

SHIFTING THE EMPLOYMENT BURDEN:
THE SOCIAL AND ECONOMIC FOUNDATIONS
OF WELFARE STATE REFORM

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ABSTRACT: This paper addresses the ways in which governments restructure welfare state benefits provided to the unemployed. The last two decades have seen a substantial restructuring of the institutions through which developed democracies combat unemployment, with a growing number of states shifting the responsibility for finding employment onto the unemployed, while other states continue to underwrite extensive job placement efforts. I derive and test a model rooted in cleavages within domestic labor markets to explain the reform of these labor market institutions. Data on employment policy reforms in 19 OECD countries confirm that divisions within the labor movement based on job security and reemployability have powerfully shaped conflicts over welfare state restructuring. This study makes important contributions both to the study of the welfare state and to our understanding of the social and economic sources of political decision-making.

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Shifting Responsibility in the Post-Industrial Welfare State

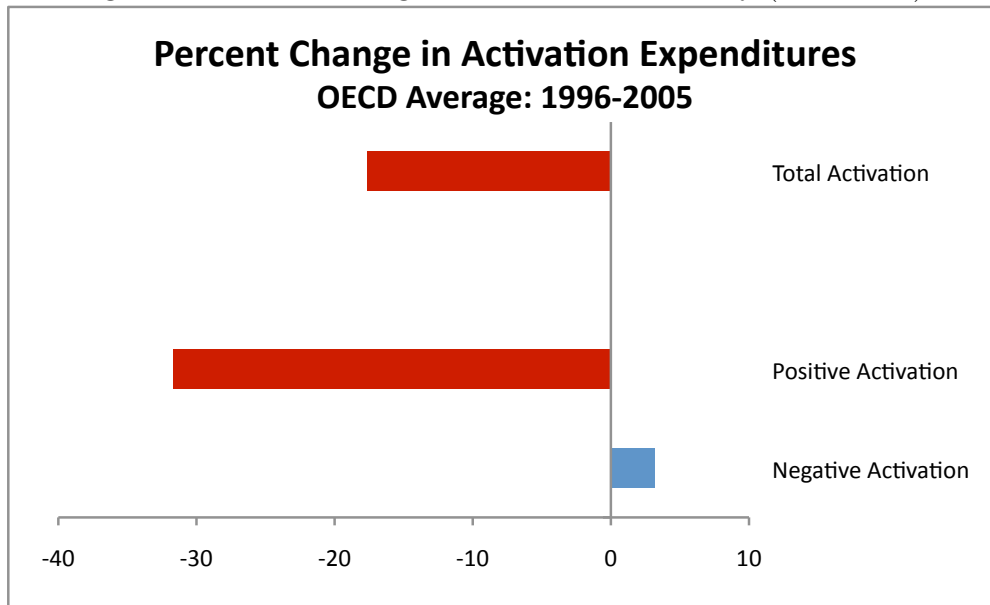
Social welfare institutions and labor markets are inextricably linked. Since the golden age of welfare state development, governments have long guarded workers from the vagaries of market capitalism through the provision of various forms of income protection. In the post-industrial era, the pressures of global economic interdependence and growing fiscal austerity have forced governments to search for new ways of reinventing welfare state institutions in a manner that promotes their sustainability (Pierson 2001). Nowhere are these attempts more evident than in the policies governing labor markets, as employment promotion has become a cornerstone of welfare state reform over the last two decades (CEC 1999). By assisting those without jobs in their search for employment, governments seek to decrease the fiscal strain on the welfare state; the result, they hope, will reduce the number of citizens relying on social assistance, and increase state revenues by expanding the tax base. But it is precisely the *manner* in which governments promote employment, as well as reform other welfare state institutions that are designed to assist the unemployed, that is indicative of a growing trend in modern welfare states, specifically, the shifting of social welfare responsibilities from governments to individuals.

Employment policies, which are also known as activation policies or active labor market policies, all serve the basic function of placing unemployed individuals into employment, or "activating" labor. However, this task can be accomplished through various mechanisms that entail differing levels of employment responsibility for the unemployed, relative to the responsibility borne by the government. Some place a large degree of responsibility on the unemployed, requiring these individuals essentially to find their own employment with administrative assistance from the government. These policies may also use mechanisms of negative reinforcement, such as unemployment insurance sanctions, to ensure that individuals spend a minimal amount of time outside of the labor market. Other policies place

a greater degree of responsibility on the government to find positions for the unemployed, implementing programs based on retraining, wage subsidization, or a number of other tools.

While most post-industrial economies employ both types of policies, the mix of policies implemented varies substantially across countries and is changing over time. Several countries have continued to promote employment through both types of employment policies and a few have even increased their implementation of policies that place large responsibilities on governments, but many countries have also substantially retrenched their use of policies that require more of governments. These trends in employment policy reform can be seen in Figure 1.¹ When countries scale back employment policies that require greater government responsibility, they effectively shift the responsibility for employment onto individuals and, consequently, reduce the level of social protection that is offered to the unemployed. Thus, the relevant question I address is, *what explains the shift in responsibility for finding employment?*

Figure 1: Percent Change in Labor Market Policy (1996-2005)



¹Changes in policies that require greater government responsibility are labeled as "Positive Activation", while those placing employment responsibility on individuals are labeled as "Negative Activation".

I argue that shifts in employment responsibility can be explained by political divisions within labor and this argument can be summarized with two propositions. First, workers' employment policy preferences are determined by job security and reemployability. Workers with lower levels of job security or reemployability have greater unemployment concerns and should therefore be more likely to prefer government assistance in finding employment. Second, the extent to which workers' policy preferences shape employment policy reforms is mediated by the distribution of organized labor. Workers organized through institutions of unionization have a greater influence over policy outcomes than those who are not organized, both due to more effective communication of policy preferences and greater electoral threats to incumbent governments.

Using a time-series cross-section analysis of 19 OECD countries, this study examines the role of a divided labor force in explaining shifts in employment responsibility. The next section describes how the policy preferences of workers are divided across types of labor market risk, followed by a discussion of how these worker preferences shape policy reforms through institutions of workforce organization. The fourth and fifth sections describe the statistical analysis and present the findings, respectively, and a final section discusses implications for future research.

Worker Preferences and Employment Responsibility

Social policy preferences have a long tradition in political science with many scholars explaining these preferences through individuals' levels of economic risk. The basic claim is that individuals in positions of greater risk prefer higher levels of welfare provision, but the important distinctions lie in how economic risk is defined. I argue that in post-industrial economies, economic risk is best conceptualized by individuals' *employment expectations*. All workers consider the level of precariousness attached to their current employment situations and the resulting likelihood of being employed for the foreseeable future. When individuals

have less confidence in their personal employment situations, they should prefer that governments take a greater role in reducing the expected effort that will be needed to find a new job. Thus, workers will be divided in their policy preferences based on those that have higher employment expectations and anticipate deriving fewer policy benefits, and those that have lower expectations and anticipate greater benefits.

While this argument fits into the recent literature arguing that labor is a divided political actor (Iversen and Soskice 2001, Rueda 2005), it is distinct in that it does not conceptualize worker preferences along a single theoretical dimension. Rather, employment expectations are based on based on two dimensions that define an individual's likelihood of being employed in a post-industrial labor market, namely, job security and reemployability. Both of these determinants of employment expectations² play a crucial role in identifying an individual's likelihood of employment and the resulting division in worker preferences for the level of employment responsibility that the government should accept. Thus, if either of these dimensions is ignored in modeling a worker's social policy preferences, these models will result in biased expectations of future employment due to the omission of a specific component of labor market risk. The theoretical importance of both job security and reemployability are revealed when considering each in turn.

Job security, or the likelihood of maintaining one's current job, plays a major role in an individual's expectations of future employment. When a worker is employed in a position with a high level of job security, she has higher employment expectations due to a lower likelihood of falling into a position of unemployment. Therefore, workers with higher levels of job security should be less likely to desire social policies that require the government to take on greater employment responsibility, since finding new employment is a smaller concern for these individuals.

This is the basic logic behind the insider-outsider theoretical framework in political economy. Lindbeck and Snower (1986) have classified a divide in the labor market between what

²From this point forward, "employment expectations" will refer to the proportion of the remainder of an individual's working life that she expects to be employed.

they refer to as insiders and outsiders. Insiders are defined as incumbent workers that have a privileged status in the labor market, not only in wages but also through employment protection. Rueda (2005, 2006) has built on the insider-outsider distinction by extending it to partisan politics, arguing that leftist parties have focused more on protecting the social policy interests of insiders as this labor market distinction has grown more pronounced. Specifically, he argues that workers who enjoy a protected labor market status are concerned with maintaining the policies which protect that status, but are not concerned with the policies that assist the unemployed in finding a job, presumably because they are not highly concerned about unemployment.

The insider-outsider framework produces an incomplete portrayal of worker policy preferences for two reasons. First, it places a rather narrow definition on job security by focusing on employment protection. While employment protection policies, such as legislation governing dismissals or severance payments, clearly contribute to the overall level of job security, they are not the only defining factors. The labor market itself plays a crucial role in determining job security that is of particular importance to manufacturing workers. In a post-industrial economy, the composition of the labor force is shifting toward the service sector, producing job losses in manufacturing. Employment protection alone cannot hold back the structural shifts in labor market demand that reduce the level of job security for workers in the manufacturing sector. Consequently, workers in this sector, in spite of their protected employment status, can benefit from policies designed to assist the unemployed.

The second limitation of the insider-outsider framework is that it defines employment expectations only along the single dimension of job security and ignores the role of reemployability. Unless job security is absolutely certain, every worker believes that unemployment is a possibility. However, the effect of losing one's job on employment expectations is dependent on reemployability. If a worker has only a moderate level of job security but believes that finding a new job will be easy, that worker should still have relatively high employment expectations but expect to derive fewer benefits from policies designed to assist

the unemployed in finding work. On the contrary, if a worker has a reasonably high level of job security but believes that finding a new job will be very difficult, this worker should also have relatively high employment expectations but expect to derive greater benefits from employment policies due to the low level of reemployability. By adding this second dimension of employment expectations, it is again evident how a protected insider can benefit from policies designed to assist labor market outsiders.

Other scholars that have written on divisions within labor have focused heavily on the concept of reemployability, particularly with regard to the specificity of worker skills (Hall and Soskice 2001, Iversen and Soskice 2001). These skill-based arguments claim that both economies and workers invest in skills that range from the general to the highly specific. Workers that invest in more specific skills are exposed to greater social risk should they become unemployed because specific skills are less portable across firms or sectors of the economy. Workers that invest in more specific skills thus have lower levels of reemployability and support social policies that compensate them for the employment risks that they have accepted.

Skill-based arguments have made substantial contributions to explaining worker social policy preferences, particularly by focusing on the role of reemployability, but these arguments also have their limitations. One of these limitations is the theoretical conflation of skills, economic sectors, and reemployability as explanations of worker policy preferences. Authors frequently claim the importance of skill specificity in the context of post-industrial economies which have a shrinking specific-skilled manufacturing workforce but a growing contingent of service workers that are assumed to rely more heavily on less specific skills. This economic environment should result in manufacturing workers having a greater preference for policies that place more employment responsibility on governments, as these workers will presumably encounter greater difficulties when searching for a new job.

But this logic largely neglects the role of highly specific skills in growing service sectors, especially those skills that are in demand as a result of increased technological dependence

in post-industrial economies. For example, an IT worker could have a highly specific skill set but, as a result of those skills being in high demand, have few concerns about reemployability or the government assisting them in finding employment. This example highlights the importance of conceptualizing one's likelihood of finding a new job with both skills and sectors of the economy, as both are needed to provide a complete account of a worker's level of reemployability. From an empirical standpoint, the conflation of skills, sectors, and reemployability is less of a problem. On average, manufacturing workers are more likely to have specific skills and service workers are more likely to have general skills that can be carried across firms or sectors of the economy. However, when providing a model of worker policy preferences, this conflation produces an incomplete theoretical account of worker policy preferences.

The other primary limitation of skill-based arguments is that their focus on reemployability is at the expense of job security, but both are needed to understand worker preferences. Even if one is willing to accept the claim that workers with specific skills prefer higher levels of government involvement, this does not necessarily mean that all workers with general skills prefer less government involvement. If a worker has a high level of reemployability but is also in a position that is subject to high rates of job turnover, then that worker has lower employment expectations. Thus, workers that expect periods of unemployment to be short-lived can still prefer that governments take on more employment responsibility if they expect to be unemployed on a more frequent basis.³

My argument claims that a workers' employment expectations shape their employment policy preferences and that it is crucial not to under-specify what defines these expectations. By including both job security and reemployability in the conceptualization of employment expectations, it possible to identify which workers prefer governments to take greater responsibility in finding jobs for the unemployed, as well as gain a more complete understanding

³These workers may prefer more government involvement not only to share the burden of frequent job searches, but also because they believe that government involvement may place them in a position with a higher level of job security (e.g. through job retraining).

of social policy divisions within labor. The general proposition of my argument is that as employment expectations increase, either through job security or reemployability, workers should be less supportive of social policies that place employment responsibilities on governments. However, to translate this proposition into basic divisions within labor, market conditions and legislative institutions must also be considered.

In a post-industrial labor market, employment expectations should divide labor into three basic groups: workers with low reemployability, workers with low job security, and workers with high overall expectations. Low reemployability workers mostly consist of those holding non-administrative positions in the manufacturing sector. While these workers enjoy relatively high levels of job security, their skill sets hinder their competitiveness in a post-industrial labor market. These workers should not only support employment policies but they should be the most supportive group due to the additional pressure of declining job security brought about by structural shifts in labor demand. Workers with low job security, consisting of those employed in the low-skilled service sector as well as those with part-time employment or short-term contracts, are better equipped to find new jobs. However, their expectations of more frequent spells of unemployment should lead them to join with low reemployability workers in supporting employment policies.

Workers with high employment expectations consist of middle- and high-skilled service workers as well as administrative workers in manufacturing. Since these workers have high levels of job security and have skills demanded in a post-industrial labor market, they should derive few benefits from employment policies designed to assist them in finding new jobs. While dividing labor into these three categories is not ideal for conveying a more nuanced relationship between employment expectations and policy preferences, it is useful for explaining how divisions within labor shape policy reforms.

Divided Labor and Employment Responsibility

Explaining shifts in employment responsibility requires more than simply identifying how labor is divided because we must also understand how these divisions are translated in to policy outcomes. The common approach in the political economy literature is to equate worker policy preferences with voter policy preferences and assume that political actors consider the preferences of all voters equally. My claim is that a difference exists between the distribution of worker policy preferences and the distribution of policy preferences *as perceived by incumbent governments*. That difference, I argue, lies in the institutions of workforce organization. When workers are organized through unionization, they not only have greater resources to more effectively communicate their policy preferences, but they also pose a greater electoral threat to elected governments. Consequently, unionized workers should have a greater influence over policy outcomes.

When governments decide to reform employment responsibility, they are concerned with which groups will be affected as well as the electoral consequences of the reforms. While labor unions have faced significant declines in many countries over the last three decades, they still play influential roles in policy formation (Boeri et al. 2001). Unionized workers have the ability to influence the distribution of reform consequences as perceived by governments through political and informational institutions. Unions can claim to represent the interests of large numbers of workers and directly express the policy interests of these voters to governments via formal lobbying, as well as back up these policy positions with union-funded research. As a result of these institutional resources, governments should be exposed to the interests of organized workers to a greater degree than the interests of other workers.

Just as importantly, unionized workers should have greater weight in government policy decisions due to the electoral threat that they pose. Organized groups are more capable of disseminating knowledge of policy reforms to their voting members and translating this information in a way that clearly identifies the costs of reforms. Additionally, organization ensures that these groups are still capable of disrupting economies through strikes and

demonstrations, which place public pressure on governments. In short, the interests of organized workers should have greater electoral consequences.

Existing explanations of social policy reform have focused largely on political partisanship, institutions, or some combination of these factors. Many partisanship studies concentrate on the power of the left, arguing that left parties are staunch defenders of social insurance (Boix 1998, Huber and Stephens 2001, Allan and Scruggs 2004).⁴ Other scholars concentrate on the traditional alliance between left parties and labor unions and how these groups use their resources to expand and protect social insurance (Korpi 1989, Korpi and Palme 2003). However, in post-industrial economies, these partisan arguments are less persuasive because they treat labor as a homogenous group. As argued in the above section, the policy interests of labor are too divided for one party to represent the interests of all workers.⁵ In addition, assuming that right parties prefer to reduce the government's role in the overall provision of social welfare, it is not immediately evident that right parties should oppose employment policies that are designed to get the unemployed off the government dole.

Institutional explanations of social welfare more directly examine the structure of political economies and how these arrangements affect policy decisions. Iversen (2005) argues that institutions grounded in the types of skills that economies employ shape the reform of social policies. Countries that are more reliant on specific skills develop more comprehensive institutions of social protection because workers are exposed to higher levels of labor market risk, and these institutions should expand as labor markets shift toward the service sector in order to assist those workers that cannot find jobs. While this institutional argument does acknowledge opposing policy preferences within labor, it claims that governments should reform policies based on economic needs rather than social policy preferences, with

⁴For an opposing argument claiming that left parties are best equipped to retrench social policies, see Ross (2000).

⁵Kitschelt (1999) is an exception, stating that social democratic parties face multiple dilemmas in post-industrial societies when deciding general economic policy positions. He argues that many of these dilemmas are the result of growing divisions in the preferences of policy supporters.

welfare provision expanding as markets deindustrialize and specific-skilled workers comprise a smaller portion of the labor force. However, if policy reforms are the result of worker policy preferences, as I am claiming, then governments should *retrench* welfare provision as labor markets shift toward a post-industrial structure.

Other institutional explanations emphasize the institutional factors mediating the political feasibility of reform (Tsebelis 1995, Pierson 1998, Swank 2001) and Pierson's argument in particular has pointed out the importance of voter organization in social welfare reform. His general claim is that welfare state expansion creates organized interests that are disposed to mobilize in defense of the welfare state, making significant retrenchment difficult to achieve. The limitation of this argument, however, is Pierson's assumption that the individuals opposed to policy retrenchment will be the most organized, leaving out the possibility that those in favor of retrenchment may have more policy influence. To fully understand shifts in employment responsibility, institutional arguments must consider the possibility that multiple groups can be organized, and these groups may favor or oppose reforms. It is my contention that the distribution of *organized* worker interests is a critical variable in explaining employment policy reforms.

The division of labor into those who oppose governments shifting employment responsibility onto individuals and those who do not, together with the organization of worker interests, should produce several observable implications. Workers with lower employment expectations, as a result of low job security or low reemployability, face greater labor market risks than workers with high employment expectations and consequently derive greater benefits from policies that assign a higher portion of employment responsibility to governments. Thus, as workers with lower employment expectations make up a greater percentage of the organized workforce, governments should retrench these policies to a lesser extent. As workers with high employment expectations make up a greater percentage of the organized workforce, governments should retrench the policies that place greater employment responsibility on the state, shifting the responsibility onto individuals. Because there is no

clear division in labor regarding which groups may derive greater benefits from employment policies that place responsibility on individuals, the distribution of worker policy preferences should not affect these policies.

Regarding the empirical implications of other theories, the insider-outsider model argues that only labor market outsiders (i.e. workers with low job security) derive benefits from government assistance with job placement. Thus, it should predict that as workers with low job security make up a larger percentage of the workforce, governments will shift employment responsibility onto individuals to a lesser extent. Finally, the skills model argues that governments should provide more assistance as low reemployability workers exit the workforce. Consequently, governments should again shift responsibility to a lesser extent as low reemployability workers make up a smaller portion of the workforce.

To summarize the hypotheses derived from the above argument:

- H1: Workforce Organization Model *When unions are more centralized in high employment expectation groups, governments produce labor market reforms that retrench government-based employment responsibility policies. The distribution and organization of worker interests is unrelated to the reform of individual-based employment responsibility policies.*
- H2: Insider-Outsider Model *When the labor force has a higher proportion of low job security workers, governments produce labor market reforms with less retrenchment of government-based employment responsibility policies.*
- H3: Skills Model *When the labor force has a lower proportion of low reemployability workers, governments produce labor market reforms that augment government-based employment responsibility policies.*

Data and Methodology

Testing the hypothesized explanations of shifts in employment responsibility consists of a quantitative analysis of employment policies and unemployment insurance in 19 OECD governments from 1990-2005.⁶ The analysis employs the following variables:

Dependent Variable: Structural Change in Labor Market Institutions

Positive and Negative Activation, Activation Gap As stated above, the distinction between employment policies is defined by the role the government plays in assisting the unemployed with their employment search. Activation policies are generally characterized as those that assist the unemployed in finding new employment. Positive activation policies are defined as those in which the government takes greater responsibility and directly assists the unemployed with job placement through various measures such as retraining, subsidized employment, and job creation. Negative activation policies, however, are defined as those in which the government takes less responsibility and indirectly assists the unemployed with their individual job searches through agency-based counseling and sanctioning incentives. All activation policies are measured using expenditures as a share of GDP. To better capture structural shifts in employment responsibility, the Activation Gap variable measures the difference between positive and negative activation expenditures (Positive - Negative). (Source: OECD 2008)

Unemployment Insurance Unemployment insurance, or passive labor market policies, provides income replacement to the unemployed, typically at a specified rate and duration. While unemployment insurance plays no role in assisting the unemployed with job placement, it provides an additional test of the argument in this paper because worker preferences for these policies should be divided based on employment expectations. Policies are measured using expenditures as a share of GDP. (Source: OECD 2008)

⁶Case selection is based on levels of economic and social policy development, as well as data availability. Included cases are listed in fn 5 above.

Independent Variables: Labor Market Organization

Manufacturing Workforce This variable captures the sectoral composition of domestic labor markets and is a proxy for the share of low employment expectation workers in the labor market. This is an admittedly imperfect measure since it does not account for low job security workers, but workforce data disaggregated within the service sector is unavailable for many countries, particularly disaggregated unionization data. However, the measure provides for an adequate test of the theory because manufacturing workers arguably have the lowest employment expectations of all subsets of the labor market. Not only do they have low levels of reemployability, but they are also subjected to falling levels of job security in post-industrial economies. Additionally, by combining low job security workers and high expectation workers into the same category should make supportive results more difficult to come by. This variable is measured as the proportion of the civilian workforce in each country that is employed in the manufacturing sector. (Source: OECD 2008)

Manufacturing Sector Density This variable is used to approximate the relative power of the manufacturing sector within the unionized workforce. It is measured as the percentage of all unionized workers that are employed in the manufacturing sector. Ideally, this measure would be procured by using the manufacturing union density and relative size of the manufacturing sector for each observation. However, sector-level union density data does not currently exist in a time-series format.⁷ Thus, I use cross-sectional sector-level union data to create a proxy for the relative power of the manufacturing sector. (Source: OECD 2008, Boeri et al. 2001, Visser 2006)

⁷I am currently in the process of collecting an original time-series cross-section data set of sector-level union density for OECD countries.

Labor Union Density In addition to the sectoral composition of labor union membership, the overall level of unionization within a country needs to be controlled for and should exhibit a positive relationship with changes in policies that increase economic security. Union density is measured as net union membership as a percentage of wage and salary earners in employment. (Source: Visser 2009)

Wage Coordination The centralization of labor union power within a country also plays an important role in assessing the ability of unions to influence labor market reforms. The level at which wage bargaining takes place approximates this element of labor power and is measured using a five point scale (1 representing the firm level, 5 representing economy-wide bargaining). As with union density, wage coordination should exhibit a positive relationship with changes in policies that increase economic security. (Source: Visser 2009)

Control Variables

Political Partisanship, Unemployment, GDP Growth, Trade Openness, Government Debt

One of the primary goals of this study is exposing economic divisions within partisan groups, particularly the political left. Nevertheless, right cabinet shares will be used to control for any potential effects of political partisanship. Additionally, domestic unemployment rates, changes in GDP, and trade openness will be used to control for fluctuations in the demand for labor market policies, while government debt will be used to control for changes in the demand for reform. (Source: Armingeon et al. 2008)

Method of Analysis

In order to test the relationship between labor market organization and employment policy reform, I estimate general error correction models which are represented by the following equation:

$$\Delta Y_t = \alpha + \beta_1 Y_{t-1} + \beta_2 \Delta X_t + \beta_3 X_{t-1} + \epsilon_t$$

In this equation, Δ represents the first difference operator and t represents the time period. Interpreting the equation in terms of the research question, changes in labor market policies are modeled as determined by the lagged levels of the policies themselves (β_1), contemporaneous changes in the independent variables (β_2), lagged levels of the independent variables (β_3), as well as a constant term and stochastic component. Although the general error correction model has many useful properties (Keele and DeBoef 2008), it is particularly useful for estimating dynamic effects. Specifically, β_2 is the estimate of the short term effect that X has on Y , while β_3 is the estimate of the long term effect.

When using data that is both cross-national and time-series, problems of heteroskedasticity can arise when calculating standard errors. I use the procedures recommended by Beck and Katz (1995) and implement panel-corrected standard errors in the analysis. Also, to address issues of heterogeneity and ensure that no specific countries are driving the results of the analysis, I include country fixed effects. While these country-specific dummy variables do potentially account for a large amount of the variation in policy expenditures, they also provide more conservative estimates in the model. For purposes of presentation, fixed effects estimates are not included in the tables reporting the results of the analysis.

Results of Statistical Analysis

The statistical analysis produces three principal findings. First, the theoretical distinction between positive and negative activation is supported, as the two policy types have two distinctly different sets of determinants. Second, the analysis also supports the claim that

the organization of labor plays a role in shaping employment policy reforms, both at the sector level and in terms of overall levels of unionization. Third, support for the theory extends beyond employment policies, as both positive activation as well as unemployment insurance are positively correlated with organization in the manufacturing sector workforce.

–Insert Table 1–

The estimated error correction models for activation policies are presented in Table 1. The first model shows that while the size of the manufacturing workforce has no effect on changes in positive activation, all three unionization variables are statistically significant and have a positive coefficient in both the short and long term. This means that not only does each variable cause an immediate change in the level of positive activation, but they also change the long term equilibrium level of expenditures on these policies. Thus, Hypotheses 1 is supported, while Hypotheses 2 and 3 are not.

Looking at the effect of manufacturing density more specifically using the long-run multiplier,⁸ a one standard deviation increase in manufacturing density produces a total increase of just over a half standard deviation in positive activation over time. The only additional variables exhibiting a statistically significant effect are debt and unemployment, both in the short term but with a low degree of uncertainty.

As for changes in negative activation policies, manufacturing density has no statistically significant effect in either the short or long term, supporting the claim that the reform of negative activation should not be driven by divisions within the workforce. However, the size of the manufacturing workforce interestingly has a large negative coefficient in the long term. This result is discussed further in the next section of the paper. General unionization variables lend additional support to the claim that governments respond to larger and more centralized unions when reforming all labor market policies, as union density and wage coordination have positive coefficients in the short and long term, respectively. Examining

⁸The long run multiplier is calculated as $\beta_3/-\beta_1$. This is used to capture the total effect of an independent variable, both in the short term and over extended periods of time.

the rest of the model, GDP growth and trade openness both have statistically significant negative long term coefficients, while unemployment has a negative effect in both the short and long term. Thus, the two models of positive and negative activation taken together support the claim that manufacturing workers, and by proxy low employment expectation workers, have a greater interest in preserving positive activation policies, and governments respond to these interests when organized.

The third model uses changes in the activation gap, or difference between positive and negative activation expenditures, as the dependent variable to better explain the shift toward a greater reliance on negative activation and, consequently, the shift in responsibility for finding employment. In this model, the manufacturing density variable again has positive coefficients both in the long and short term. Using the long-run multiplier, a one standard deviation increase in manufacturing density results in just over a half standard deviation increase in the activation expenditure gap over time. This suggests that the organization of manufacturing workers not only has an effect on activation reforms, as suggested in the first model, but that it plays a role in shaping the shifts in responsibility that reforms can produce. In short, when manufacturing workers are more organized relative to other workers, governments are less likely to enact reforms that shift the responsibility for employment to individuals. The other two unionization variables have positive coefficients in this model, but achieve statistical significance only in the short term and, in the case of wage coordination, exhibit a higher level of uncertainty. Debt is the only control variable that has a statistically significant positive coefficient.

–Insert Table 2–

Finally, the models of unemployment insurance continue to provide support for the importance of workforce organization in labor market reforms. The sectoral distribution of the general workforce appears to have an effect on reforms when unionization variables are not controlled for, as the long term component of the manufacturing workforce variable has a positive and significant coefficient. However, once unionization variables are included, this

effect drops out.⁹ In the fully specified model, the long term effect of manufacturing density has a strong positive coefficient, with a standard deviation increase in manufacturing density producing, again, just over a half standard deviation increase in unemployment insurance.

While wage coordination appears to play no role, union density has a positive and significant coefficient in both the short and long term, although the long term component exhibits a higher level of uncertainty. Thus, the models of all three policy types have supported the claim that greater levels of union organization produce less retrenchment (or more growth) in labor market policies, at least in the short term. Looking at the remaining control variables, trade openness, debt, and unemployment all have moderate to highly significant positive coefficients in the short term, and GDP growth has highly significant negative coefficients in both the short and long term.

Conclusions and Implications

The welfare state institutions that govern labor markets have undergone significant structural transformations in the past two decades. Through a new conceptualization of these institutions, this study sheds light on previously overlooked variation in the function of employment policies and explores why some governments have enacted reforms that shift the responsibility for employment from the state to the individual. While recent studies of the welfare state suggest that political partisanship and institutions should play the largest role in shaping policy decisions, the results of this study show that many questions are still unanswered in explaining labor market reforms. In particular, the level of worker organization within a country and the distribution of these organized workers play important roles in the reform process.

One of the principal contributions of this study is not only the theoretical distinction between positive and negative activation policies, but also providing evidence of an em-

⁹Although not shown in this paper, similar models of activation policies display the same trend. The size of the manufacturing workforce only has an effect on expenditures when manufacturing density is not controlled for.

pirical distinction in the determinants of these two types of policies. The other principal contribution is the examination of preferences for policy reform based on employment expectations, as well as the importance of workforce organization. The strong link between unions, especially those with a higher proportion of manufacturing workers, and positive activation policies suggests that these policies are supported by more than just labor market outsiders on the margins of society. The analysis also refuted the expectations of skill-based theories, supporting a *negative* relationship between deindustrialized workforces and positive activation policies.

However, the question of which workers support which policies, and to what degree, still needs further refinement. The analysis suggests that both positive activation and unemployment insurance provide manufacturing workers with greater levels of marginal utility. This could be the result of all workers deriving positive marginal utility from all policies, but manufacturing workers simply receiving it to a higher degree due to structural changes in the economy that has placed these workers in such dire straits. It could also be the result of service sector workers deriving negative marginal utility from the policies once the increased level of taxation required to pay for these policies is taken into account. A possible third explanation is that all workers support the same policies, but that unionized manufacturing workers are simply more effective lobbyists. I intend to address these questions with future refinement of a formal model not presented in this paper, as well as through the analysis of individual level data detailing labor market positions and employment policy preferences.

The other unexpected result from the analysis was the determinants of negative activation reform and the negative coefficient on the manufacturing workforce variable requires further examination. Interestingly, negative activation was the only policy that maintained a statistically significant relationship with workforce composition after controlling for all union variables. The negative coefficient could be indicative of a voter-based explanation where politicians expect service sector workers to be more accepting of negative activation. Yet, it could also be the case that governments expect reforms that involve a shift toward negative

activation to be more successful in service-heavy economies.

In conclusion, this study offers a new conceptualization of change in welfare state institutions, focusing on the degree to which governments have shifted the responsibility for employment away from the state and onto the unemployed. These transformations in policy have crucial implications not only for the overall degree of social protection, but also the disparity in social equality afforded to those that benefit from reforms and those that bear the costs. My argument for explaining these transformations focuses on distributional cleavages within the labor force, identifying previously overlooked diversity in the preferences of organized labor as well as the power labor has to influence policy outcomes. By identifying structural changes in labor market institutions and investigating the political, social and economic forces that produce them, I believe this study shows that the role of labor and the study of labor market reform need more scholarly attention.

Table 1: Determinants of Activation Policy Reform

	Δ Positive	Δ Negative	Δ Gap
Positive Expenditure _{t-1}	-0.2617*** (0.0732)	0.1268*** (0.0310)	
Δ Positive Expenditure		0.0994*** (0.0357)	
Negative Expenditure _{t-1}	0.1643* (0.0985)	-0.3419*** (0.0814)	
Δ Negative Expenditure	0.2765** (0.1094)		
Expenditure Gap _{t-1}			-0.3441*** (0.0771)
Manufacturing Workforce _{t-1}	0.2070 (0.7073)	-0.7127*** (0.2461)	0.5382 (0.7274)
Δ Manufacturing Workforce	-0.7554 (1.3193)	-0.9062 (0.6845)	-0.0597 (1.3971)
Manufacturing Density _{t-1}	0.0051** (0.0022)	0.0001 (0.0010)	0.0050** (0.0021)
Δ Manufacturing Density	0.0094*** (0.0030)	0.0009 (0.0017)	0.0079** (0.0032)
Union Density _{t-1}	0.0059** (0.0028)	0.0022 (0.0015)	0.0046 (0.0029)
Δ Union Density	0.0208*** (0.0065)	0.0074** (0.0037)	0.0133** (0.0067)
Wage Coordination _{t-1}	0.0369** (0.0151)	0.0191** (0.0095)	0.0222 (0.0173)
Δ Wage Coordination	0.0496*** (0.0169)	0.0087 (0.0127)	0.0393* (0.0217)
Right Cabinet Shares _{t-1}	-0.0001 (0.0001)	-0.0002 (0.0001)	0.0000 (0.0002)
Δ Right Cabinet Shares	-0.0002 (0.0002)	0.0003* (0.0002)	-0.0004 (0.0003)
Unemployment _{t-1}	-0.0038 (0.0034)	-0.0074*** (0.0019)	0.0017 (0.0039)
Δ Unemployment	-0.0245*** (0.0093)	-0.0145*** (0.0052)	-0.0111 (0.0102)
GDP Growth _{t-1}	-0.0085 (0.0061)	-0.0106*** (0.0034)	0.0003 (0.0061)
Δ GDP Growth	-0.0015 (0.0048)	-0.0025 (0.0021)	0.0006 (0.0046)
Debt _{t-1}	0.0007 (0.0005)	0.0001 (0.0003)	0.0006 (0.0006)
Δ Debt	0.0081*** (0.0019)	-0.0007 (0.0010)	0.0081*** (0.0020)
Trade Openness _{t-1}	0.0000 (0.0008)	-0.0009** (0.0004)	0.0008 (0.0009)
Δ Trade Openness	-0.0002 (0.0014)	0.0001 (0.0007)	0.0000 (0.0015)
Constant	-0.2529* (0.1500)	0.2054*** (0.0590)	-0.3637** (0.1612)
No. of Cases	263	263	263
R ²	0.3872	0.3815	0.3025

* p<0.10, ** p<0.05, *** p<0.01

All analyses use error correction models.

Table 2: Determinants of Unemployment Insurance Reform

	Model 1	Model 2	Model 3
Policy Expenditure _{t-1}	-0.1734*** (0.0541)	-0.1821*** (0.0515)	-0.1811*** (0.0499)
Manufacturing Workforce _{t-1}	2.4115*** (0.3837)	2.3137*** (0.7117)	0.7795 (0.8980)
Δ Manufacturing Workforce	1.3874 (1.3920)	-0.2313 (1.5615)	1.5584 (1.8502)
Manufacturing Density _{t-1}			0.0099** (0.0039)
Δ Manufacturing Density			-0.0118* (0.0064)
Union Density _{t-1}		0.0034 (0.0048)	0.0092* (0.0053)
Δ Union Density		0.0424*** (0.0114)	0.0311** (0.0124)
Wage Coordination _{t-1}		0.0090 (0.0176)	0.0070 (0.0182)
Δ Wage Coordination		0.0015 (0.0223)	-0.0043 (0.0220)
Right Cabinet Shares _{t-1}	0.0000 (0.0002)	0.0001 (0.0002)	-0.0000 (0.0002)
Δ Right Cabinet Shares	-0.0002 (0.0004)	-0.0001 (0.0004)	-0.0002 (0.0004)
Unemployment _{t-1}	-0.0103 (0.0152)	-0.0064 (0.0154)	-0.0082 (0.0150)
Δ Unemployment	0.1123*** (0.0161)	0.0935*** (0.0179)	0.0934*** (0.0174)
GDP Growth _{t-1}	-0.0326*** (0.0083)	-0.0335*** (0.0086)	-0.0354*** (0.0083)
Δ GDP Growth	-0.0151** (0.0071)	-0.0159** (0.0076)	-0.0177** (0.0071)
Debt _{t-1}	0.0011 (0.0010)	0.0010 (0.0011)	0.0004 (0.0010)
Δ Debt	0.0098*** (0.0024)	0.0089*** (0.0025)	0.0098*** (0.0024)
Trade Openness _{t-1}	0.0001 (0.0012)	0.0009 (0.0013)	0.0008 (0.0012)
Δ Trade Openness	0.0028 (0.0022)	0.0039 (0.0025)	0.0040* (0.0022)
Constant	-0.4203*** (0.1277)	-0.4864*** (0.1491)	-0.3458** (0.1501)
No. of Cases	278	278	278
R ²	0.6833	0.6987	0.7132

* p<0.10, ** p<0.05, *** p<0.01

All analyses use error correction models.