

The electoral consequences of welfare state retrenchment in OECD nations

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**Paper to be presented at the Fifteenth International Conference
of the
Council for European Studies**

The Drake Hotel, Chicago
March 29–April 2, 2006

Abstract

Do incumbent parties that retrench the welfare state lose votes during the next election? That is the guiding question for our paper. We analyze elections and social policy reforms in 18 established OECD democracies from 1980-2003. We show that there is no systematic punishment for governments which cut back welfare state entitlements. Rather, governments which successfully reduced the growth or even the absolute level of social security spending were rewarded when they could credibly claim the credit for it. We also find evidence that a high saliency of welfare state issues in the electoral campaign is a crucial precondition for an electoral punishment.

1. Introduction

The welfare state has created its own battalions. In European democracies, large shares of voters strongly support welfare state expenditure and an active role for the state in providing social security. They do so because they highly value social security, because they already receive transfers and services or because they have contributed to the welfare state by social security contributions and taxes and expect to get something back in return. Therefore welfare state retrenchment is risky in electoral terms. Voters tend to punish governing parties at elections if these parties cut back social policy effort. Governments aiming at retrenchment may reduce political costs by strategies of obfuscation, division of the potential political opposition or by strategies of compensation (Pierson 1994, 1996). Other authors have suggested that political opportunities of retrenchment may depend on the constellations of political parties and the coalitions of parties that reduce welfare state effort (Green-Pedersen 2002, Kitschelt 2001).

Welfare state containment had already been an important political issue in most democracies during the 1980s. But since the 1990s, the issue has become even more prominent, since the demographic challenges of the welfare state became obvious. At the same time the maneuvering room of governments shrank. The dominance of neo-liberal ideas, the invisible fist of globalized markets and the rules of the Maastricht treaty all favored substantial reduction of state intervention. On this background some governments retrenched the welfare state (Allan and Scruggs 2004, Korpi and Palme 2003).

What happened to these governing parties during the next election? This is the question of this paper. We argue that a general punishment for retrenchment of entitlements did not take place. Quite to the contrary, governing parties were rewarded for the reduction of aggregate welfare state spending when they could plausibly claim the credit for it.

How have electoral risks of welfare state reform been reduced? We argue that this was done by limiting the extent of retrenchment of entitlements and, in particular, by dealing gently with pension systems. Pension systems are arguably the most vulnerable policy field in terms of electoral consequences. There may be a strong elasticity of votes on pension reforms due to the large share of pensioners in the electorate and due to the long-term importance of pension incomes in total income of this group. Therefore governments have been very reluctant to severely cut pension benefits.

Under what conditions, then, has retrenchment of entitlements led to the electoral punishment of governing parties? We show that a crucial precondition was that this issue was put on top of the agenda of the electoral campaign by a combination of opposition parties, interest groups, and the mass media. This process of making the issue extremely salient happened rather seldom though. Voters were alerted only when the dogs barked. And in most instances, the dogs did not bark.

And why should there be a conditional rewarding for the reduction of aggregate welfare spending? We know from numerous surveys that citizens support the welfare state, in particular if they take advantage of this welfare (Arts and Gelissen 2001, Gelissen 2000, Roller 1995, Svallfors 1997). On the other hand, they are skeptical about the aggregate level of public spending and high taxation (Confalonieri and Newton 1995). Hence, governments are in an advantageous electoral position if they succeed in reducing the level or at least the increase of spending for social security without hurting large share of voters by severe reductions of benefits. However, the parties can claim the credit for doing so only if it is clear that their actions brought about the success (Powell and Whitten 1993).

Our basic theoretical orientation is that with regard to welfare state policies voters have a utilitarian orientation and tend to lack information. Information is provided by the discourse between conflicting elites and by the mass media. The availability of information is also dependent on the transparency of the political decision making process, which is shaped

by the politico-institutional context (Powell and Whitten 1993). Governing parties are vote-seeking and therefore they avoid blame for retrenchment by incremental small cuts, in particular in case of schemes that cover a large share of voters, and by obfuscation (Pierson 1994, 1996).

Empirically we base our analysis on data from 18 established democracies of the OECD country group in the period 1980-2003¹. We restricted the analysis to these 18 countries since a stable democracy with a long tradition of party competition over social and economic policies is a major precondition of our argument. In addition, comparable data on welfare schemes are available only for these nations. We selected the period 1980-2003 due to data availability, and due to the changing discourse on the welfare state. This change, from broad support to a much more critical stance, was already felt in the 1980s and became very strong in most nations during the 1990s. (Allan and Scruggs 2004, Huber and Stephens 2001, Korpi and Palme 2003, Myles and Quadagno 1997, Taylor-Gooby 2001, Schmidt 2002, Schmidt 2000)

We provide the evidence for our argument in four steps. Section 2 discusses the research design. The development of welfare state retrenchment is described in section 3. In section 4, we show that changes in average replacement rates are not correlated with votes for governing parties, while increases of aggregate social security expenditure are negatively correlated with vote shares of governing parties. In section 5 we scrutinize the lacking correlation between change of entitlements and vote shares. We show that retrenchment leads to a loss of votes only if the issue has been made salient in the electoral campaign – and that does not happen too often.

¹ Australia (AUL), Austria (AUS), Belgium (BEL), Canada (CAN), Denmark (DK), Finland (FIN), France (FRA), Germany (GER), Ireland (IRE), Italy (ITA), Japan (JAP), Netherlands (NET), New Zealand (NZ), Norway (NOR), Sweden (SWE), Switzerland (CH), UK, USA.

2. Research design

We start from the assumption that voters decide in retrospect. They evaluate the last term of a party in government to decide whether to continue to vote for that party (see e. g. Lewis-Beck and Paldam (2000)). Our dependent variable is the change in the vote share of the incumbent parties (party). This is the sum of differences in the vote share for every governing party ($p_1 \dots p_n$) at the parliamentary election at time t minus the vote share at the previous ($t-1$) election², i.e. $\Delta \text{ vote share}_t = \sum (\text{vote}_{t,p_1 \dots p_n} - \text{vote}_{t-1,p_1 \dots p_n})$ ³

Our major independent variable is the extent of welfare state reform. It is calculated as the difference between the level of spending or entitlement at election t minus the level of spending or entitlement at the time when the incumbent parties took office⁴. The underlying assumption is that the government has actually either caused the reforms, or will be held responsible by the voters for the changes regardless of responsibility.

We measure welfare state reform by aggregate spending (in % GDP) and by entitlements. The development of welfare state spending (%GDP) is considered to be a good indicator of the size of the welfare state and hence it is very relevant in electoral campaigns. It is, however, not an exact indicator of welfare state effort or redistribution, as it is dependent on the development of the GDP. The same amount of spending will lead to a decrease of the GDP share, if GDP grows. In addition spending figures reflect changing demographic

² In some cases the government changed during a legislative period. In this case, the governing parties at the time t are taken into account. In accordance with (Powell and Whitten 1993) governments standing for election which were in power less than 100 days are not considered. Instead, we take the former, mostly more longstanding governmental composition.

³ Our argument is based on parliamentary systems. For USA we apply the procedure by Powell and Whitten (1993: 393). They measure the performance of the presidential party in the House of Representatives over the last four years in order to allow comparison with other parliamentary systems.

⁴ To account for the fact that a new administration needs some time before effectively taking control, we only include the indicator for the year of the election in cases where the election took place in the second half of the year. Otherwise, the calculation is based on the indicator of the year previous to the election under consideration.

structures and labor markets. If the number of retired persons, the number of unemployed or the number under medical care varies, the spending share will vary as well, all other things being equal (Esping-Andersen 1990, Green-Pedersen 2004, Siegel 2002, Siegel 2005). Finally, the same amount of social security spending has different effects, depending on the extent to which these benefits are taxed; i.e. to what extent there is claw-back by the state (Adema and Ladaïque 2005)

An alternative measure for welfare state effort and effects is the level of welfare state entitlements, net of taxes. Lyle Scruggs has produced a database for welfare state entitlements in the 18 countries under consideration (Scruggs 2004). It contains data for net average replacement rates for four schemes: minimum pension (i.e. the pension for a person with no work history), standard pension (i.e. the pension for an employee with uninterrupted employment history), unemployment and sickness. Data is given both for a single person and for a couple with a single earner and two dependent children (or no children in case of pensioners). We averaged the rates for both household types.

As with the change rate of welfare state expenditure, we then calculated the difference between the average replacement rates at the time of the election and the rates at the time when the governing parties took office. As a summary measure, we calculated the sum of all differences over the four schemes.

Arguing that punishment or reward is dependent on the clarity of governmental responsibility, we calculated a simple indicator, based on the reasoning by Powell and Whitten (1993). As minority governments depend on changing majorities in the parliament, it is often very unclear which of the governing parties or which of the supporting parties in parliament are responsible for policies. Likewise, coalition governments with many parties make it difficult to assign responsibility to single member parties. Therefore our “index of clarity of responsibility” is ‘0’ if either the government is a minority government or if there are three or more governing parties, otherwise it is ‘1’. According to our hypothesis we expect

that the interaction term of this index with indicators of welfare state reform has significant effects in the case of spending, but not in the case of entitlements.

The difference of the vote share for governing parties is not only a function of the welfare state reforms and the clarity of governmental responsibility. The literature lists a number of control variables we have to include into our models.

A first control variable is the size of the previous vote share. The likelihood of losing votes increases with the magnitude of previous votes (Powell and Whitten 1993). Another danger for governing parties is the cost of ruling. As the incumbent's policy actions tend to alienate some voters, some supporters will be hurt and turn to the opposition. In addition, election promises made during the campaign period often far exceed what can realistically be achieved, especially those concerning the state of the economy (Frey and Schneider 1979, Müller 1970, Nannestad and Paldam 2002). Nannestad and Paldam (1994) report in their cross-national analysis an average cost of ruling of 1.7 percent of the vote during one election period. Cost of ruling effects are controlled for by including a variable measuring the number of days in office of the present government. This data was entered into the regression model as logarithmic values.⁵

Further control variables concern the state of economy, such as inflation, economic growth and unemployment, as voters are assumed to blame governing parties for poor economic performance party (Anderson 2000, Lewis-Beck and Paldam 2000, Nadeau, et al. 2002, Nannestad and Paldam 1994).

Finally, the likelihood of withdrawing support depends on alternatives. If there are many other parties, voters have a choice. However, one could argue that a high number of parties indicate socio-cultural cleavages which restrict the options available to voters embedded in their socio-cultural milieu. In a similar vein, Anderson (2000:155) claims that "fragmented party systems – identified by a large effective number of parties – should make it

⁵ Due to a left skewed data.

more difficult for voters to identify a clear alternative to the incumbent government”. Accordingly, we integrate a control for the effective number of parties as measured by the Laakso/Taagepera-Index.

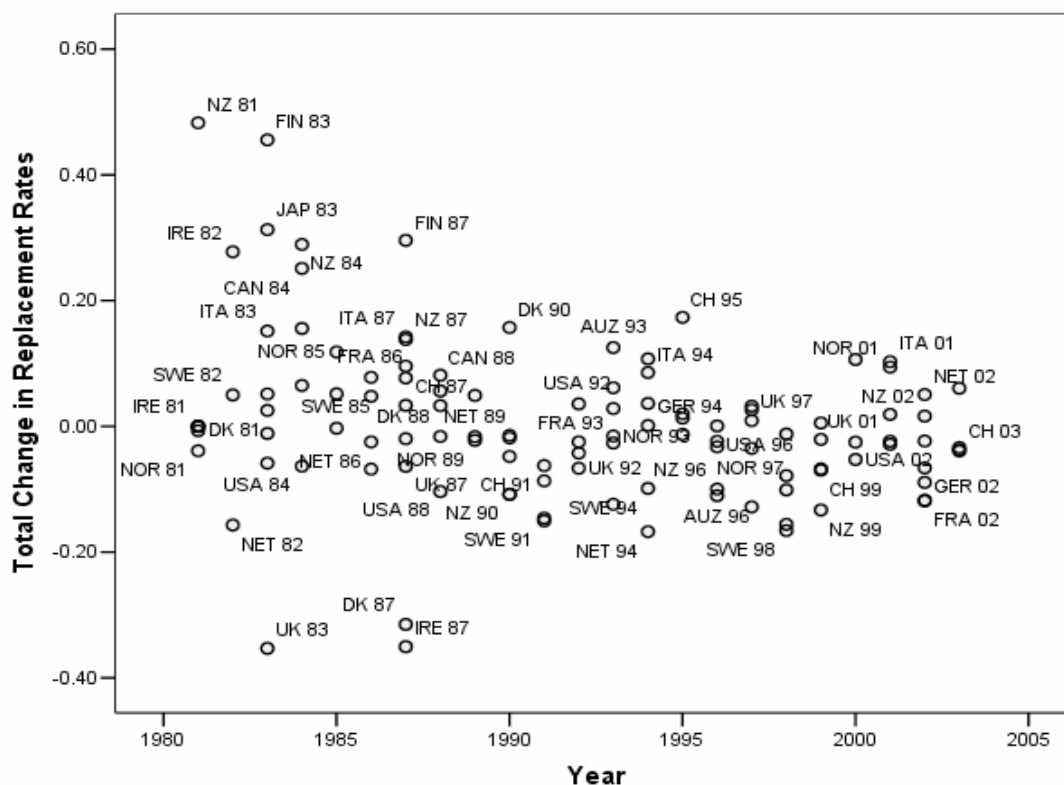
We built our data base from these sources: For the dependent variable, the change in the vote share of the incumbent parties, we used Woldendorp et al. (2000) and various issues of the Political Data Yearbook (European Journal of political Research). Scruggs (2004) and OECD (OECD 2005) data is the source for the calculation for the extent of welfare state reform. The data for the control variable⁶s are taken from Armingeon et al. (2005) and Huber et al. (2004).

⁶ These are the variable “majority/minority government”; “Nr of parties in government”; “effective nr of parties”, “economical indicators”.

3. Welfare State Retrenchment in 18 OECD nations, 1980-2003

In this section we describe the welfare state retrenchment both in terms of change in entitlements and change in spending. Figure 1 depicts the development of replacement rates by governments and by time. The entries are the size of welfare state reforms brought about by a given government. For example ‘SWE 98’ denotes the Swedish governing party (Social Democracy Party) that stood for election on September 20, 1998. This government has reduced the average replacement rate for sickness by 2.3 percentage points, for unemployment by 9 percentage points and for minimal and standard pensions by 2.8 respectively 2.5 percentage points. This sums up to a decline of 16.6 percentage points (or, as indicated here to -.166).

Figure 1: Change in total replacement rates (four schemes) by government, 1980-2003

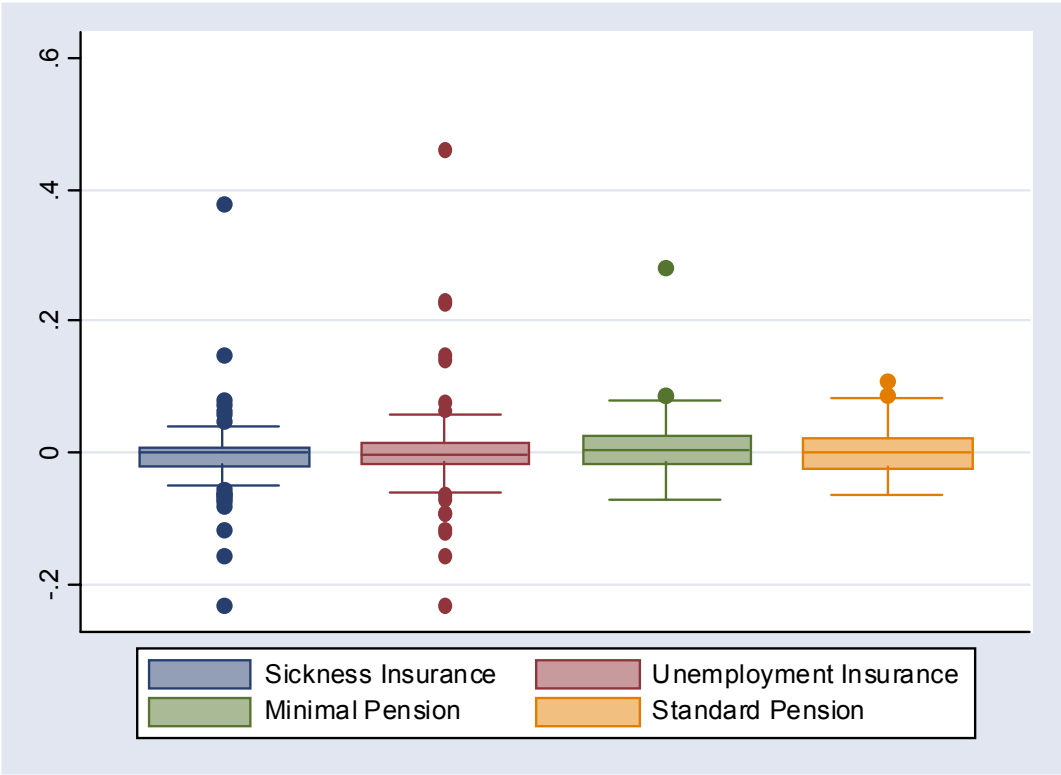


Notes: The entries depict the size of welfare state reform by one government (difference end and starting level). Total change refers to the sum of change over the four schemes (sickness, unemployment, minimum and standard pension average replacement rates). Source: Scruggs (2004)

Figure 1 confirms the findings of retrenchment of entitlements, in particular since the end of the 1990s (Allan and Scruggs 2004, Hicks and Zorn 2005, Korpi and Palme 2003). The distribution of the cases, however, shows that there was huge variation between governments. Even around the year 2000 the governments in Norway, Italy, Netherlands, and New Zealand expanded the welfare state, while at that time in Switzerland, Germany, and France the welfare state was cut back. It is notable that retrenchment of entitlements has been limited. If we arbitrarily set a cut-off point for a major retrenchment at 5 percentage points, this happened 11 times in 117 cases of governments in the field of sickness; 12 times in the field of unemployment; three times in schemes providing minimum pensions and three times in schemes providing standard pensions. Across all four schemes it was only in three out of 117 cases that governments achieved an accumulated reduction of $4 * 5$ percentage points, i.e. 20 percentage points.

A box-plot analysis supports this finding. It shows more pronounced changes in sickness and unemployment replacement rate, whereas in the field of pension the range of change is narrower and does not show any outliers on the side of retrenchment (Figure 2).

Figure 2: Box and Whisker-Plot of welfare state change in replacement rates across different schemes



Note: A Box-and-Whiskers-Plot describes the distribution of the cases. The box represents the range from the 25th percentile to the 75th percentile. The ends of the “whiskers” equal the adjacent values (= 1.5 times the range of the box), above and below are the outside values (more than 1.5 times the range of the box). Source: Scruggs (2004)

Figure 3 depicts the change of social expenditures. It supports a similar interpretation. There is a reduction of expenditures, and this is more pronounced in the most recent years. But there is huge variation and many governments had little success in reducing the level of social expenditure during their term by more than two percentage points.

Table 1: Correlations of changes in social expenditures and retrenchment in entitlements (Pearson's Correlation Coefficient)

	Sickness replacement rates	Unemployment replacement rates	Minimum pensions replacement rates	Standard pensions replacement rates	Total Replacement rates (four schemes)
Social expenditure	-0.01	0.06	0.23*	0.22*	0.14
N	107	107	107	107	107

* $p < 0.05$. Sources: (Scruggs 2004, Armingeon et al. 2005)

An obvious question is whether these patterns of welfare state change are correlated with either the political complexion of governments or with the configurations of the party system (see Green-Pedersen 2002, Kitschelt 2001).

According to the partisan theory of policy change, left and center governments are more reluctant to cut back the welfare state than right-liberal parties (Castles 1982). Therefore we measured the political complexion of governments by the share of seats of left, center and right parties (for operational definitions and sources see Armingeon, et al. 2005). During the whole period under study (1980-2003) and the period 1990-2003 there were no significant bivariate correlations with the welfare state change variables. The signs of the coefficients were not in the expected direction in case of left and right parties.

There seems to be a closer link with the configuration of the party system. According to Kitschelt (2001), the dynamic of party competition strongly influences social policy retrenchment. More particularly, he states that in specific party system constellations, politicians have incentives to choose otherwise unpopular policies such as cut backs in welfare state entitlements. He details four mechanisms which are said to improve the prospects of welfare state reform. The first is the existence of a strong market-liberal party, which places the issue on the agenda, together with the declining credibility of parties defending the welfare state. The second are mild electoral trade-offs for politicians when they

act against the policy preferences of the electorate (e. g. no blackmail parties). The third is a party organization that minimizes strategic inertia at the activist and party leader level. And lastly, a high of salience of the economic-distributive dimension of politics is needed. Combining these four variables, Kitschelt describes four empirically observable configurations of party systems that either favor social policy reform or restrict the opportunities for cut backs. In configuration 1 (United Market-Liberals versus United Social Democrats), the environment for successful welfare state reform is favorable: the two major parties are the dominant actors which compete in the dimension of economics and redistribution while radical blackmail parties on the left and right are negligible. Empirical cases for this configuration are for example the United Kingdom. Configuration 2 (Divided Market-Liberals and Centrists versus United Social Democrats, ex. Denmark) offers less positive chances for reforms, as blackmail parties do exist and social democrats thus face difficult trade-offs. A Three-Way Divide between Liberals, Center, and Social Democrats is typical for configuration 3, where reforms are only feasible when the Social Democrats are in power. Otherwise the left benefits from its position as a credible and powerful protector of the welfare state and heavily opposes cut backs. An empirical case would be Belgium. In configuration 4 (Weak Liberals, Strong Center, and Strong Social Democrats), the most salient dimension of competition is not centered on economics anymore, but rather, for example, on the conflicts between modernism and traditional values. Because liberal parties tend to be weak, there is no promoter for welfare state retrenchment. This constellation is found for example in Austria and offers the least opportunities for welfare state reform.

Table 2 shows the means for the two dependent variables by configuration for the whole period (left panel) and the period 1990 - 2002 (right panel). The general result for the whole period is that in configuration 2 (Divided bourgeois parties and unified left), the increase of social expenditures has been relatively low, while there was no retrenchment in entitlements. Focusing on the years since 1990, there is hardly a difference between the

country groups in terms of retrenchment of entitlements, though constellation 4 – weak Liberals, strong center, and strong social democrats – proves to be the most reluctant to undertake social policy reforms.

Table 2: Means of welfare state change (social spending and total replacement rates) and the configurations by Kitschelt

Configuration by Kitschelt ⁷	1980-2003		1990-2003	
	Social expenditure	Total Replacement Rates	Social expenditure	Total Replacement Rates
Configuration 1: United Market-Liberals versus United Social Democrats <i>N</i>	0.417 (1.547) <i>31</i>	0.007 (0.148) <i>31</i>	0.262 (1.821) <i>19</i>	-0.033 (0.067) <i>19</i>
Configuration 2: Divided Market-Liberals and Centrists vs. United Social Democrats <i>N</i>	0.100 (2.074) <i>25</i>	0.006 (0.148) <i>27</i>	-0.387 (2.480) <i>15</i>	-0.036 (0.091) <i>15</i>
Configuration 3: A Three-Way Divide between Liberals, Center, and Social Democrats <i>N</i>	0.704 (1.988) <i>18</i>	-0.016 (0.084) <i>20</i>	1.123 (2.538) <i>9</i>	-0.029 (0.093) <i>11</i>
Configuration 4: Weak Liberals, Strong Center, and Strong Social Democrats. <i>N</i>	0.723 (1.477) <i>26</i>	0.020 (0.089) <i>32</i>	0.685 (1.545) <i>17</i>	-0.003 (0.072) <i>21</i>

Notes: The entries are mean values with the standard deviation in parentheses.

Total retrenchment is the sum of change in replacement rates for sickness, unemployment, minimal and standard pension.

⁷ For some cases, Kitschelt does not make any classification. We therefore categorized them as follows: **Canada, Australia:** configuration 1 as their main competitive dimension is economic-redistributive and their party system consists of two major parties.

Finland, Norway: configuration 2 as they resemble Sweden and Denmark regarding their party system and their main area of conflict.

Ireland could not be situated as their primary conflict is not centered on economics (excluding configuration 1-3) but there is also not a strong social democratic party (precondition of configuration 4).

A final question concerns the aggregate effects of expansion and retrenchments over all governments. Table 3 shows the change rates for the whole period (left panel) and the period 1990-2002 (right panel). It has been produced by calculating the difference of expenditures/sum of entitlements in 2002 minus the expenditures/sum of entitlements 1980 and 1990 respectively.

Table 3: Welfare State Change in Social expenditure and total Replacement rates by countries

	1980-2002		1990-2002	
	Change in Social expenditure	Change in total replacement rates	Change in Social expenditure	Change in total replacement rates
Australia	6.68	0.14	3.78	-0.11
Austria	3.50	0.05	1.86	0.04
Belgium	3.10	-0.01	0.31	-0.05
Canada	3.49	0.28	-0.80	-0.07
Denmark	0.16	-0.29	-0.10	-0.24
Finland	6.27	0.42	0.05	-0.28
France	7.31	0.07	1.84	-0.10
Germany	4.41	-0.21	4.59	-0.16
Ireland	-3.20	-0.49	-4.90	-0.16
Italy	6.03	1.01	1.19	0.53
Japan	6.70	0.16	5.69	0.25
Netherlands	-5.20	-0.31	-5.90	0.09
New Zealand	1.32	-0.08	-3.39	-0.34
Norway	5.99	0.29	-0.78	0.04
Sweden	0.09	-0.36	-1.86	-0.24
Switzerland	12.24	-0.02	8.49	0.00
UK	3.89	-0.35	2.27	0.13
USA	1.52	-0.07	1.35	-0.05

Table 3 reveals that the extent of welfare state change varies cross-nationally especially considering entitlements. In fact, we can distinguish four patterns: There is one country group (for example Italy or Japan) which has expanded social protection in the last 25 years; other countries (for example Austria, Switzerland) kept their standard of social protection while a third group (for example Ireland, Sweden or Denmark) reduced both social security spending and the individual entitlements. The fourth group (for example UK, New Zealand) shows a zigzag line where periods of retrenchment alternate with periods of welfare state expansion. This becomes especially visible if we compare the left (whole period) with the right panel (only the 1990s).

The major results of the description of the development of welfare expenditures and entitlements by governments, 1980-2003 can be summarized in three points:

- 1) There is evidence of welfare state retrenchment, in particular since the 1990s.
- 2) There is huge variation in the extent of welfare state change by governments over the whole period.
- 3) Retrenchment in entitlements has been done incrementally. In particular pension replacement rates have been reduced only to a very limited extent. Thereby governments minimized the likelihood of electoral repercussion. This can be expected due to the large segment of the electorate that is directly impacted by such reforms. In contrast, retrenchment of unemployment replacement rates has gone much farther. In the perspective of Pierson (Pierson 1994) one could argue that this makes perfect sense, since the group of unemployed is not large enough to lead to major electoral shifts.

4. Are governing parties punished if they retrench the welfare state?

What are the electoral consequences of welfare state retrenchment? According to the standard view of politicians and political scientists, these governments will experience a loss of votes at the next election. However, the descriptive part of this paper demonstrated that cutbacks of entitlements for large groups of the electorate have been designed in such a way that an electoral reaction becomes unlikely in most instances. Aggregate social security expenditure is not or is only weakly linked to a reduction of net benefits. Therefore, reductions of expenditures do not necessarily indicate a violation of the interests of the welfare state clients. Hence, they have no reason to react negatively if aggregate spending stagnates or declines. On the other hand, if the growth or the absolute level of aggregate expenditures is reduced, this can be an asset for the governing parties, since sound fiscal policies are highly appreciated by citizens (Green-Pedersen 2001, Nannestad and Paldam 1994). Citizens will give the credit to a specific governing party if it is plausible that this party has substantially contributed to the reform. This is more likely if these are majority governments with one or two governing parties.

In our statistical analysis we regressed the change of the vote share of governing parties with the extent of change in social expenditure and entitlements and with the clarity of governmental responsibility. We put forward the hypothesis that in general the retrenchment of entitlements – such as those which have happened mostly incrementally between 1980 - 2002 – will not lead to vote losses, even if governing parties are clearly responsible. However, reduction of the growth or even of the absolute level of social security expenditure will be rewarded by voters, as long as it is plausible that the governing parties have significantly contributed to this development.

We estimate several models. The first model contains only the control variables. This model is not significant and the only significant coefficient with the expected sign is unemployment. The higher the rate of unemployment in the year of election the more governing parties lose votes. In the second model the size of change in entitlements is added. Although the whole model is significant, none of the coefficients show significance. In substantial terms, there is no general link between the change of welfare state entitlements and the change of the vote share of governing parties.

In the third model, change of entitlements is replaced by change of social security expenditures. Social security expenditure has the expected sign, but is not significant at the 0.05 level. The conclusion is that in general cutbacks of social security expenditures do not pay off in electoral terms.

Table 4: OLS-Regression Estimates for Change of Votes for Governing Parties

Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5
Vote Share of Government	-0.09 (0.09)	-0.08 (0.09)	-0.07 (0.09)	-0.08 (0.09)	-0.06 (0.08)
Growth Rate	0.34 (0.29)	0.29 (0.32)	0.30 (0.34)	0.30 (0.32)	0.24 (0.33)
Unemployment Rate	-0.42 + (0.20)	-0.38 (0.22)	-0.33 (0.21)	-0.38 (0.21)	-0.27 (0.19)
Inflation Rate	0.10 (0.11)	0.07 (0.13)	0.25 (0.14)	0.06 (0.12)	0.24 (0.15)
Days in Power (ln)	0.20 (1.04)	0.40 (1.01)	0.19 (0.91)	0.44 (1.05)	0.03 (0.75)
Effective Nr of Parties	-0.31 (0.40)	-0.35 (0.40)	-0.35 (0.40)	-0.35 (0.41)	-0.41 (0.39)
Clarity of responsibility	-0.10 (1.14)	-0.12 (0.61.16)	0.05 (1.28)	-0.12 (1.14)	0.94 (1.15)
Change in total Replacement Rates		3.59 (4.72)		8.38 (5.17)	
Interaction (Change in Replacement Rates*Clarity of Responsibility)				-9.57 (7.60)	
Change in Social Expenditure			-0.66 (0.5)		0.03 (0.46)
Interaction (Change in Social Expenditure*Clarity of Responsibility)					-1.93 * (0.90)
Constant	2.24 (9.14)	0.79 (18.66)	0.46 (8.67)	0.65 (8.90)	0.70 (7.67)
R squared	0.08	0.08	0.12	0.08	0.17
Significance of the model (based on F value)	0.126	0.006	0.034	0.012	0.010
N	118	117	107	117	107

+ $p < 0.10$; * $p < 0.05$

Notes: Estimates are unstandardized coefficients with standard errors in parentheses. The standard errors are clustered for countries.

In the fourth model, we interact welfare state change with the clarity of responsibility index. Minority governments and governments with three or more parties are scored '0'. Accordingly, the interaction term will be '0' in these cases. Majority governments with one or two parties are scored '1'. In this case the interaction term equals the extent of welfare state change. Still, this fourth model and its coefficients are not significant. The final model is

significant and the theoretically interesting coefficient is significant and has the expected sign. Governing parties are rewarded if they reduce the growth rate or even the absolute level of social security expenditure, provided they can plausibly claim credit for the reduction. If that is not the case, since they are in a minority government or one amongst at least three parties, changes of social expenditures have no impact on electoral results of these parties.

We verified these findings by re-running the analyses for the years since 1990. In addition we excluded two cases – the elections in the Netherlands in 2002 and in Italy in 1994 – that had a strong effect on the overall result of the estimation. None of these alternative estimations made us change our substantial conclusions.

5. When the dogs bark...

These findings come as a surprise. For example, the politics of recent pension reforms in Germany strongly suggest that social policy making is driven by electoral concerns (NZZ 2006-02-09). The same applies to the most recent German election (2005) (Korte 2005). Likewise, there are clear utilitarian concerns of the welfare state clientele (Kitschelt and Rehm forthcoming). Experiences with the Swiss direct democracy show that even in this non-statist country, citizens tend to reject proposals for retrenchment if they do not come with compensations or are not wrapped in other contexts (Bonoli 2000).

The explanation to this puzzle lies within the role of the electoral campaign. Citizens have little chance to accurately identify small retrenchment of entitlements. They lack the information and they are unaware about the context of the reform.

Voters are only able to link retrenchment of entitlements to their electoral decision if social policy becomes a major and contested issue in the electoral campaign. Priming theory states that voters evaluate parties/candidates only on those issues which are on the “top of their mind” at the precise moment of the decision. Party/candidate evaluation then is not the result of a complete information and integration process across all policy fields (Iyengar and

Kinder 1987, Krosnick and Brannon 1993, Krosnick and Kinder 1990). This means that if the attention of voters is not drawn to social security or if there are other issues that trump welfare state concerns, welfare state reforms will not be taken into consideration for the actual vote decision, and consequently, incremental retrenchment will not lead to loss of votes.

The electoral campaigns in Germany in 2002 and 2005 are good examples. In 2002 the question of the German position with regard to the imminent war in Iraq and the efficient actions and generous help of the government after the flooding in the East of Germany arguably were more important in the electoral campaign than the cut back of welfare state entitlements. In contrast, in 2005 the massive protests of the trade unions against welfare state retrenchment in combination with the media coverage of these conflicts ensured that the topic was on the top of the campaign agenda. In addition, the accusations by the CDU (Christian Democratic Union) that the SPD (Social Democrats, incumbent party) had failed to bring down unemployment and create sound fiscal and tax policies further highlighted the welfare issue (Brettschneider 2005a, Brettschneider 2005b, Falter 2005).

We found evidence for the crucial role of agenda setting and priming effects with an analysis of the electoral campaigns. From our pool of 118 cases with data for retrenchment of entitlements, we selected those cases where the overall retrenchment was at minimum 5%. In our sample, 34 cases fulfilled this condition. For these cases, we re-analyzed the reports on electoral campaigns⁸ in order to identify whether welfare state issues were highly prominent in the campaign and whether the intensity of the campaign was high.

In the best case we have two electoral reports from the experts at our disposal. We have to bear in mind that these reports reflect their varying qualification and normative orientations. Accordingly, the focus of the evaluation of the situation may differ and make it

⁸ We used the “Notes on recent election” section of *Electoral Studies* plus the European Data Yearbook by the *European Journal of Political Research* (since 1991). For the USA additionally [Dinkin, 1989 #232] and for Switzerland *Année politique Suisse*.

harder to distinguish whether welfare state issue have been a major issue or not. But still we can state that these are approved national experts who know the electoral and the media contexts very well and consequently are able to make reasonable judgments. Of course, it would be preferable to expand our preliminary analysis by a study of the campaign's media coverage in order to complete and objectify our image of the specific electoral context. Unfortunately, we lack the data for this step and furthermore, the added value of such a fine grained analysis remains unclear.

The underlying assumption of our analysis is that a highly conflictual campaign, centered on welfare state reform (retrenchment) issues, is a sufficient condition for an electoral loss (=more than 5% loss of votes for the incumbent parties). It is not a necessary condition though. Governing parties may lose votes for other reasons, such as weak candidates, failures in other fields – for example foreign policy – or shrinking numbers of voters with strong party affiliation. Accordingly, in a 2x2 cross tabulation, we do not expect cases where the condition (welfare state most prominent issue) was present, but the outcome (governmental loss of votes) was not.

Table 5: Re-analysis of electoral campaign in case of retrenchment (more than 5% cut back)

		Was the welfare state (retrenchment) an important issue in the campaign?	
		No	Yes
Did incumbent parties lose votes?	Yes	IRE 87 BEL 91 FIN 91 AUL 96 IRE 97 AUL 98 GER 98 FRA 02	NZ 90 SWE 91 NET 94 SWE 94 AUL 96 NZ 99 SWE 98
	No	NET 82 CH 83 UK 83 USA 84 JAP 86 DK 87 UK 87 USA 88 JAP 90 CH 91	UK 92 NZ 96 DK 98 CH 99 FIN 99 USA 00 AUS 02 GER 02 IRE 02

Note: For details on the re-analysis of the reports on electoral campaigns, see Appendix.

We do find some instances where welfare state retrenchment led to a loss of votes by the governing parties (party), giving evidence for a conditional link between electoral punishment and the prominence of welfare state issues in the campaign. More often though, the dogs did not bark: Welfare state reform was not the most prominent issue in the campaign and for this reason there was also no punishment on election day. The cases in the upper-left hand corner, where the incumbent parties did lose votes, but not because of a debate on welfare state issues, thus do not violate our theory. They do call for another explanation though. In the Appendix we list the major issues of each electoral campaign in order to give more information about possible other reasons for the result of the election.

6. Conclusion

Do governing parties that retrench the welfare state lose votes during the following election? This was the guiding question of our paper. We showed that in general there was no electoral punishment in the period 1980-2002 in 18 established democracies of the OECD country group. Rather, governments that reduced the growth or even the absolute level of social security expenditures were rewarded by the electorate. A crucial condition for this reward is the clarity of governmental responsibility.

Why did retrenchment of entitlements not lead to electoral punishment? We advanced two arguments: (a) In general, retrenchment has been designed so that it minimized the danger of electoral repercussion. Massive cuts have been confined to small segments of the electorate; if large segments of the electorate were made to suffer from the retrenchment, this retrenchment was done incrementally and on limited basis. (b) In order to become a major cause of loss of votes, retrenchment has to be a major issue in the electoral campaign (reasoning based on priming theory). In many cases though, opposition parties, media and interest groups did not pick this issue as very important. Hence the dogs that could have alerted the electorate didn't bark.

In contrast, voters tend to reward governing parties if the parties can plausibly claim the credit for reducing the growth or even the absolute level of social security spending. Politicians can gain credit by reducing the state expenses for social protection by selling this action as necessary for budgetary consolidation or improving welfare state efficiency. If governments are able to frame welfare state retrenchment as simply being a matter of improving the economic viability of the welfare state, they have a high chance of success (Green-Pedersen 2001, Kitschelt 2001: 272). This becomes the more attractive the less it is coupled with cuts in social security transfers.

Our main argument rests on the assumption of retrospective voting, and on the assumption that voters assign reforms to the incumbent parties regardless of responsibility. This is a problematic assumption though. Voters may be able to effectively trace present reforms back to governments that have long ago left office. They may also evaluate competing parties not so much for what they have done, but rather for what they claim they will be able to do in the future. We did not test for such causal structures in this paper. Rather, we examined the conventional wisdom that in Western democracies governing parties have to pay for welfare state retrenchment during the next election. We have shown that this assumption is, in general, wrong.

For us, one of the most interesting aspects of this paper is the important role of agenda setting and priming effects of the media in the electoral context. Our admittedly rather crude measure of issue saliency in the electoral campaign and policy reform points to the importance of the social construction of policy reform, even in fields where citizens should be able to make a rational decision simply by looking at their social security checks.

7. References

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Appendix: Analysis of Campaigns for electoral contexts with more than 5% retrenchment

Nr.	Date	Country	Issues in the Campaign	Importance WS	Intensity of the Campaign	Electoral Punishment
1	08.09.82	Netherlands	difficult economic situation; cuts in governmental expenditure; peace and nuclear weapons;	1	Low (complicated issues)	no
2	23.10.83	Switzerland	environment; social security; unemployment	1	Medium	no
3	09.06.83	United Kingdom	nuclear disarmament; unemployment; social spending	1	aggressive	no
4	06.11.84	USA	anti-Soviet foreign policy; economic growth; freedom of religion; traditional values	0	Medium	no
5	06.07.86	Japan	taxes/fiscal policy; confidence in politicians; social security	1	Medium	no
6	08.09.87	Denmark	economics; social security; immigration	1	Medium (very short)	no
7	17.02.87	Ireland	economic crisis; social security; unemployment	1.5	Medium	yes
8	11.06.87	United Kingdom	foreign policy; social security (housing and health); negative campaigning	1	Medium	no
9	08.11.88	USA	Personal campaign against Dukakis and focusing on his qualities as a governor	0	Low	no
10	18.02.90	Japan	accountability and stability of government; taxation; corruption; agriculture politics and welfare	0.5		no
11	27.10.90	New Zealand	economics; social security (health); education	2	Low	yes
12	24.11.91	Belgium	Flemish/Walloon conflict; immigration and racism; values/abortion; social security	1	Medium	yes
13	20.10.91	Switzerland	immigration; Europe; pension; tax on gas	1	Low	no
14	17.03.91	Finland	unemployment, taxation; rural-urban politics	0	Low	yes
15	15.09.91	Sweden	deregulation; social security; pension; immigration	2	High	yes
16	09.04.92	United Kingdom	tax policy; Health system	1	Medium	no
17	06.11.93	New Zealand	social security; economy	2	Medium	yes

18	03.05.94	Netherlands	pension, unemployment; social security; immigration	2	High	yes
19	18.09.94	Sweden	economy; health care; family policy	2	Medium	yes
20	02.03.96	Australia	environment; race and immigration; status as republic; electoral system	0	Medium	yes
21	12.10.96	New Zealand	economic and fiscal policy; social security (health and education)	1	Medium	no
22	06.06.97	Ireland	Crime; tax for top end; Northern Ireland; economy; social security	0.5	Low	yes
23	03.10.98	Australia	taxation (VAT), immigration; aborigines		Low	yes
24	11.03.98	Denmark	immigration; housing policy	0.5		no
25	27.09.98	Germany	unemployment, change in general	0.5	High	yes
26	20.09.98	Sweden	social security; unemployment	2	Medium	yes
27	24.10.99	Switzerland	unemployment; immigration; social security	1	Medium	no
28	21.03.99	Finland	unemployment; taxes; public spending	1	Low	no
29	27.11.99	New Zealand	economic growth; social security (employment; health; education; housing)	2	Medium	yes
30	07.11.00	USA	economy/jobs; taxes; education; social security (health)	1		no
31	24.11.02	Austria	taxation; Europe; social security (health; scholarships)	1	High	no
32	16.06.02	France	security; cohabitation; presidential elections	1	Low	yes
33	22.09.02	Germany	unemployment; economy; social protection	1	Medium	no
34	17.05.02	Ireland	well doing economy; crime, social security (health)	1	Medium	no

Importance WS:

0 no importance

1 medium importance

2 high importance