingdom	-0.21
United States	0.44

Weighted Statistics

R-squared	0.99		Mean dependent var	0.48
Adjusted R-squared	0.99		S.D. dependent var	0.44
S.E. of regression	0.04		Sum squared resid	0.21
F-statistic	546.51		Durbin-Watson stat	2.50
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.96		Mean dependent var	0.39
Adjusted R-squared	0.95		S.D. dependent var	0.21
S.E. of regression	0.05		Sum squared resid	0.24
Durbin-Watson stat	2.37			

Figure A-8: Openness and Old Age Pensions

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Old Age Pensions - Lagged	0.65	9.85	**
Elderly - % of Population	-1.12	-2.70	**
Employer's Payroll Tax	-0.08	-0.59	
% of Workforce Employed in Services	0.03	0.33	
Investment Openness	0.01	1.36	
Trade Openness	-0.03	-0.11	
Enabling Institutions	-0.04	-1.19	
Disabling Institutions	-0.04	-0.75	
Social Corporatism	-0.03	-1.76	*
Employer's Payroll Tax * Enabling Institutions	0.15	1.39	
Employer's Payroll Tax * Disabling Institutions	0.00	-0.01	
Employer's Payroll Tax * Social Corporatism	0.10	1.72	*
Investment Openness * Enabling Institutions	0.00	0.54	
Investment Openness * Disabling Institutions	0.01	1.67	*
Investment Openness * Social Corporatism	0.00	0.45	
Trade Openness * Enabling Institutions	-0.12	-0.79	
Trade Openness * Disabling Institutions	-0.29	-1.26	
Trade Openness * Social Corporatism	0.04	0.45	
Christian Democrats	0.15	1.48	
Left	0.00	0.00	
Secular Center	-0.03	-1.29	
Employer's Payroll Tax * Christian Democrats	-0.38	-0.99	
Employer's Payroll Tax * Left	0.04	0.37	
Employer's Payroll Tax * Secular Center	0.10	0.78	
Investment Openness * Christian Democrats	-0.04	-2.88	**
Investment Openness * Left	0.00	-0.09	
Investment Openness * Secular Center	0.01	1.21	
Trade Openness * Christian Democrats	0.00	-0.01	
Trade Openness * Left	-0.04	-0.20	
Trade Openness * Secular Center	-0.28	-1.15	

** Significant at .05.

* Significant at .10.

Figure A-8, continued

Fixed Effects

Austria	0.31
Belgium	0.30
Canada	0.15
Denmark	0.25
Finland	0.31
France	0.25
Germany	0.37
Italy	0.38
Japan	0.23
Netherlands	0.12
Norway	0.25
Sweden	0.38
United Kingdom	0.06
United States	0.25

Weighted Statistics

R-squared	1.00		Mean dependent var	0.86
Adjusted R-squared	1.00		S.D. dependent var	0.81
S.E. of regression	0.04		Sum squared resid	0.16
F-statistic	2456.22		Durbin-Watson stat	2.14
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.97		Mean dependent var	0.38
Adjusted R-squared	0.95		S.D. dependent var	0.22
S.E. of regression	0.05		Sum squared resid	0.25
Durbin-Watson stat	1.63			

Figure A-9, Openness and Disability Pensions

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Disability Pensions - lagged	0.68	9.90	**
Elderly - % of Population	-0.79	-2.20	**
Employer's Payroll Tax	-0.03	-0.23	
% of Workforce Employed in Services	0.05	0.57	
Investment Openness	-0.01	-1.23	
Trade Openness	0.02	0.11	
Enabling Institutions	0.00	0.13	
Disabling Institutions	0.01	0.18	
Social Corporatism	-0.03	-2.24	**
Employer's Payroll Tax * Enabling Institutions	-0.05	-0.60	
Employer's Payroll Tax * Disabling Institutions	0.02	0.13	
Employer's Payroll Tax * Social Corporatism	0.11	2.08	**
Investment Openness * Enabling Institutions	0.00	0.23	
Investment Openness * Disabling Institutions	0.00	-0.52	
Investment Openness * Social Corporatism	0.00	-0.88	
Trade Openness * Enabling Institutions	-0.25	-1.70	*
Trade Openness * Disabling Institutions	-0.06	-0.22	
Trade Openness * Social Corporatism	0.06	0.70	
Christian Democrats	0.04	0.40	
Left	-0.02	-0.68	
Secular Center	-0.08	-3.73	**
Employer's Payroll Tax * Christian Democrats	-0.13	-0.37	
Employer's Payroll Tax * Left	0.10	1.14	
Employer's Payroll Tax * Secular Center	0.19	1.40	
Investment Openness * Christian Democrats	0.01	0.59	
Investment Openness * Left	0.01	1.32	
Investment Openness * Secular Center	0.02	2.05	**
Trade Openness * Christian Democrats	0.50	0.97	
Trade Openness * Left	0.05	0.29	
Trade Openness * Secular Center	0.19	1.25	

** Significant at .05.

* Significant at .10.

Figure A-9, continued

Fixed Effects

Austria	0.26
Belgium	0.22
Canada	0.16
Denmark	0.29
Finland	0.30
France	0.22
Germany	0.27
Italy	0.33
Japan	0.21
Netherlands	0.21
Norway	0.29
Sweden	0.36
United Kingdom	0.17
United States	0.19

Weighted Statistics

R-squared	1.00		Mean dependent var	0.99
Adjusted R-squared	1.00		S.D. dependent var	0.79
S.E. of regression	0.03		Sum squared resid	0.12
F-statistic	2971.43		Durbin-Watson stat	2.08
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.96		Mean dependent var	0.50
Adjusted R-squared	0.94		S.D. dependent var	0.16
S.E. of regression	0.04		Sum squared resid	0.18
Durbin-Watson stat	1.59			

Figure A-10: Openness and Sickness Benefits

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 13
Total panel (balanced) observations: 143

Variable	Coefficien	t-Statistic	
Sickness Benefits - Lagged	0.39	5.37	**
Employer's Payroll Tax	0.05	0.25	
% of Workforce Employed in Services	-0.07	-0.71	
Investment Openness	0.01	1.00	
Trade Openness	-0.43	-1.20	
Enabling Institutions	0.00	-0.11	
Disabling Institutions	-0.16	-1.68	*
Social Corporatism	-0.02	-0.78	
Employer's Payroll Tax * Enabling Institutions	0.00	0.02	
Employer's Payroll Tax * Disabling Institutions	0.20	1.55	
Employer's Payroll Tax * Social Corporatism	0.00	0.02	
Investment Openness * Enabling Institutions	0.00	-0.29	
Investment Openness * Disabling Institutions	0.02	1.82	*
Investment Openness * Social Corporatism	0.00	-0.58	
Trade Openness * Enabling Institutions	0.12	0.55	
Trade Openness * Disabling Institutions	0.78	1.67	*
Trade Openness * Social Corporatism	0.33	1.61	
Christian Democrats	-0.03	-0.36	
Left	0.02	0.53	
Secular Center	0.07	1.91	*
Employer's Payroll Tax * Christian Democrats	0.09	0.33	
Employer's Payroll Tax * Left	-0.07	-0.41	
Employer's Payroll Tax * Secular Center	-0.17	-0.85	
Investment Openness * Christian Democrats	-0.02	-1.43	
Investment Openness * Left	0.00	-0.16	
Investment Openness * Secular Center	-0.03	-1.79	*
Trade Openness * Christian Democrats	0.56	0.86	
Trade Openness * Left	0.23	0.61	
Trade Openness * Secular Center	-0.92	-1.20	

** Significant at .05.

* Significant at .10.

Figure A-10, continued

Fixed Effects

Austria	
Belgium	0.24
Canada	0.42
Denmark	0.16
Finland	0.45
France	0.35
Germany	0.25
Italy	0.70
Japan	0.22
Netherlands	0.36
Norway	0.52
Sweden	0.48
United Kingdom	0.58
United States	0.00

Weighted Statistics

R-squared	1.00		Mean dependent var	1.10
Adjusted R-squared	0.99		S.D. dependent var	0.70
S.E. of regression	0.06		Sum squared resid	0.34
F-statistic	741.74		Durbin-Watson stat	1.99
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.93		Mean dependent var	0.54
Adjusted R-squared	0.91		S.D. dependent var	0.26
S.E. of regression	0.08		Sum squared resid	0.63
Durbin-Watson stat	1.95			

Figure A-11: Unemployment Benefits – Test for Linear Relationship

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Unemployment Benefits - lagged	0.50	8.62	**
Employer's Payroll Tax	-0.44	-1.61	
% Workforce Employed in Services	-0.04	-0.33	
Outward FDI - % of Total FDI	-0.01	-0.21	
Imports - % of Total Trade	-0.61	-2.16	**
Enabling Institutions	0.03	0.19	
Disabling Institutions	-0.01	-0.05	
Social Corporatism	0.27	1.58	
Employer's Payroll Tax * Enabling	0.09	0.74	
Employer's Payroll Tax * Disabling Institutions	-0.08	-0.46	
Employer's Payroll Tax * Social Corporatism	-0.28	-2.46	**
Outward FDI - % of Total FDI * Enabling	-0.03	-0.55	
Outward FDI - % of Total FDI * Disabling Institutions	-0.06	-1.42	
Outward FDI - % of Total FDI * Social Corporatism	-0.07	-1.23	
Imports - % of Total Trade * Enabling Institutions	-0.11	-0.35	
Imports - % of Total Trade * Disabling Institutions	-0.25	-1.03	
Imports - % of Total Trade * Social Corporatism	-0.31	-1.03	
Christian Democrats	0.37	0.96	
Left	-0.24	-0.92	
Secular Center	0.42	1.66	
Employer's Payroll Tax * Christian Democrats	0.09	0.20	
Employer's Payroll Tax * Left	0.11	0.52	
Employer's Payroll Tax * Secular Center	0.78	2.51	**
Outward FDI - % of Total FDI * Christian Democrats	0.01	0.07	
Outward FDI - % of Total FDI * Left	0.19	2.19	**
Outward FDI - % of Total FDI * Secular Center	-0.08	-0.96	
Imports - % of Total Trade * Christian Democrats	-0.78	-1.17	
Imports - % of Total Trade * Left	0.27	0.59	
Imports - % of Total Trade * Secular Center	-0.86	-1.79	*

** Significant at .05.

* Significant at .10.

Figure A-11, continued

Fixed Effects

Austria	0.53
Belgium	0.61
Canada	0.65
Denmark	0.53
Finland	0.45
France	0.53
Germany	0.84
Italy	0.51
Japan	0.47
Netherlands	0.74
Norway	0.50
Sweden	0.63
United Kingdom	0.32
United States	0.89

Weighted Statistics

R-squared	0.98		Mean dependent var	0.46
Adjusted R-squared	0.98		S.D. dependent var	0.30
S.E. of regression	0.05		Sum squared resid	0.23
F-statistic	239.52		Durbin-Watson stat	2.39
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.96		Mean dependent var	0.39
Adjusted R-squared	0.94		S.D. dependent var	0.21
S.E. of regression	0.05		Sum squared resid	0.26
Durbin-Watson stat	1.99			

Figure A-12: Old Age Pensions – Test for Linear Relationship

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Old Age Pensions - lagged	0.67	9.53	**
Elderly - % of Population	-1.01	-2.21	**
Employer's Payroll Tax	-0.17	-0.97	
% Workforce Employed in Services	0.07	0.68	
Outward FDI - % of Total FDI	0.01	0.24	
Imports - % of Total Trade	0.08	0.35	
Enabling Institutions	0.19	1.31	
Disabling Institutions	0.16	1.04	
Social Corporatism	0.11	1.04	
Employer's Payroll Tax * Enabling	0.04	0.41	
Employer's Payroll Tax * Disabling Institutions	-0.10	-0.58	
Employer's Payroll Tax * Social Corporatism	0.02	0.23	
Outward FDI - % of Total FDI * Enabling	-0.01	-0.31	
Outward FDI - % of Total FDI * Disabling Institutions	0.01	0.13	
Outward FDI - % of Total FDI * Social Corporatism	0.01	0.23	
Imports - % of Total Trade * Enabling Institutions	-0.40	-1.64	
Imports - % of Total Trade * Disabling Institutions	-0.41	-1.51	
Imports - % of Total Trade * Social Corporatism	-0.27	-1.36	
Christian Democrats	-0.44	-1.54	
Left	-0.17	-1.07	
Secular Center	0.08	0.43	
Employer's Payroll Tax * Christian Democrats	0.22	0.65	
Employer's Payroll Tax * Left	0.20	1.57	
Employer's Payroll Tax * Secular Center	0.09	0.65	
Outward FDI - % of Total FDI * Christian Democrats	0.01	0.13	
Outward FDI - % of Total FDI * Left	-0.03	-0.57	
Outward FDI - % of Total FDI * Secular Center	0.01	0.11	
Imports - % of Total Trade * Christian Democrats	0.82	1.61	
Imports - % of Total Trade * Left	0.30	1.02	
Imports - % of Total Trade * Secular Center	-0.22	-0.66	

** Significant at .05.

* Significant at .10.

Figure A-12, continued

Fixed Effects

Austria	0.21
Belgium	0.22
Canada	0.11
Denmark	0.16
Finland	0.23
France	0.13
Germany	0.35
Italy	0.29
Japan	0.17
Netherlands	0.04
Norway	0.19
Sweden	0.31
United Kingdom	-0.05
United States	0.22

Weighted Statistics

R-squared	1.00		Mean dependent var	0.63
Adjusted R-squared	1.00		S.D. dependent var	0.54
S.E. of regression	0.04		Sum squared resid	0.14
F-statistic	1230.03		Durbin-Watson stat	2.17
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.97		Mean dependent var	0.38
Adjusted R-squared	0.96		S.D. dependent var	0.22
S.E. of regression	0.05		Sum squared resid	0.23
Durbin-Watson stat	1.87			

Figure A-13, Disability Pensions – Test for Linear Relationship

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 14
Total panel (balanced) observations: 154

Variable	Coefficien	t-Statistic	
Disability Pensions - lagged	0.68	9.79	**
Elderly - % of Population	-0.96	-2.62	**
Employer's Payroll Tax	-0.04	-0.32	
% Workforce Employed in Services	0.06	0.70	
Outward FDI - % of Total FDI	-0.02	-0.52	
Imports - % of Total Trade	-0.07	-0.39	
Enabling Institutions	0.03	0.28	
Disabling Institutions	0.06	0.50	
Social Corporatism	-0.03	-0.27	
Employer's Payroll Tax * Enabling	0.00	0.01	
Employer's Payroll Tax * Disabling Institutions	-0.05	-0.32	
Employer's Payroll Tax * Social Corporatism	0.05	0.75	
Outward FDI - % of Total FDI * Enabling	0.00	-0.11	
Outward FDI - % of Total FDI * Disabling Institutions	-0.03	-1.00	
Outward FDI - % of Total FDI * Social Corporatism	0.02	0.71	
Imports - % of Total Trade * Enabling Institutions	-0.12	-0.61	
Imports - % of Total Trade * Disabling Institutions	-0.09	-0.44	
Imports - % of Total Trade * Social Corporatism	-0.01	-0.07	
Christian Democrats	0.03	0.12	
Left	-0.03	-0.28	
Secular Center	0.01	0.04	
Employer's Payroll Tax * Christian Democrats	-0.22	-0.76	
Employer's Payroll Tax * Left	0.09	0.96	
Employer's Payroll Tax * Secular Center	0.25	1.76	*
Outward FDI - % of Total FDI * Christian Democrats	0.04	0.55	
Outward FDI - % of Total FDI * Left	-0.01	-0.42	
Outward FDI - % of Total FDI * Secular Center	0.00	-0.10	
Imports - % of Total Trade * Christian Democrats	0.08	0.20	
Imports - % of Total Trade * Left	0.08	0.38	
Imports - % of Total Trade * Secular Center	-0.10	-0.38	

** Significant at .05.

* Significant at .10.

Figure A-13, continued

Fixed Effects

Austria	0.31
Belgium	0.29
Canada	0.18
Denmark	0.34
Finland	0.34
France	0.24
Germany	0.36
Italy	0.39
Japan	0.26
Netherlands	0.26
Norway	0.34
Sweden	0.40
United Kingdom	0.16
United States	0.23

Weighted Statistics

R-squared	1.00		Mean dependent var	0.80
Adjusted R-squared	1.00		S.D. dependent var	0.48
S.E. of regression	0.03		Sum squared resid	0.11
F-statistic	1273.47		Durbin-Watson stat	1.97
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.96		Mean dependent var	0.50
Adjusted R-squared	0.94		S.D. dependent var	0.16
S.E. of regression	0.04		Sum squared resid	0.17
Durbin-Watson stat	1.58			

Figure A-14: Sickness Benefits – Test for Linear Relationship

Sample: 1975 - 1995 (odd years)
Included observations: 11
Number of cross-sections used: 13
Total panel (balanced) observations: 143

Variable	Coefficien	t-Statistic	
Sickness Benefits - lagged	0.44	6.43	**
Employer's Payroll Tax	0.04	0.18	
% Workforce Employed in Services	-0.12	-1.30	
Outward FDI - % of Total FDI	0.05	0.92	
Imports - % of Total Trade	0.04	0.09	
Enabling Institutions	-0.18	-0.96	
Disabling Institutions	0.06	0.34	
Social Corporatism	0.19	1.12	
Employer's Payroll Tax * Enabling	-0.08	-0.75	
Employer's Payroll Tax * Disabling Institutions	0.33	2.12	**
Employer's Payroll Tax * Social Corporatism	-0.04	-0.44	
Outward FDI - % of Total FDI * Enabling	0.04	0.82	
Outward FDI - % of Total FDI * Disabling Institutions	-0.06	-1.20	
Outward FDI - % of Total FDI * Social Corporatism	0.00	-0.02	
Imports - % of Total Trade * Enabling Institutions	0.34	1.12	
Imports - % of Total Trade * Disabling Institutions	-0.08	-0.28	
Imports - % of Total Trade * Social Corporatism	-0.37	-1.18	
Christian Democrats	0.28	0.76	
Left	0.05	0.19	
Secular Center	0.17	0.39	
Employer's Payroll Tax * Christian Democrats	-0.16	-0.49	
Employer's Payroll Tax * Left	-0.12	-0.76	
Employer's Payroll Tax * Secular Center	0.02	0.11	
Outward FDI - % of Total FDI * Christian Democrats	-0.07	-0.77	
Outward FDI - % of Total FDI * Left	0.07	1.01	
Outward FDI - % of Total FDI * Secular Center	0.01	0.14	
Imports - % of Total Trade * Christian Democrats	-0.46	-0.70	
Imports - % of Total Trade * Left	-0.11	-0.23	
Imports - % of Total Trade * Secular Center	-0.40	-0.46	

** Significant at .05.

* Significant at .10.

Figure A-14, continued

Fixed Effects

Austria	
Belgium	0.24
Canada	0.37
Denmark	0.15
Finland	0.41
France	0.30
Germany	0.33
Italy	0.40
Japan	0.22
Netherlands	0.32
Norway	0.42
Sweden	0.49
United Kingdom	0.54
United States	0.10

Weighted Statistics

R-squared	0.99		Mean dependent var	0.96
Adjusted R-squared	0.99		S.D. dependent var	0.56
S.E. of regression	0.06		Sum squared resid	0.32
F-statistic	498.93		Durbin-Watson stat	1.88
Prob(F-statistic)	0.00			

Unweighted Statistics

R-squared	0.93		Mean dependent var	0.54
Adjusted R-squared	0.90		S.D. dependent var	0.26
S.E. of regression	0.08		Sum squared resid	0.69
Durbin-Watson stat	1.96			

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NOTES

1 The comparative literature on economic voting has found that voters' assessments of the health of their national economies are strong determinants of their vote choices (Boix 1997; Kinder and Kiewiet 1981; Jacobson and Kernell 1983). Therefore, all governments regardless of partisanship must support economic growth if they are to remain in office (ibid; Hicks and Misra 1993). Scholars have also found that incomes are less evenly distributed than votes, and voters with incomes below the median tend to push for greater taxes and social welfare benefits to augment their earned incomes. Parties wishing to win or maintain government office will therefore be tempted to offer greater benefits in order to entice needed voters (Crepaz 1998; Persson and Tabellini 1994; Bertola 1993).

2 Some scholars disagree with the arguments above, claiming that welfare state expenditures can foster competitiveness by fostering the development of human capital and ensuring political stability that encourages capital investment (Barr 1992; Garrett 1998).

3 In his seminal work on the relationship between growth and (in)equality, Simon Kuznets' U-curve hypothesis argues that while capital accumulation necessary for growth produces income inequality, those lacking capital will take advantage of the democratic process to vote for policies that redistribute income (1955).

4 This literature has also been called "Working Class Mobilization Model" and 'Political Class Struggle" theory.

5 In a related work, Garrett does find negative relationships between capital mobility and total government consumption, as well as employer social security contributions. However, he does not find a negative relationship between capital mobility and social security transfer payments, as proponents of the efficiency thesis would expect. Also, Garrett's results show that the combined influence of centrally organized labor unions and left wing parties more than offset these effects, indicating that these groups are still able to secure generous benefits despite open markets for goods and capital (Garrett 1998: 80-90).

6 Huber and Stephens do find what they claim to be a very indirect relationship between deregulation of domestic financial markets and unemployment. Deregulation can lead to higher interest rates, which may discourage capital investment, decreasing aggregate supplies of fixed capital and depressing demand for labor. Still, this indirect link between globalization diverges from the more common argument that generous welfare states discourage capital investment and depress export markets.

7 A few widely cited authors focus on the criteria that entitle an individual to welfare state benefits, rather than the aggregate level of benefits. Titmuss (1964), Furniss and Tilton (1977), and Esping-Andersen (1990) all discriminate among various classifications of welfare states. While these classifications differed on some finer points, the central criteria that distinguished them are the same. These classifications are determined according to whether individuals are entitled to welfare state benefits by virtue of their citizenship, in return for their participation in

the labor market, or as a last resort when reliance on earnings or privately secured insurance has failed. Despite the fact that these works are widely cited in the comparative literature examining changes to welfare state legislation, eligibility criteria are all but ignored in quantitative studies that test for evidence of retrenchment.

8 This latter relationship – the decline in exports to non-OECD countries – has been given scant attention in the scholarly literature.

9 Of course this line of reasoning overlooks domestic supplies of physical capital, and is therefore an oversimplification. However, I maintain that as the gap between stocks of outward and inward FDI continues to grow (indicating that outward flows continue to exceed inward flows), the total supply of physical capital available for production would still be below levels that would result if inward stocks exceeded outward stocks. Given high rates of unemployment among many OECD countries, policymakers must have incentives to reverse recent trends in outward foreign direct investment.

10 Specific data on unemployment rates, as well as measures of globalization, are presented in Chapter IV.

11 Mishra (1993) also argues that the mobility of capital undermines corporatist bargaining because the interests of capital are no longer confined to the nation-state. Actually, evidence presented in Chapter IV will show that labor unions have been weakened most signficantly where levels of union density and centralization were generally moderate or low in the first place.

12 In fact, as I argue below, cuts should be more likely in those countries in which labor unions remain strong and centrally organized, because they are more likely to consider the broader economic consequences of changes in social insurance policies.

13 The opportunity cost reflects the difference between profits that would be generated if invested elsewhere, versus current profits. As long as capital investment in OECD countries with relatively generous social welfare states is more profitable than investment in developing countries with less generous welfare states, the threat of capital exit is not credible.

14 See also Weaver (1986) and Arnold (1993) for discussions of 'blame avoidance,' which means that policymakers avoid blame for instituting unpopular decisions.

15 All data for Germany refer to West German prior to unification, and unified Germany thereafter. This includes economic and political "explanatory" variables, as well as the components of adjusted replacement rates for the four social insurance programs.

16 It is important to note that this measure does not include employer's pensions or private savings for which constituents may receive financial incentives from their governments. Clearly, both of these would increase the amount of retirement income an individual receives. However, this is not important to the current project, because I am not interested in addressing issues of

income redistribution or equity. Instead, I focus on the extent to which global market integration prompts reforms of social insurance programs aimed at reducing aggregate expenditures.

17 Among the several measures that I created to capture the relationships between these economic variables, these are most appropriate for regression analysis. However, they do have one key drawback; they capture the relationship between imports and exports and between inward and outward FDI without capturing their directions. For example, if both imports and exports were rising but the growth in imports outpaced the growth of exports, the value of ImportProp would exceed 0.5, indicating a net trade deficit. The same value would result from falling imports and exports, if exports fell at a faster rate than imports. But this latter scenario is likely to have more deleterious effects on the demand for labor. Rising imports should threaten demand for labor in the same industries in which imports rise, but the relationship is indirect and less than perfect. In contrast, if exports fall the effect on demand for labor in heavily exporting industries would be direct and probably significant.

18 It is likely that globalization and deindustrialization are related. Open markets for trade and investment provide opportunities for developing and newly industrialized countries to produce labor-intensive industrial goods and export them to OECD countries. These OECD countries in turn specialize in services, which require more skilled workers. However, a thorough examination of this relationship is beyond the scope of this dissertation. In the concluding chapter I discuss the potential for this relationship as an opportunity for future research.

19 Data for Germany are for West Germany prior to 10-04-90, and for unified Germany thereafter.

20 Values for the measures of inclusive political institutions and decentralization of political authority that are also included in this table are discussed below.

21 It is surprising that the coefficient for the interaction of Social Corporatism and Services is positive as well, indicating that the effect of deindustrialization on unemployment rates is stronger in more corporatist countries. All else being equal, one would expect corporatist countries to coordinate economic and labor market policies and better respond to shifts in the labor market than those countries where corporatism is weak.

22 Again, I put aside my discussion of the influence of government partisanship until Chapter V. It is certainly plausible that government partisanship may affect the incidence of reform, and should certainly affect the timing of reforms if they are deemed necessary. For example, independent of the enabling effects of social and political institutions, left and Christian Democratic governments may be slow to reform these programs, in hopes that their economies might recovery, rendering these unpopular reforms unnecessary. In contrast, right party governments may seize upon opportunities to cut benefits for these programs – especially targeted benefits such as unemployment cash benefits – even if the economic imperative to do so is fairly weak.

23 In contrast, these parties may adopt waiting days or increase the number of waiting days prior to the receipt of sickness benefits. Waiting days are essentially and instrument to discourage fraudulent claims, rather than a means of "punishing" those who truly need these benefits.