What parties are and what parties do: partisanship and welfare state reform in an era of austerity

Henning Finseraas1,* and Kåre Vernby2

1Norwegian Social Research (NOVA), Oslo, Norway; 2Uppsala University, Uppsala, Sweden

*Correspondence: henning.finseraas@nova.no

The New Politics perspective holds that there is no room for partisanship to matter for welfare state policies in the present ‘era of austerity’. Proponents of power resources theory disagree. In this paper, we show how an emphasis on the actual degree of ideological polarization between left and right can move this debate forward. In essence, the disagreement regarding the role of partisanship is (a) over the degree of party polarization, (b) whether party polarization on redistributive issues still mobilizes voters to vote in accordance with their economic interest and (c) whether political parties are able to make their ideologies count in the post-electoral arena. Combining data from three comparative data sources, we show (a) that there is no general decline in party polarization, (b) that high levels of party polarization are associated with stronger income stratification of the vote and (c) partisan ideology matters for changes in welfare state generosity.

Keywords: welfare state, comparative politics, political economy, government

JEL classification: I38 government policy, provision and effects of welfare programs, H53 government expenditures and welfare programs

1. Introduction

Pierson (1994, 1996, 1998) argues that we live in an ‘era of austerity’ in which partisan differences in government have little influence on the direction and scope of welfare state reform. Pierson’s claim of a ‘New Politics of the welfare state’ has sparked a lively debate because his argument stands in glaring contrast to one of the most influential theoretical perspectives on welfare state development: power resources theory. Power resources theory argues that the political mobilization of the lower socio-economic
strata, manifest in the electoral success of social democratic parties and their allies, has been, and still is, of paramount importance for welfare state development (Korpi, 1978, 1983; Bradley et al., 2003; Korpi and Palme, 2003). The studies by Korpi and Palme (2003) and Allan and Scruggs (2004) represent the most convincing quantitative assessments of Pierson’s argument. Both show that government partisanship—measured as the share of cabinet seats held by parties that belong to the left or right camp—continues to be important for welfare state development.

We propose to move the debate between the new politics and the power resources perspectives forward by focusing on the actual ideological difference, or polarization, between the left and right. A proper assessment of the competing claims put forward by proponents of each perspective requires us to distinguish between the historical identities of parties—what parties are—and the appeals that contemporary parties make—what parties do (Mair, 1997). While the studies by Korpi and Palme (2003) and Allan and Scruggs (2004) are both significant contributions to the debate, they, by merely focusing on the policy consequences of left party government participation, implicitly collapse what parties are and what parties do.

Acknowledging, as we do, that the appeals that parties make will vary across time and space has several advantages. First, we would only expect government partisanship to matter for welfare state development to the extent that different parties actually appeal to different socio-economic strata, that is, only if the policy platforms of left and right parties diverge. If, instead, the ideological polarization between the competing parties is negligible, we should not expect partisanship to matter. In other words, we expect the policy consequences of the share of cabinet seats held by left parties to depend on the distinctiveness of their class appeal. Although this insight might seem trivial, it is not captured by Korpi and Palme (2003) or Allan and Scruggs (2004).

Second, we explore how party polarization on the redistributive dimension has evolved over time. Pierson’s notion of disappearing partisan effects on welfare state change either suggests that party polarization has become too small to matter due to the popularity of the welfare state—this is what Pierson (1996, p. 146) suggests when claiming that electoral ambitions inhibit the right parties from proposing welfare state retrenchment—or that parties are too constrained by economic and demographic forces to make their ideology count in the post-electoral arena—which is the implication of Pierson’s (1998) labelling of the economic and demographic pressure on the welfare state since the oil shocks in the 1970s as ‘irresistible’. Our approach makes it possible to distinguish between these two arguments. For instance, we may find that party positions are still polarized, but that government partisanship does not matter for policy outcomes.
Third, we examine an important assumption of power resources theory, namely that vote choice is stratified by socio-economic status. Korpi and Palme (2003, p. 443) acknowledge that a rise in the saliency of non-economic issues or a change in class-party linkages constitutes a challenge for class-based accounts of politics. As we have already intimated, and Korpi and Palme (2003, p. 443) agree, the validity of the assumption that vote choice is stratified by socio-economic status is likely to depend on the extent to which different parties actually appeal to different socio-economic strata. Specifically, we only expect this assumption to hold if the platforms of left and right parties are polarized over the issue of redistribution. Whether vote choice is still organized around class is contested in the voting literature (Evans, 2000), yet we are not aware of any studies that directly examine whether party polarization on the economic dimension is associated with the level of income stratification of the vote (but see McCarty et al., 2006; Dalton, 2008; Vernby and Finseraas, 2010). Although Pierson (1996) emphasizes the constraining role of the popular support of the welfare state on party policies, he suggests that support for the welfare state is mainly organized along dimensions other than class.

We utilize data from three comparative data sets to examine the importance of party polarization for vote choice and welfare state change in 18 OECD countries. Data from the Comparative Manifesto Project (CMP) (Budge et al., 2001; Klingemann et al., 2006) are used to measure party polarization on the distributive dimension, data from the World Values Survey (WVS) allow us to explore whether party polarization is associated with stronger income stratification of the vote, and Scruggs’s (2004) Comparative Welfare Entitlements Data set is used to explore whether the partisan effect on welfare state reform depends on the degree of party polarization.

Our findings are easy to summarize. First, party polarization did not decline between the beginning of the 1970s and 2003. Second, our analysis of vote choice in the late 1990s (i.e. the ‘era of austerity’) shows that party polarization is associated with a stronger income stratification of the vote. Thus, the power resources theory’s depiction of electoral politics continues to be valid. Lastly, we demonstrate that, given a sufficiently high level of party polarization, centre/right governments continue to have a negative impact on welfare state development. This finding is in contrast to Pierson’s claim that we live in an era characterized by a new politics of the welfare state. In agreement with Pierson, we find that partisan effects disappeared in the 1980s; however, they reappeared in the 1990s.

The remainder of the paper proceeds as follows: the next section reviews the debate over the role of partisanship and shows how this paper contributes to the existing literature, Section 3 introduces the data and empirical strategy, Section 4 presents the empirical results, and Section 5 concludes.
2. Partisanship, party polarization and welfare state restructuring

Power resources theory is widely regarded as the leading perspective in the comparative literature on welfare state development. The core argument of the theory is that relatively disadvantaged actors in the labour market are likely to attempt to combine in the market and political spheres to modify market outcomes, while employers will oppose this effort (Korpi, 1978, 1983). The outcome of the struggle in the political arena determines the generosity of welfare arrangements. Since left parties are seen as the prime defenders of disadvantaged actors in the labour market, the generosity of welfare arrangements is expected to vary with left party strength.

In a series of seminal publications, Pierson (1994, 1996, 1998) claims that although partisanship played a major role in the development of the welfare state, we have now entered an ‘era of austerity’ in which partisanship has ceased to play an important role. In contrast to the golden era of welfare state expansion, which according to Pierson (1996) ended with the oil crises in the 1970s, the ‘era of austerity’ is characterized by a slowdown of economic growth, higher levels of unemployment and demographic changes. In this context, the room for partisan maneuver has shrunk, and Pierson (1996) argues that special interest organizations have emerged as the main defenders of the welfare state status quo.

Previous research on partisanship and welfare state generosity has solely focused on the strength of left or right parties in government and whether it matters for welfare state policy change (Korpi and Palme, 2003; Allan and Scruggs, 2004). This is problematic if one agrees with Mair (1997) that we need to distinguish between what parties are—referring to the historical identities of political parties—and what parties do—referring to the appeals contemporary parties make. Previous research has mainly been concerned with what parties are—that is, counting the number of cabinet seats held by social democratic and (former) Communist parties and studying the policy consequences thereof. However, there are a variety of reasons why one might expect political platforms, and hence the distinctiveness of parties’ class appeal, to vary across time and space.

In formal theories of political competition, one often emphasizes politicians’ information about voter preferences and the strength of partisan activists within the political parties (see, e.g. Persson and Tabellini, 2000; Roemer, 2001). In general, researchers taking a long-term historical perspective have emphasized the importance of the economic, social and political environment in shaping the appeals parties make (see, e.g. Przeworski and Sprague, 1986; Kitschelt, 1994).

Recognizing that the appeals that parties make and, hence, which socio-economic strata they seek to mobilize and represent, may vary across time and space allows us to explore the disagreement between the new politics perspective
and the power resource perspective in more depth than what has been done in the previous literature. In essence, the disagreement between the two approaches concerns the following: (a) the secular trend in party polarization, (b) the issue of whether party polarization over redistribution continues to mobilize voters around their economic interest and (c) the question of whether ideological polarization, as it manifests itself in parties’ programmatic appeals, actually translates into real policy differences between left and centre/right governments. We address all three issues in this paper.

2.1 The degree of party polarization

Although the main argument underpinning Pierson’s claim of a new politics of the welfare state is that political parties have lost the ability to make their ideology count in the post-electoral arena, he nonetheless frequently relies on the assumption that the popularity of the welfare state makes retrenchment an untenable position for any political party (see for instance Pierson, 1996, p. 146). According to the formal literature on political competition, even politicians whose ideologies differ are unlikely to take very different positions if they are highly informed about voter preferences on a specific issue (e.g. Persson and Tabellini, 2000, chapter 5). In other words, if Pierson is correct, partisan polarization should have declined over time.

2.2 Party polarization and mobilization of low-income voters

Although the extent to which voters are mobilized around their economic interest has been, and still is, an important topic in the voting literature, it has been largely neglected in comparative welfare state research (see Cusack et al., 2006). The neglect of the issue of whether vote choice is stratified by socioeconomic status is unfortunate because it concerns a central assumption of power resources theory and other partisan theories. In the words of Korpi and Palme (2003, p. 427), ‘[C]itizens relatively disadvantaged in terms of economic resources and relying primarily on their labor power are likely to attempt to combine in the sphere of politics to modify outcomes of, and conditions for, distributive processes on markets. To a substantial degree welfare states in the twentieth century can be seen as outcomes of such efforts’.

Because left political parties are seen as defenders of the interest of the lower economic strata we expect them to be supported by low-income voters. Under

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1Hibbs (1977) is an early exception, as he presents public opinion data to empirically support his notion that aversion to unemployment and inflation varies among socio-economic groups in a manner consistent with his partisan argument.
highly reasonable assumptions, low-income voters are more likely to prefer more social transfer programmes and services (e.g. Iversen and Soskice, 2001). Hence, in those cases where the left proposes more redistributive programmes, the lower economic strata should be more likely to vote left (e.g. McCarty et al., 2006, pp. 76–79). However, as Przeworski and Sprague (1986) have argued, class is ‘no natural organizing principle of politics’, i.e. voters have to be mobilized on class identity by political actors, and Korpi (1983, pp. 23–25) acknowledges the possibility of ‘goal displacement’ within the left political parties. Although the extent to which parties appeal to voters on the basis of the latter’s socio-economic status, rather than, for example, their religion or ethnicity, depends on a range of factors, the power resources perspective holds that distributive strife is about the mobilization of the socio-economic cleavage (Korpi, 2006).

The degree of party polarization on redistributive issues could be considered the most significant indicator of the degree to which parties try to mobilize voters based on their economic interest. We believe that the credibility of the causal mechanism of power resources theory would be severely weakened if partisan conflict over redistribution did not lead to increased voter mobilization along class lines. Korpi and Palme (2003, p. 443) acknowledge that a rise in the saliency of non-economic issues for vote choice or a change in the class-party linkages would constitute a challenge to class-based accounts of politics, but simply argue that such evidence is ‘hard to find’. There is, however, a large, yet contested, literature on voting behaviour that identifies a decline in class voting (Clark and Lipset, 1991) and the saliency of redistributive issues for vote choice (Inglehart, 1990). Moreover, the power resources theory’s simplified account of voter behaviour has been explicitly criticized (Brady, 2009, pp. 98–100), and Pierson (1996) argues that welfare state support is organized around interest groups rather than political parties. Thus, we believe that an analysis of partisan effects on welfare policy will benefit from examining its micro-level assumptions.

There is not much empirical research conducted on this issue. However—consistent with the model just outlined—McCarty et al. (2006) find that the income stratification of the vote in the USA has increased at the same time as party polarization has increased, Dalton (2008) finds that party polarization increases ‘ideological voting’, and Finseraas (2010) finds that income stratification along the subjective left–right dimension is weaker when party polarization along a non-economic dimension is strong.

2.3 Party polarization and welfare state change

While party polarization might still be visible in the electoral arena and mobilize voters around their economic interest, it is an entirely different issue whether parties are able to make their ideology matter in the post-electoral arena. Pierson
(1996, 1998) believes that the room to maneuver is too small to allow partisan differences to matter: the slowdown of economic growth makes it too difficult for left parties to implement their proposed expansion, while the large coalition in favour of the status quo makes it too difficult for right parties to retrench welfare arrangements. As noted in the introduction, previous research has found that the strength of left/right parties in government still matters (Korpi and Palme, 2003; Allan and Scruggs, 2004). We add to this literature by distinguishing between governments in which partisanship should not matter much because the ideological polarization is small and governments in which partisanship should matter a lot. Moreover, we examine whether this relationship has changed over time. Intuitively, it makes sense to expect partisanship to matter only if there is a certain level of polarization. Theoretically, however, we find it difficult to specify a threshold for partisanship to matter. Thus, it becomes an empirical question.

3. The data

We rely on data from the CMP (Budge et al., 2001; Klingemann et al., 2006) to measure the degree of party polarization. These data have been criticized (e.g. Benoit and Laver, 2006, pp. 66–67); however, it has been shown that there is a high level of correlation between the CMP data and its alternatives (Volkens, 2007). More importantly, the CMP data is the most comprehensive data source on party positions and the only available source to test hypotheses requiring longitudinal data.

Our approach to the measurement of party polarization is similar to that of Bartolini and Mair (1990, pp. 196–201). First, we assign a redistribution policy score to all parties with seats in the parliament based on 10 variables in the CMP data set that are clearly related to the distribution of income in a society: favourable mentions of free enterprise capitalism, need for incentives, need for market regulation, need for government control of the economy, need for traditional economic orthodoxy, need for social justice (fair distribution of resources), positive references to welfare expansion, positive references to welfare limitation, positive references to labour groups and negative references to labour groups. We conducted a principal component factor analysis to confirm that these variables load on the same underlying dimension. Next, we assign the political parties to a left or non-left party bloc based on the CMP’s party classifications and calculate a left and non-left bloc score on redistribution. We weight the importance of each party based on their percentage of total seats within the respective bloc to make sure that the scores are not unduly influenced by extreme parties with small influence in parliament. Finally, we calculate the polarization scores as the absolute difference between the left and the non-left bloc score: the higher the score, the stronger the degree of polarization.
Table 1 reports descriptive statistics for the redistribution polarization scores used in the analysis. With regard to validity, it is reassuring that all mean scores are positive, i.e. the left bloc generally proposes more redistribution than the right bloc. There are, however, a few negative scores, but only 31 of 574 observations (5%) are negative. Nineteen of the 31 negative scores are from Japan, while the rest are from Finland (4), New Zealand (3), Sweden (3) and the USA (2).

We test our argument about the effect of party polarization on the income stratification of left party support using survey data from the third round of the WVS. Our dependent variable is based on the question of which party the respondents would vote for as their first choice. We have recoded this question into a dummy variable where 1 equals left party support and 0 equals all other choices, including ‘will not vote’. Green parties are coded as leftist.²

WVS reports income as a 10-category scale. The code book claims that the categories represent income deciles; however, an inspection of the data clearly reveals that they do not. For instance, only two UK respondents are in the 10th income decile. To get an income variable that is comparable across countries, we recode the income variable into three categories, where the cut-points between the categories are country specific: the 25% with the lowest incomes are coded as 0, the 25% with the highest incomes are coded as 2, while the 50% in between are coded as 1. We interact the income variable with polarization to explore how the effect of income on vote choice depends on polarization. In line with power resources theory, we expect the effect of income to be stronger when polarization is high because voters are being mobilized on redistributive issues.

As an alternative to using income to capture the respondent’s socio-economic background, we instead rely upon a question regarding the respondents’ profession/job to capture their social class. We construct a dummy variable representing whether the respondent is a manual worker and examine how the effect of being a manual worker depends on polarization. Analogous to the relationship between income, polarization and vote choice, we expect the effect of being a manual worker to be stronger when polarization is high.

We control for sex (female), age in years and its square term, education level (dummy where 1 implies that the respondent had not finished their education at the age of 20), whether the respondent is a recipient of government transfers and whether the respondent is a churchgoer, defined as participation in religious ceremonies on a monthly basis. We consider ‘churchgoer’ to be a fairly exogenous proxy for non-economic bias in the direction of the non-left bloc. The other control variables capture some of the individual level variation in risk of income loss.

In the second part of the empirical analysis, we test the argument that the partisan effect on welfare generosity will depend on the degree of party polarization. The dependent variable is Scruggs’ (2004) welfare benefit generosity scores. The construction of this variable follows the spirit of Esping-Andersen (1990) and is based on the net income replacement rates, while also taking workforce coverage, the length of qualifying periods and duration of benefits into account. Scruggs (2008) demonstrates that generosity levels are strongly correlated with the degree of redistribution, and more so than spending data. The advantage of the generosity index compared with spending data, and even compared with

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I.e. details of the taxation of benefits are taken into account, which is important because rules of taxation vary across countries.
direct measures of redistribution (e.g. Mahler and Jesuit, 2006), is that changes in generosity are less affected by business cycle effects. Following Allan and Scruggs (2004), we focus on the generosity of unemployment and sickness programmes. Figure 1 shows that the general increase in welfare state generosity levelled off in the early/mid-1980s and has been fairly stable since then. There is, however, considerable cross-country variation in this pattern (see Scruggs, 2006).

The partisan effect is captured by the percentage of cabinet posts held by right parties, plus the percentage of cabinet posts held by centre parties if the government was a centre–right coalition government (right/centre) (Armingeon et al., 2006). The inclusion of posts held by centre parties is necessary due to the left versus centre-right logic on which the paper builds. If anything, this inclusion is biased against finding partisan effects on welfare policy, given the pro-welfare state position of some centre parties (Manow, 2009). The percentage of cabinet posts is weighted by days in office to account for changes in government within a calendar year.

We include a set of control variables typically included in studies of welfare state generosity [unless noted, the data are from Armingeon et al. (2006)]: percentage of the population above 65 years of age (elderly), employment ratio, voter turnout, union density and economic growth. Moreover, we include the initial level of benefit generosity (generosity level) to account for the fact that changes in generosity depend on the level of generosity (Allan and Scruggs, 2004). Finally, we include country fixed effects to account for time-constant country specific factors that affect generosity, and in some models we include year fixed effects, partly to account for the pre-1985 general trend in generosity (evident in Figure 1).

We lag the independent variables by one year because ‘there is ample evidence from our data collection that changes in benefits (or taxes) were announced a year before they went into effect or before their effect was measured’ (Allan and Scruggs, 2004, p. 505). Descriptive statistics for all variables used in the empirical analysis are reported in Supplementary online table A1 in the Appendix.

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4Scruggs (2004) also presents a generosity index for pensions; however, changes in current pension replacement rates typically reflect changes in policy decisions made years earlier (Allan and Scruggs, 2004, p. 499).

5This refers to active members (excluding the unemployed and retired) as a share of employment, as reported in the online data set accompanying Franzese and Hays (2008).
4. Empirical results

Figure 2 shows the mean polarization scores for each year in the analysis. Although polarization fluctuates over time, there is no obvious trend of decline. Figures with over-time movement in polarization scores, generosity scores and percentage seats held by right/centre broken down by country can be found in an online Appendix at hfin.wordpress.org. These figures support the impression from Figure 2 of no general decline in polarization over time. While this does not imply that actual post-electoral policies differ, it does imply that voters face different party platforms with regard to redistribution. Obviously, Figure 2 contradicts an interpretation of Pierson (1996) where partisanship has ceased to play a role because the overwhelming popularity of the status quo forces parties to advocate similar positions.

General trends in polarization across the OECD area will presumably correspond with common trends/shocks across the OECD in one of the determinants of polarization. Roughly, the increase in polarization over the 1980s corresponds with the increase in employment levels, although polarization starts to increase earlier than employment levels. The steep drop in polarization in the early-1990s coincides with the recession in the early-1990s. After the early-1990s the level of polarization increases with the employment level. This pattern suggests that polarization moves together with the employment level.
From the perspective of power resources theory, we should expect the degree of income stratification of the vote to reflect the degree of party polarization. We address this issue in Table 2. To get a meaningful main coefficient for income, we centred polarization on its mean score before we created the interaction term. Thus, the coefficient for income gives us the effect of income when polarization is at its mean observed value.

Columns 1–2 in Table 2 report multilevel logit regression results of left party support. Keep in mind that the analysis is purely cross-sectional, i.e. with no over-time element. The results in column 1 confirm the expectation that party polarization on redistributive issues increases the income stratification of the vote. The results reveal, as expected, that the rich are less likely to vote left than the poor, but to what degree this is the case clearly depends on the level of polarization, as the interaction term between income and polarization is negative and significant at the 5% level. The substantive effect of polarization on income stratification is non-negligible: for a rich voter, a one standard deviation increase in polarization leads to a five percentage points decrease in probability of left voting.

The results in column 2 replicate those in column 1 using the class indicator instead of the income variable. In columns 3–4, we include a full set of country dummies to account for country-specific effects instead of relying on multilevel modelling. The results support the conclusions from columns 1–2. Finally, we...
Table 2  Multilevel logit and logit regressions, dependent variable is Leftvote

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<td>Recipient</td>
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Notes: *Significant at 10%; **Significant at 5%; ***Significant at 1%; missing data imputed by Amelia in columns 5–6.
lose approximately one-third of our observations when relying on list-wise deletion to handle missing data. King et al. (2001) show that list-wise deletion is inefficient and might cause biased estimates when the number of missing observations is as high as it is in our case, and they argue that multiple imputations is a better way to handle missing data. Columns 5–6 show that the conclusions drawn from columns 1 to 2 do not change when using imputed data.

To illustrate how the effect of income depends on the degree of party polarization, we centred the polarization variable at different levels of polarization: one standard deviation below the mean score, the mean score, one standard deviation above the mean score and the maximum score. We constructed associated interaction terms and ran separate regressions for each centring. The coefficients and standard errors for income in this run of regressions gave us the marginal effect (and its 95% confidence interval) of income at the respective level of polarization (see e.g. Kam and Franzese, 2007, p. 98). The results are displayed in Figure 3 and visualize how the effect of income increases with the degree of polarization.

Thus, in line with Przeworski and Sprague’s (1986) notion of ‘no natural organizing principle of politics’, the importance of income as an organizing principle of voting clearly depends on to what degree the left and right offer alternative positions on economic issues. The results support the assumption of power resource theory that distributive conflicts still matter in the electoral arena. Remember that this finding cannot be interpreted as support for a hypothesis that polarization affects the total vote share of the left; it only supports an argument that polarization affects the homogeneity of left voters with respect to income.

With regard to the effect of control variables, the results in Table 2 are generally as expected. There is a gender gap in voting, as females are more likely to vote left than men, and secular respondents and those who receive government transfers are also more likely to vote left. Moreover, there is a positive relationship between age and probability of left voting. The only surprising finding is that those with high education are more likely to vote left. This might be because we code ‘will not vote’ as zero rather than leaving them out of the analysis.

One might object to the choice of including those who responded ‘will not vote’ in the non-left category. We include non-voters for two reasons. First, polarization might not only move potential left voters from non-left to left parties, but it can

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6 We rely on the Amelia programme (Honaker et al., 2007) to impute missing data. Amelia generates a number of probable values for missing observations and thus creates a number of ‘complete’ data sets from which one can do his or her analysis. We set the number of imputations per missing observation to five, which is generally sufficient to express the fundamental uncertainty about the true values on the missing observations (Honaker et al., 2007). A description of the variables and settings we used in the imputation process is available upon request.

7 This exercise is based on the model reported in column 1.
also have a mobilizing effect by increasing the probability of voting for potential left voters (e.g. Dalton, 2008). Second, the ‘will not vote’ category is not included in all country surveys. Nonetheless, we excluded the non-voters to examine how robust the results are to this choice. The substantive conclusions remain, but the coefficient for the interaction between manual and polarization reduces slightly so that the coefficient is significant only at the 10% level ($z = 1.86$).

We have established that income stratification of the vote varies systematically with the degree of political polarization. Thus, the core power resources assumption of a relationship between socio-economic position and party alignment, given that left parties do not suffer from ‘goal-displacement’, is supported.

In Table 3, we test whether the partisan effect on change in welfare benefit generosity depends on the degree of party polarization. In other words, we explore whether ideological polarization is also reflected in the post-electoral arena. An initial analysis established that we have a significant degree of spatial correlation and group-wise heteroscedasticity in our data. Thus, we rely on linear regression with panel-corrected standard errors (Beck and Katz, 1995). A Levin-Lin-Chu test reveals that the dependent variable does not suffer from non-stationarity.

Figure 3 Marginal effect of income at different levels of party polarization.

Notes: The figure shows the marginal effect of income on left voting at different levels of party polarization. The grey lines indicate the 95% confidence interval.
Table 3 Linear regression, dependent variable is change in welfare benefit generosity

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
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<tbody>
<tr>
<td>Right/Centre*Party Polarization</td>
<td>-0.0001** (0.00006)</td>
<td>-0.0001** (0.00006)</td>
<td>-0.0001*** (0.00005)</td>
<td>-0.0002*** (0.0001)</td>
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<tr>
<td>Right/Centre</td>
<td>0.001 (0.002)</td>
<td>0.0004 (0.001)</td>
<td>0.001 (0.001)</td>
<td>0.001 (0.001)</td>
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<tr>
<td>Party polarization</td>
<td>0.005 (0.004)</td>
<td>0.007 (0.004)</td>
<td>0.006 (0.004)</td>
<td>0.007* (0.004)</td>
</tr>
<tr>
<td>Generosity level</td>
<td>-0.138*** (0.029)</td>
<td>-0.124*** (0.034)</td>
<td>-0.142*** (0.029)</td>
<td>-0.138*** (0.033)</td>
</tr>
<tr>
<td>Elderly</td>
<td>-0.008 (0.029)</td>
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<tr>
<td>Employment</td>
<td>-0.017 (0.011)</td>
<td></td>
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<tr>
<td>Voter turnout</td>
<td>0.021*** (0.007)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Union density</td>
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<td></td>
<td></td>
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<tr>
<td>Economic growth</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>Year FE</td>
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<td>$R^2$</td>
<td>0.12</td>
<td>0.14</td>
<td>0.14</td>
<td>0.18</td>
</tr>
</tbody>
</table>

Notes: Panel corrected standard errors in parentheses; *Significant at 10%; **Significant at 5%; ***Significant at 1%.
(the null hypothesis of non-stationarity is rejected as the transformed $t$-value = 7.96), which is a strong argument in favour of our choice of expressing the dependent variable in first differences. Finally, a Hausman test strongly supports the inclusion of country fixed effects ($\chi^2 = 22.06, P < 0.001$).

In column 1 we include the lagged generosity level and country fixed effects; in column 2 we add year fixed effects; in columns 3 and 4 we add the vector of additional control variables.

Results in columns 1–4 confirm the partisan hypothesis. The interaction term is negative and clearly different from zero in all four specifications. The coefficient for right/centre is positive, which implies that when there is no party polarization (party polarization equals 0), the right/centre appears to be slightly more likely to expand the welfare state than the left. The coefficient is, however, not significant. Moreover, the coefficient for party polarization is, as expected, positive, which suggests that party polarization increases benefit generosity when the right does not have any seats in government (right/centre equals 0). This coefficient is significantly related to generosity at the 10% level in the presence of country and year fixed effects (column 4).

To get a better understanding of the interactive relationship between right/centre and party polarization in Table 3, we evaluate the effect of right government at different levels of polarization. Figure 5 shows the marginal effect (and its 95% confidence interval) of right/centre government at different levels of polarization. As is evident, right/centre has a negative and statistically significant effect (at the 5% level) when polarization is above 15. Almost 60% of the observations in the sample have a polarization score of this magnitude. However, the figure also illustrates that the marginal effect of partisanship is fairly small at all levels of polarization: an increase in party polarization from 15 to 25, which is roughly a one standard deviation increase in polarization, increases the marginal effect of partisanship from $-0.002$ to $-0.003$. That is, when polarization is 15, a shift from a pure left government to a pure centre/right government implies that the level of generosity falls by 0.16 units, while the corresponding drop when polarization is 25 amounts to 0.33 units.

Regarding the control variables, the generosity level in the previous period is strongly related to changes in generosity level in the following period. The negative coefficient for the lagged level of generosity implies that generosity is moving towards a stable long-run equilibrium level. Below, we exploit this to calculate long-term effects of changes in the independent variables. The additional control variables do not explain much of the variance in the dependent variable (columns 3 and 4), at least not without year fixed effects. Voter turnout is the only control variable that is significant in both columns: an increase in voter turnout is associated with an expansion of generosity. A popular explanation in the comparative political economy literature says that a high level of turnout ensures a
better political representation of the poor because the income bias of voting is smaller when turnout is high (Franzese, 2002). In the presence of year fixed effects, elderly and employment are significant at the 5 and 10% level, respectively: as expected, the share of elderly in the population increases generosity levels, while it seems to be easier to cut back on generosity when the employment ratio is increasing. If we compare the marginal effects of partisanship in Figure 4 with the coefficients in Table 3, it is evident that the substantive effects of the control variables are larger than the effect of partisanship.

The coefficients in Table 3 give us the immediate effect of a one-unit change in the independent variables. The long-run effect is different from the immediate effect because of the strong association between past and current level of generosity. We calculate the long-term effect by dividing the coefficient for the independent variable by the (absolute of the) coefficient for the lagged level of generosity. As we have already shown, the effect of partisanship depends on the level of party polarization: a one percentage increase in right/centre (from

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Notes: The figure displays the marginal effect of right/centre government on welfare state generosity at different levels of party polarization. The grey lines indicate the 95% confidence interval.

Figure 4 Marginal effect of right/centre government at different levels of party polarization.

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See e.g. Iversen (2005, pp. 193–201) for a similar approach.
its median level) when polarization is low has an insignificant effect on the long-run equilibrium. However, if polarization is 18 (its mean score), a one percentage increase in right/centre decreases the long-run equilibrium level of generosity by −0.015.\(^9\) This effect is significant at the 5% level and implies that a permanent change from a pure left government to a pure centre/right government would lower the long-run equilibrium level of generosity by 1.16 units. The long-run impact of a one percentage point increase in voter turnout is significant at the 1% level and amounts to an increase in generosity of 0.152. Finally, the long-run impact of a one percentage point increase in employment and elderly is significant at the 10% level; employment decreases the long-run equilibrium level of generosity by −0.138, while elderly increases the level by 0.472. The other variables have no significant long-term effect.

Next we explore the temporal variation in the partisan effect on generosity. Our reading of Pierson is that the ‘era of austerity’ began in the early 1970s

\(^9\) We get this number using the following calculation: \((\beta(\text{right/centre}) + \beta(\text{right/centre} \times \text{party polarization}) \times 18)/ - \beta(\text{generosity level})\). We do this calculation using the \texttt{nlcom} command in Stata, which returns accompanying standard errors and \(z\)-scores.
(Pierson, 1996, p. 143). However, Huber and Stephens (2001) argue that the period of retrenchment began in the 1980s when welfare state programmes had fully matured. Allan and Scruggs (2004, p. 505) identify the timing of the ‘structural break’ as the ‘year of the major economic recession during the early 1980s’ and examine partisan effects before and after the year of the structural break. Huber and Stephens (2001) find that partisan effects on spending disappear in the 1980s. Kittel and Obinger (2003) find weak partisan effects on spending in the 1980s and 1990s, while Kwon and Pontusson (2010) find insignificant partisan effects on spending in the late 1990s. Allan and Scruggs’ (2004) analysis of replacement rates, however, find partisan effects also after the ‘structural break’.

We find Kwon and Pontusson’s (2010) moving windows analysis instructive to study partisan effects over time and conduct an analysis that is similar to theirs. We estimate the same model (the one reported in column 4, Table 3) for consecutive 10-year periods, dropping the earliest year and adding the next year to the next window. Figure 5 shows point estimates and 95% confidence intervals for the partisan effect over time with level of polarization set to 20. The results replicate some findings from previous research of spending data and lend some support to the New Politics perspective, as we find significant partisan effects in the beginning of the period. However, the partisan effect gradually shrinks and is insignificant in the early 1980s. This is basically Pierson’s story. However, as is evident in the figure, the partisan effects gradually reappear and become significant beginning in the late 1980s.

In the remainder of the paper, we explore the robustness of our results and consider some alternative model specifications. Several authors have pointed out that some Christian democratic parties hold pro-welfare state positions (see e.g. Manow, 2009). Thus, some argue that it is questionable to lump Christian democratic parties together with conservative, secular parties. Estimating the model in column 4, Table 3, but controlling for the percentage of centre parties in government yields very similar results as those displayed in Figure 4. The same is true if we instead rely on the percentage of cabinet seats held by right parties.

To evaluate how sensitive our results are to the inclusion of a particular country, we re-estimated the final model excluding one country at a time. The interaction term between partisanship and polarization is significant at the 5% level irrespective of which country we leave out, with one exception: when we exclude Finland, the interaction term is significant only at the 10% level (z = 1.74). Finally, the dependent variable has two large positive outliers, i.e. country years with a large increase in generosity. The relationship between right/centre and generosity is slightly weaker when we include dummies for
these two observations, but the substantial conclusions remain.\textsuperscript{10} The same is true if we include dummies for some extreme values on the polarization variable.

Fifty-one percent of the changes in generosity levels are positive. In other words, the negative effect of right governments does not necessarily mean that they are more likely to cut back on generosity levels: it could be that right governments only raise generosity levels less. This distinction is potentially important as Pierson argues that retrenchment is qualitatively different from expansion. Allan and Scruggs (2004) show that right governments are associated with cut-backs as well as less expansion. They reach this conclusion by dichotomizing the dependent variable into cuts and no-cuts, choosing different cut-points ‘to exclude “marginal” changes in replacement rates, which may accrue through no obvious intention to cut replacement rates’ (Allan and Scruggs, 2004, p. 509).

We find Allan and Scruggs’ (2004) approach problematic because we believe it is important to distinguish between a small and a large cut-back. Therefore, we chose a different approach. We construct two new variables: a dummy variable equal to one if generosity is positive and zero if negative (we label this variable expansion) and an interaction term between this dummy variable and rightcentre. We include these two variables in an otherwise identical model to the one reported in column 4, Table 2. The coefficient for rightcentre now gives us the effect of rightcentre when both party polarization and the dummy for expansion are zero. We use this model to estimate the effect of right government at different levels of polarization, as we did when constructing Figure 4, but we now get the partisan effect on retrenchment. We get a similar relationship between rightcentre and generosity as displayed in Figure 4, but the effect of rightcentre is now significant at the 5% level only when polarization is above 25.\textsuperscript{11} Thus, we conclude that the negative effect of rightcentre government displayed in Figure 4 is not solely driven by right governments being less likely to raise generosity levels, but the ideological gap needs to be larger for the partisan effect to kick in.

The fixed effects approach effectively removes the effect of time-invariant institutional variables. The electoral system, the number of veto points in the legislative process and wage bargaining are institutional variables found to be of particular importance for welfare state development (e.g. Huber et al., 1993; Allan

\textsuperscript{10}As an alternative, we took LN of current level and lagged level of generosity to reduce the influence of outliers. Results for the variables of interest are similar to those in Table 3, while statistical significance improved for most of the control variables.

\textsuperscript{11}We get the following coefficients when including the expansion dummy and its interaction with rightcentre in the model displayed in column 4, Table 3 (panel-corrected standard errors in parentheses, control variables not shown): RightCentre* Party Polarization $-0.0001 (0.00005)^{**}$, Expansion* RightCentre $-0.0013 (0.0010)$, RightCentre 0.001 (0.001), Party polarization 0.009 (0.003)***, Expansion 0.841 (0.07)***.\ldots
The electoral system is of particular relevance for this paper because it might influence the probability of right government (Iversen and Soskice, 2006) and the degree of party polarization (Cox, 1990). Plümper and Troeger (2007) propose a three-stage estimation procedure to gauge the effect of time-invariant variables in a fixed effects model. In this approach the first stage is a pooled OLS regression with country fixed effects, while the second stage decomposes the unit fixed effects into one part which is unexplained and one part which is explained by the time-invariant or slowly changing variables. The third stage re-estimates the first stage while including the time-invariant or slowly changing variables and the unexplained part of the unit fixed effects.

Supplementary online Table A2 in the Appendix presents the results from the fixed effects vector decomposition (FEVD) estimations. Column 1 includes a dummy indicating whether the electoral system is majoritarian. In column 2, we include veto points (Huber et al., 1993, 1997) and Siaroff’s (1999) proxy for corporatism (Armingeon et al., 2006). The institutional variables behave as expected and are strongly significant: majoritarian and veto points are negative while corporatism is positive. The partisan effect remains robust to this specification.

Finally, one might argue that important level effects are suppressed when including country fixed effects. Plümper et al. (2005) argue that a change in right partisanship from 5 to 10% of the cabinet might not be comparable with a change from 46 to 51% of the cabinet, as the fixed effects model implicitly assumes. They suggest FEVD estimation as a potential solution, by including partisanship in the part of the model that explains the unit fixed effects. In column 3, we follow their suggestion and include right/centre in the second rather than first stage to allow level effects. This procedure yields stronger partisan effects than in the previous models.

5. Conclusion

The issue of whether who governs matters for policy outcomes is a core question of political science and has been an important topic in the comparative welfare state research over the last decades. We have argued that the debate between the New Politics perspective and the power resources perspective regarding welfare state restructuring in an ‘era of austerity’ can be brought forward by exploring the degree of actual political polarization between the left bloc and the right bloc on the redistributive dimension of politics.

12 We follow Iversen and Soskice (2006) and Huber et al. (1997) when classifying electoral systems as majoritarian or PR.
First, we identify an assumption regarding polarization for each of the two perspectives. The New Politics perspective proposes a decline in party polarization over redistributive issues since the 1970s. We find no support for this claim. The power resources theory assumes that politics is organized around the socio-economic cleavage, as long as left parties do not suffer from ‘goal displacement’. We find support for this assumption, as the income stratification of the vote is stronger when polarization is high. In the final part of the paper, we examine whether political parties are able to ‘make their ideology count’ in the post-electoral arena by examining whether the partisan effect on changes in welfare state generosity depends on the degree of polarization. We conclude that political parties are still able to make their ideological promises matter, but, in contrast to the existing literature, we are able to identify a level of party polarization which is necessary for the partisan effect to kick in. Moreover, our analysis shows that while Pierson was right regarding the disappearance of partisan effects in the early 1980s, partisan effects have gradually reappeared since then.

Welfare state generosity increased in most advanced industrialized countries during the 1950s, 1960s and 1970s, and Scruggs’ data show that the ‘golden age’ of welfare state generosity ended in the early 1980s. From the 1950s to the mid-1980s, welfare state generosity increased in all rich countries; the rate of growth, however, was different, and partisanship, perhaps as a result of ‘accumulation’ of left power, explains (part of) the variation in the rate of the expansion (e.g. Huber and Stephens, 2001). Since the mid-1980s, changes in generosity are less uniform across OECD countries, and there are actually signs of a downward convergence (Scruggs, 2008). Our results suggest, in contrast to Pierson’s (1996) claims, that the era of austerity is a mirror image of the golden age of welfare state generosity, as partisanship explains (part of) the variation in retrenchment since the mid-1980s, just as it explains (part of) the variation in expansion prior to that period. The context has changed but not in a manner that fundamentally alters the association between partisanship and welfare state generosity.

Supplementary material

Supplementary material is available at SOCECO online.

References


