PENSION GENEROSITY AND POLITICAL PARTIES IN TIMES OF DEMOGRAPHIC CHANGE

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Abstract

Population aging and the fiscal regime of permanent austerity put particular pressure on the pension systems of the established OECD countries to reduce benefit generosity. At the same time, pensions are much more popular among voters than other benefits like unemployment benefits or sick pay in all of these countries and this difference is likely to increase as the median voter is growing older. Thus, retrenchment is particularly risky for governments in the pension area while at the same time cuts seem to become increasingly necessary. How do political parties deal with this situation? We argue that, due to their popularity, pensions are cut less than other benefits. Furthermore, we hypothesize that also partisan politics differ between the sectors. We expect traditional left-right-differences to persist in the fields of unemployment benefits and sick pay while partisan differences should disappear in the pension area. Employing regression analysis, we test our hypotheses with the data on replacement rates provided by Lyle Scruggs (2004) for 18 OECD countries, controlling for a substantial number of other variables that have been widely used and thoroughly theorized in welfare state research so far. Our findings show considerably smaller cuts of pensions than of unemployment or sickness benefits, and striking differences regarding partisan effects between the sectors.

1. Introduction

For almost 20 years, students of social policy have pondered the question if and under what conditions governments dare to cut benefits in times of ‘permanent austerity’ and demographic change. In his path-breaking comparative case study, Paul Pierson (1994) came to the conclusion that even determined conservative administrations were unable to implement major cutbacks. In his view, they were mainly held back by electoral considerations, given the immense popularity of pension, unemployment and health programs amongst voters. In the absence of extraordinary circumstances like deep recessions, according to Pierson, governments willing to see cutbacks through crucially depended on the success of blame-avoidance strategies. On the whole, Pierson expected the welfare state to exhibit considerable resilience. At the same time, he demonstrated that the politics of the welfare state have changed in comparison to its ‘golden age’, with the institutional and partisan determinants losing most of their former importance.

Research on social expenditure has so far come to similar conclusions, at least regarding the diagnosis of the welfare state's resilience against attempted retrenchment measures (cf. Castles 2004 and the review by Starke 2006, e.g.). Yet social expenditure as a share of GDP is not accepted without controversy as an indicator for welfare state generosity (cf. Green-Pedersen 2004; Clasen & Siegel 2007; Kühner 2007). On the one hand it has been argued that political actors hardly ever care for social expenditure as such, and that therefore this indicator simply does not capture what they are interested in (cf. Esping-Andersen 1990). On the other hand, social expenditure depends at least as much on unemployment, demographic ageing and economic development as on the generosity of individual benefits.

Studies by Walter Korpi and Joakim Palme (2003) as well as James Allan and Lyle Scruggs (2004) that for the first time analyzed replacement rates instead of aggregated expenditure data in 18 OECD countries from 1975 to 1995 or 1999, respectively, have demonstrated that this objection is not just of a theoretical nature. Independently of each others, these pairs of scholars calculated synthetical wage replacement rates indicating what the individual benefits in different programs amount to for certain standard income biographies. These analyses showed that on the level of individual benefits, significant welfare retrenchment indeed occurred in many countries. What is more, in stark contrast to most social expenditure studies for the 1990s, which in line with Pierson's predictions had found that partisan differences had vanished (cf. for many Huber & Stephens 2001; Kittel & Obinger 2003), they discovered continuing differences between right and left parties totally in line with the 'old politics of the welfare state'. Following this pattern, governments of the right first and foremost reduced replacement rates. At any rate, this was the result of Korpi & Palme's and Allan & Scruggs's inquiry into the determinants of unemployment, accident and health insurance wage replacement rates.

What remains to be seen is whether these results can be conferred to other welfare programs, especially pensions. Indeed, there are sound theoretical reasons to expect different patterns regarding the politics of unemployment, accident and health insurance on the one hand and old age pensions on the other. Therefore in what follows we set out to analyze whether similar cutbacks of welfare state generosity to the ones identified by Korpi & Palme and Allan & Scruggs have actually occurred in the neighboring, but distinct field of pension replacement rates, and whether the said partisan effects can be identified as well.

In order to answer these questions, we start out with some theoretical considerations in the following section (2.) which, focusing on asymmetric program popularity, spell out the peculiarities of the pension sector and bolster our claim that we should be careful not to over-generalize earlier findings on unemployment and health replacement rate generosity. Thereafter we provide a brief literature review (3.) and discuss our methodological approach as well as the data used for both the dependent and the independent variables (4.). Then we proceed to present the findings of our regression analyses on the determinants of pension replacement rate changes between 1975 and 1999 in eighteen countries compared to developments in the fields of unemployment and health (5), before we conclude with a summarizing discussion of the implications of these results for further welfare state research and theorizing.

2. Theoretical Considerations: The Peculiarities of Pension

"'The Welfare State' is an umbrella term covering a range of governmental activities that have distinctive characteristics" (Pierson 2001: 11). Taking this statement seriously, it seems problematic to transfer the results from analyses of particular welfare programs to other sectors unchecked. In this section we set out to show that this holds particularly regarding the generalization from studies of programs close to the labor market like passive labor market policies or sickness benefits to old-age pensions.[1]

Regarding the question of relative, sector-specific retrenchment that is central to our considerations, the political support for the respective programs within the electorate is of prime importance, since according to Pierson it is one of the core obstacles for politicians set on welfare state retrenchment. Therefore, cutbacks to unemployment benefits may be implemented easier than pension retrenchment because in principle, recipients of unemployment benefits could work and earn their living if they could find a job. As in the debate on labor market incentives some economists argue that high replacement rates are (at least partly) responsible for the level of unemployment (particularly prominently OECD 1994), governments could even argue that benefit cutbacks contribute to employment increases. Things are different with pensions. Hardly anyone disputes that from a certain age it becomes increasingly difficult to participate in the labor market. And in most voters' perceptions, citizens have 'earned' their retirement after a long working life, which is notably underscored by social insurance systems. What is more, for relevant parts of the electorate it seems rather unlikely ever to be dependent on unemployment or sickness benefits for longer

periods, while almost everyone envisions themselves as being a pensioner one day. This implies that many voters who calculate egotropically will be ready to accept cuts of unemployment benefits (and to some degree, sick pay), but not of pensions (Pettersen 1995: 198f.).

Empirically, voters differentiate very clearly between pensions and unemployment benefits. In figure 1 we present corresponding data from the International Social Survey Programme. Respondents were asked to state whether they support higher, unchanged, or lower expenditure on specific programs. For us, the answers regarding unemployment benefits and pensions are of particular interest.[2] The respective numbers are available for 13 of the 18 countries of our sample in 1996 and for 15 in 2006. Twelve countries report data for both years, and only for Austria and Belgium there are none at all. Figure 1 displays the difference between proponents of expenditure increases and spending cuts for each program.

-- Figure 1 --

Even a superficial look at these data reveals a significant difference in the political support of the two kinds of spending in question. Although there is a considerable cross-national variation, in both years more respondents support higher rather than lower pension expenditures in all countries. In 1996, there were absolute majorities in favor of higher pension spending in seven of the twelve countries as well as in East Germany (and an 80-percent-majority in the UK!) while in no country more than eleven percent of those asked advocated cutbacks. In 2006, the said absolute majorities even existed in 13 of the 15 countries (and in Ireland the majority reached 90 percent), but nowhere support for cutbacks came anywhere near ten percent.

The picture is very different regarding unemployment benefits. In 1996, only in East Germany there was an absolute majority in favor of higher spending, whereas in Australia, Canada, France and New Zealand more respondents supported cutbacks than increases. The data for 2006 show a similar pattern, with relative majorities of cutback supporters in six of the 15 countries, while only Ireland displayed an absolute majority in favor of unemployment expenditure increases.[3]

These differences might quite plausibly have consequences for the opportunity structures that politicians planning retrenchment measures are confronted with, in the sense that financial support for the unemployed represents a comparatively easy target. In

turn, cutting back pension replacement rates ought to be politically much more hazardous than unemployment and sick pay benefits as analyzed by Korpi & Palme (2003) and Allan & Scruggs (2004). However, since the risk of falling ill is distributed more evenly than the one to become unemployed, sick pay should be positioned a little closer towards pensions than unemployment benefits.

Characteristic patterns might also occur in the sector-specific politics of retrenchment. According to the issue ownership-literature (Ross 2000; Green-Pedersen 2001, 2002; Kitschelt 2001; Jensen 2010) it can basically be argued that parties of the left 'own' welfare policies in the sense that they are being seen as most competent by voters in this field and regarded to be its natural defender. Therefore in times of austerity and demographic change, and if partisan competition is notably intense, a Nixon-goes-to-China-logic might dominate (see Ross 2000; Green-Pedersen 2001, 2002; Schludi 2011). According to this logic, parties of the left could implement cutbacks with lesser difficulty exactly because voters assume that they are interested in extending or at least preserving the welfare state in principle – a claim that parties of the right cannot plausibly make. It is crucial in our eyes, though, to differentiate here between the three welfare programs we analyze: Issue ownership should be the more relevant (and thus a Nixon-goes-to-China-logic more likely), the more encompassing voters' support for a particular program is.

Regarding labor market policy, the higher readiness of Conservative parties to implement cuts identified by Allan & Scruggs (2004) and Korpi & Palme (2003) could be explained with a much closer programmatic fit of such measures for these parties than for their welfare state-friendly competitors, and with the comparatively low electoral risk emanating from the by no means universal support of unemployment expenditure in the electorate at large, and especially among right-party voters. The logic of pension politics is different: Although Conservative parties could have a greater interest in cutbacks than Social and possibly Christian Democrats, the electoral risks associated with them should be significantly larger, since contrary to the case of unemployment benefits, voters of parties of the right are just as (un-)likely to oppose pension cuts as other respondents (see Pettersen 1995: 226). And this is when issue ownership really starts to matter: Pension retrenchment ought to be less likely and smaller than cutbacks in health and unemployment replacement rates due to the program's broader popularity, yet if they seem necessary in times of austerity, parties of the left are more

likely to sustain them electorally due to the lack of a credible alternative custodian. Therefore we can phrase the following hypotheses:

H1: In the pensions sector, there are smaller cutbacks of replacement rates than in the fields of unemployment benefits and sick pay.

H2: Pension replacement rates, contrary to unemployment benefits and sick pay, are not retrenched more firmly by parties of the right than by leftist governments.

3. Literature Review

Most comparative studies on pension politics in times of permanent austerity were of a qualitative kind for quite some time. The lion's share of these analyses concluded that the partisan complexion of governments did not play a major role in explaining pension generosity cuts. Rather, attaining a consensus reaching as wide as possible was a precondition for such reforms (cf. Hinrichs 2000, Bonoli 2000, Myles & Pierson 2001, Schludi 2011). These findings imply that pension politics were shaped by electoral competition to a large extent since the 1980s (cf. Immergut & Anderson 2007: 36f.).

Silja Häusermann (2010), in a methodologically more elaborate study on pension reforms in Switzerland, France and Germany, arrives at similar but slightly more sophisticated conclusions. Above all, she points to the multidimensionality of pension reforms. With regard to the retrenchment dimension, which is of particular interest in our context, she finds the traditional left-right-cleavage to be most relevant. Nonetheless, when it comes to the adoption of entire pension reform packages, Häusermann also finds that the formation of a broad reform coalition is of utmost importance.

The main reason why quantitative studies analyzing pension replacement rates were lacking for some time was pointed out by Allan & Scruggs (2004: 499, footnote 8): "current pension benefits […] tend to reflect policy decisions made years before they are paid out", which considerably hampers the application of quantitative techniques. More recently, however, a number of scholars have nonetheless tried to explain differences in pension generosity with quantitative methods. These papers draw very different conclusions regarding partisan effects – as well as concerning further (control) variables. Hicks and Freeman (2009), trimming error correction models on the Scruggs data, report a negative impact of right parties on pension generosity. In contrast, Tepe and Vanhuysse (2009), who analyze eight-year-averages of the same data, as well as Fernandez (2008, 2010), who uses pooled regressions with yearly steps

(again, of the same Scruggs data) as well as event history models, do not find significant partisan effects.

Thus, the literature is clearly at variance regarding the partisan variables at the centre of our attention (as well as on the importance and direction of influence of several control variables). On the one hand, this could be due to different methodological proceedings, and on the other hand to the varying combinations of independent variables the respective authors employed. What is more, several theoretically relevant independent variables, like EU membership or the type of welfare state, have not been included in several or all of these studies.

Against this background, this paper sets out to clarify the contradictions apparent in the literature. Firstly, this is done by a more differentiated look at the partisan composition of governments than in the studies available so far. Instead of solely distinguishing between left and right parties, we analyze the effects of five different party families on replacement rate generosity in the unemployment, health, and pensions sectors. Secondly, we take into account all relevant control variables employed in the different strands of the literature (and, as mentioned above, some more). Moreover, our methodological proceeding promises comparatively robust results, and it is capable of dealing with the problems that kept Allan and Scruggs from undertaking an analysis of pension generosity. This approach is discussed in the following section.

4. Methods and Data

As Allan and Scruggs (2004) argued, many political decisions which have an impact on pension generosity are phased in gradually over comparatively long phases of time. Other reforms of pension programs become effective immediately, however.[4] Therefore it is hardly possible to correctly and uniformly specify the time-lag between the factors shaping pension policies and the outcome of these decisions in terms of pension generosity. Given this state of affairs, we decided to focus on cross-section models of longer-term changes. With these, we admittedly cannot capture all the individual reform steps directly, but we get a grip on their cumulative impact. In order to make sure that in the light of the rather limited number of cases our regression results are not unduly biased by single outlying cases we employed jackknife analyses, i.e. we removed each country from the sample in turn and checked whether results remain stable. Robustness was also checked by computing numerous models with different combinations of independent variables. Thus, although the number of degrees of free-

dom is admittedly strained a little in our models[5], we are convinced that our analysis can offer fruitful insights provided that the findings are interpreted carefully.

Our dependent variable is the change in the replacement rate of the so-called standard pension over two periods. Lyle Scruggs (2004) provides the necessary data for 18 countries in his 'Comparative Welfare Entitlement Dataset'. He defines the standard pension as the net amount a pensioner draws from public pension programs after having received the average industrial worker's income for their entire working life. Replacement rates are calculated by dividing the standard pension by the net income of an average industrial worker. Scruggs offers these replacement rates for singles as well as for married pensioners. We follow Allan and Scruggs (2004: 499) in choosing the average of these two numbers – to be precise: the change in this average – as our dependent variable.

We start our observation at the beginning of the 1980s, when the 'age of austerity' began, which according to the theory of the 'new politics of the welfare state' brought about new patterns in both politics and policies. Allan and Scruggs (2004: 505) define the year following the start of the early 1980s' recession as the beginning of this period, and we adopt this decision as our own. This implies that the start of our period of observation varies between countries (from 1982 to 1984, with New Zealand being an exception as an early starter at 1979); the end is 1999 for all. Since the 1990s were a decade of particularly intense pension reform activity (Immergut & Anderson 2007: 12), we also present models for this shorter period.

A list of the independent variables, their operationalisations and sources is to be found in the annex. As far as these indicators are part of the replication dataset published accompanying the paper by Allan and Scruggs (2004), they are taken from there, with the party variables, which we set out to consider in a more differentiated way, forming the only exception. These are taken from a dataset by Manfred G. Schmidt et al. (2000). For most independent variables, we employ averages over the respective periods. Yet there might be endogeneity problems with the deficit and debt variables, so we use their average over the first half of the period and their incipient level respectively. Potential convergence processes are captured by the initial level of replacement rates. Finally, Austria, Finland and Sweden have been coded as EU-members for the entire 1990s, as the qualitative literature indicates that the run-up to EU-entrance in 1995 was associated with at least as much reform pressure as membership itself (Hinrichs 2000: 368).[6]

The results of our cross-section regressions cannot be compared directly with the pooled time-series employed by Allan and Scruggs (2004) for their inquiry into unemployment and health benefit generosity. Therefore we have modeled unemployment and health replacement rate changes in the same way as pensions, and we shall report possible discrepancies between our results and theirs.[7]

5. Findings

In the following we test our two hypotheses. Whereas the second hypothesis concerning the determinants of replacement rate changes is probed by multivariate regressions, for the first hypothesis on the size of cutbacks in the respective programs we simply compare these changes.

5.1 The Size of Replacement Rate Cutbacks

Regarding the size of cutbacks, we have assumed in hypothesis 1 that there ought to occur smaller decreases in generosity in the pensions sector compared to both unemployment benefits and sick pay. When we take a look at changes in the three types of replacement rates over the longer period of observation from the early 1980s to 1999, a mixed picture emerges (see figure 2a): unemployment and health replacement rates[8] were retrenched in ten countries over this period, but in seven they were increased. Pensions exhibit a somewhat divergent pattern with nine expanding and nine benefit-cutting countries. Furthermore pension cutbacks were smaller and increases bigger than for the other programs in most countries, so that on average pensions indeed suffered the lowest cuts – especially so if we disregard the special case of Italy.[9]

-- figure 2 --

The differences between programs are more pronounced when we focus on the 1990s (figure 2b). Here we can see that benefits were cut back in nearly all countries: In 15 out of 18 countries unemployment benefits were reduced, while they grew in only three. For sick pay the respective score is 11 to 4. Not so with pensions: They were increased in seven countries, and in the eleven countries where they were cut, the size of the cuts was nearly always smaller than for the other two programs. Accordingly, pension retrenchment was much smaller on OECD average than cuts in unemployment and sickness benefits.

Support for hypothesis 1 is even stronger if we compute replacement rate changes from the year with the highest level the respective rate has ever reached in each country through 1999 (see figure 2c). Firstly, we can conclude from this exercise that pension generosity was below its peak in all countries except the UK. So pensions have actually been cut in 17 countries at some point. Secondly, these pension cutbacks were much less sizeable on average than those of unemployment benefits und sick pay. While the latter experienced cuts of about ten percentage points since their peak, pensions were reduced by less than six percentage points.

Thus on the whole the data are in line with hypothesis 1.

5.2 The Determinants of Welfare Benefit Generosity in 18 OECD Countries

We now turn to our analysis of the determinants of benefit generosity in unemployment, health, and pensions programs. Hypothesis 2 stated that under the conditions of permanent austerity and demographic change there still ought to be partisan differences regarding unemployment benefits and sick pay, but not pensions. In what follows we present best-fit models for changes in each benefit category, over both the entire period of observation from the early 1980s to 1999 and the 1990s only.

Turning to those programs covered by Allan and Scruggs (2004) first, we on the whole find similar partisan effects. They are most pronounced concerning unemployment benefits (see table 1). Conservative parties like the British Tories or the Republicans in the USA generate significant negative effects over both periods. Where these parties governed, more sizeable cutbacks of unemployment replacement rates occurred – thus, these results are completely in line with those of Allan and Scruggs. Furthermore, the magnitude of the effect is substantial: If all other independent variables in the first model for the 1990s in table 1 are set to their means we would predict that unemployment benefits would have increased slightly (by 1.3 percentage points) without any Conservatives in the cabinet while it would have been cut substantially (by 8.9 percentage points) after a decade of a government consisting entirely of Conservatives.

-- Table 1 --

Other than Allan and Scruggs, we also find significant positive links between social democrats' cabinet shares and changes in unemployment replacement rates. Yet social

democrats are not the only ones having a positive impact on generosity changes: such an effect is also discovered for liberal parties. Christian democrats as yet another classic welfare state-friendly party do not exert a discernible influence on unemployment replacement rate changes over our observation periods.[10]

Our results for sick pay changes closely resemble those for unemployment benefits (see table 2). Again, conservative parties exert a significant negative influence over both periods, as was also found by Allan and Scruggs. Thus where conservative parties governed in the 1980s and 1990s, sick pay was cut more strongly or increased more reticently than in other countries. Once more, this effect is substantial: Setting all independent variables in the model for the 1990s from table 2 to their means again, an increase of sick pay of 2.9 percentage points without any Conservatives in government becomes a cut of 12.7 percentage points if all cabinet seats were held by conservative parties.

-- Table 2 –

As before, and in contrast to Allan and Scruggs, we also find a significant positive effect of social democrats on sick pay replacement rate changes over the longer period of observation. In the 1990s, however, this effect loses significance, indicating that social democrats in this decade were not particularly generous to this program. The same generally goes for liberal parties and, this time, Christian democrats, who also exhibit a positive effect over the longer period.[11]

So our results for unemployment and health insurance are largely consistent with those found in the literature.

Yet which picture emerges for pensions (see table 3), the field we are particularly interested in? For the longer period of observation starting in the early 1980s there are no significant partisan effects at all. The partisan composition of government does not contribute to an explanation of changes in pension replacement rates in OECD countries from the early 1980s to the end of the 1990s, a result that conforms to our expectations stated in hypothesis 2.

-- Table 3 --

Focusing on the 1990s only, a period of particularly intense pension reform activity, we do however find a *negative* effect of social democrats. So in this decade there seems to have been a 'Nixon goes to China'-logic at work regarding the generosity of standard pensions: Social democrats have retrenched pension replacement rates more than other parties – and quite substantially so. If all other independent variables are set to their means in the pension model for the 1990s, we predict a pension increase of 3.0 percent in the absence of social democratic parties from government, while a purely social democratic cabinet is predicted to have cut pensions by 7.8 percentage points. Non-Christian center parties also exhibit a negative effect in the 1990s, albeit a smaller one. These parties, the American Democrats or the Scandinavian center parties among them, are also not usually parties associated with welfare state retrenchment. So the 'Nixon goes to China'-argument to a certain degree applies to them as well.[12]

A glance at our control variables reveals a pretty consistent picture: In all programs and for most of the periods ß-convergence prevails, i.e. countries with higher replacement rates at the outset tended to implement more substantial cuts than others, and vice versa, the only exception from this trend being pensions in the 1990s. This convergence finding parallels evidence from disaggregated analyses of welfare spending (Schmitt & Starke 2011).

Welfare state structures also play an important role in explaining the observed variance in replacement rate changes for all of the three programs under examination. Social insurance states and conservative welfare states tended to retrench replacement rates less (or increase them more strongly) than Beveridge-systems – except for pensions in the 1990s.

The third variable yielding considerable influence on all programs is EU membership. EU member states implemented deeper cuts (or displayed slower extensions) than other countries[13], this time except for sick pay in the 1990s and pensions over the longer period of observation.[14] Maybe a little surprisingly, however, there is no discernible impact, of (intended) EMU membership; this variable does not come anywhere near significance in any specification we tested.

For sick pay and standard pensions, we furthermore find effects of socioeconomic problem pressure. Thus increasing unemployment is associated with lower sick pay in the 1990s and lower pensions in the longer period of observation. This finding is theo-

retically plausible since growing unemployment increases financial difficulties of the welfare state which in turn should contribute to benefit cutbacks.

The positive effect of senior citizens' population share on changes of the standard pension over the longer period of observation in our view needs to be interpreted in terms of partisan competition more than in those of problem pressure: The influence of pensioners on electoral results increases with the population share of the elderly, and everything else being equal this should result in greater pensions generosity. This interpretation is corroborated by the results of comparative research that has shown elderly to agree with decreases of pension spending significantly less often than other age groups, while they advocate higher unemployment expenditure more scarcely (Busemeyer et al. 2009: 204).

Regarding the negative association between budget balances and changes in pension generosity it can be assumed that, in spite of the connection between budget consolidation strategies and pension reforms documented in several cases (Sweden and Canada, for example; cf. Wenzelburger 2011), compared over the whole sample pension generosity is not determined by the budgetary situation.

Finally, the degree of corporatism contributes to an explanation of standard pension generosity: The more the social partners share in formulating economic and social policies, the more pension replacement rates increase (or the smaller are their cutbacks). This indicates that unions within the framework of corporatist arrangements succeed in avoiding pension retrenchment by granting other concessions (Schludi 2011: 26ff. arrives at similar conclusions).

Regarding the other control variables we included there are no systematic relationships with any of the three replacement rates. This might be somewhat surprising in the case of institutional pluralism, which has been proven to be highly influential in a number of policy studies. Yet this finding becomes more plausible when we take into account that in both observation periods there were benefit increases in some countries as well as cutbacks in others. Theoretically we would have to expect that cutbacks as well as increases are smaller in the presence of numerous veto players, and this should figure as a non-result in our models.

The absence of a significant effect of globalization on benefit generosity in our models can be interpreted in three distinct ways: Firstly, there simply might be no impact empirically. Secondly, our period of observation might end too early, but there would have been an effect had we had access to more recent data. Thirdly, it might be that it

is not the objective globalization indicators themselves that matter for governmental activity, but the perception of pressure to adapt. The latter effect would, if at all, manifest itself via different indicators. Which of these interpretations is correct cannot be judged within the framework of the present paper.

6. Conclusion

Studies by Korpi and Palme (2003) as well as Allan and Scruggs (2004) argued that substantial cuts have taken place with regard to unemployment and sick pay replacement rates and that right parties were mainly responsible for retrenchment. Therefore, this paper analyzed whether these findings can be generalized to the pension sector. Our theoretical considerations indicated that this is not possible, because in all developed democracies pensions are disproportionately more popular than unemployment benefits and sick pay, and because even among right party voters there is little support for pension cutbacks. Therefore our first hypothesis was that pension cuts should have been smaller than those in the health and unemployment sectors. Our second hypothesis implied that the politics of pension reform differ from those concerning the said neighboring fields as well.

Our empirical findings by and large support these hypotheses. Indeed, pension generosity has been much less affected by welfare state retrenchment than the benefit levels of other programs – especially in the decade of the 1990s which generally exhibits a high degree of reform activity. Furthermore, our analysis of replacement rate changes shows that there is a negative impact of conservative governments and a positive effect of social democratic (and liberal) governments on unemployment, and, to a certain degree, health benefit levels, yet things are different in the pensions sector. Here, over the longer period of observation from the early 1980s until 1999 all partisan effects vanish. When we look at the 1990s alone, there are even strong signs for a negative effect of social democratic governments (and governments including non-Christian center parties) on pension generosity.

In so far there seems to manifest itself a tendency for pension politics of the 1990s according to which those parties were able to implement deeper cuts that were renowned as credible wardens of the welfare state, and could therefore claim that these cutbacks were necessary for the sake of preserving public pension programs (if not the welfare state as a whole) in the long term. This is a strong pointer that the new politics of the welfare state indeed take place – yet only regarding certain programs at certain

times.[15] Thus our results should urge welfare state researchers to engage in disaggregated studies more eagerly than so far.[16]

Annex: Independent Variables

Variable	Expected Effect	Source
Social Democrats Cabinet Share	+ (Unem., Health) 0/- (Pensions)	Schmidt et al. 2000
Christian Democrats Cabinet Share	+ (Unem., Health) 0/- (Pensions)	Schmidt et al. 2000
Non-Christian Center Parties Cabinet Share	+ (Unem., Health) 0 (Pensions)	Schmidt et al. 2000
Liberal Parties Cabinet Share	- (Unem., Health) 0 (Pensions)	Schmidt et al. 2000
Conservatives Parties Cabinet Share	- (Unem., Health) 0 (Pensions)	Schmidt et al. 2000
Veto Players	+/-	Allan/Scruggs 2004 (as per Huber et al. 1993)
Corporatism	+	Allan/Scruggs 2004 (as per Siaroff 1999)
Conservative Welfare State	+	Esping-Andersen 1990
Social Insurance State	+	Hinrichs 2000
Union Density	+	Allan/Scruggs 2004
Financial Openness	-	Allan/Scruggs 2004 (as per Quinn/Inclán 1997)
Trade Openness [(export+imports)/GDP]	+/-	Allan/Scruggs 2004
EU-Membership	-	1=Member, 0=Non-Member
EMU-Membership	-	1=Member, 0=Non-Member
Unemployment Rate	-	Allan/Scruggs 2004
Employment Rate	+	Scharpf/Schmidt 2000: 342
Deindustialization	+	Authors‘ Calculation as per Iversen/Cusack (2000); OECD-Data
Budget Balance	+	Allan/Scruggs (2004)
Public Debt	-	Armingeon et al. (2010)
GDP Growth	+	Allan/Scruggs (2004)
Population Share of the Elderly	+ (Pensions Only)	OECD
Expected Population Share of the Elderly 2025	- (Pensions Only)	UN <http://esa.un.org/unpp/index.asp?panel=2>
Expected Change Population Share of the Elderly 1980-2025	- (Pensions Only)	Authors‘ Calculation as per UN <http://esa.un.org/unpp/index.asp?panel=2>
Expenditure on Pensions as Percentage of GDP	- (Pensions Only)	OECD Social Expenditure Database
Incipient Benefits	-	Allan/Scruggs 2004 (Unemployment, Health), Scruggs 2004 (Pensions)

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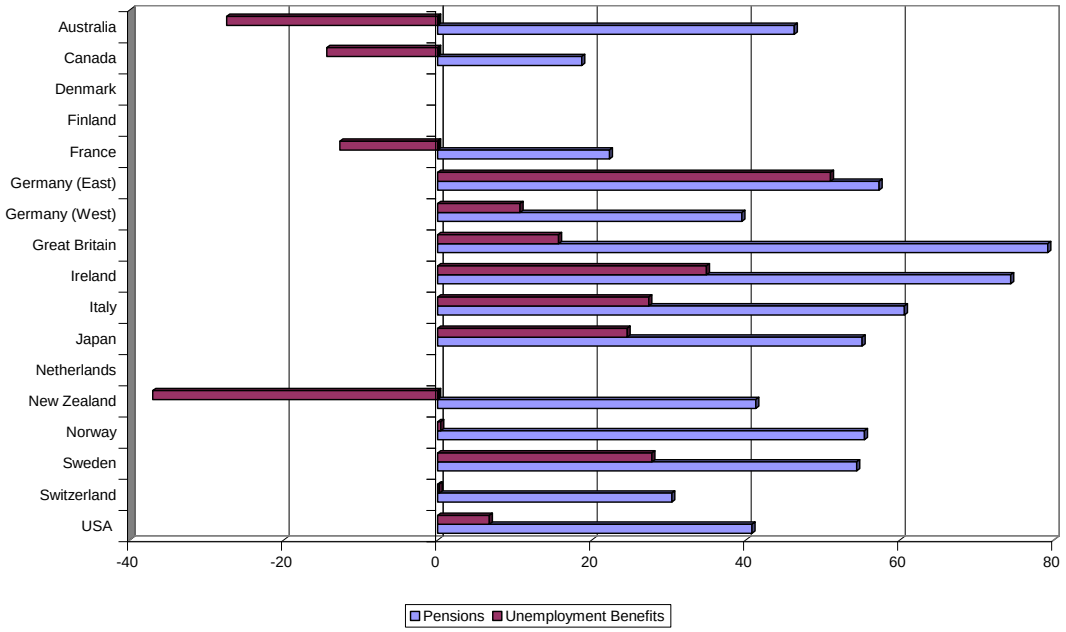
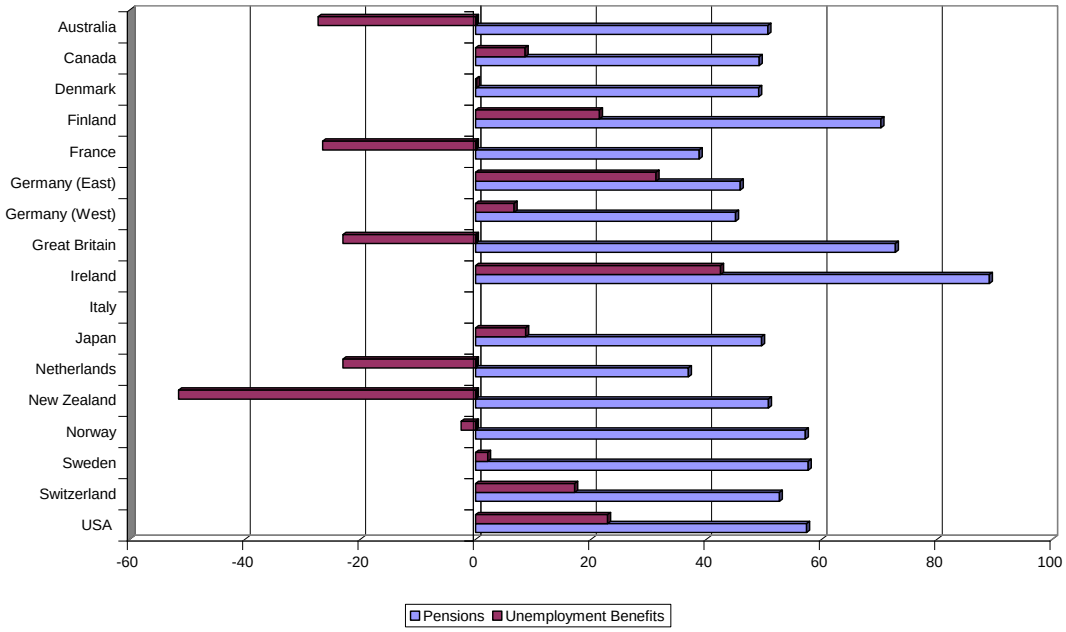
Figure 1: Support for Higher Spending on Pensions and Unemployment Benefits, 1996 (Upper Graph) and 2006

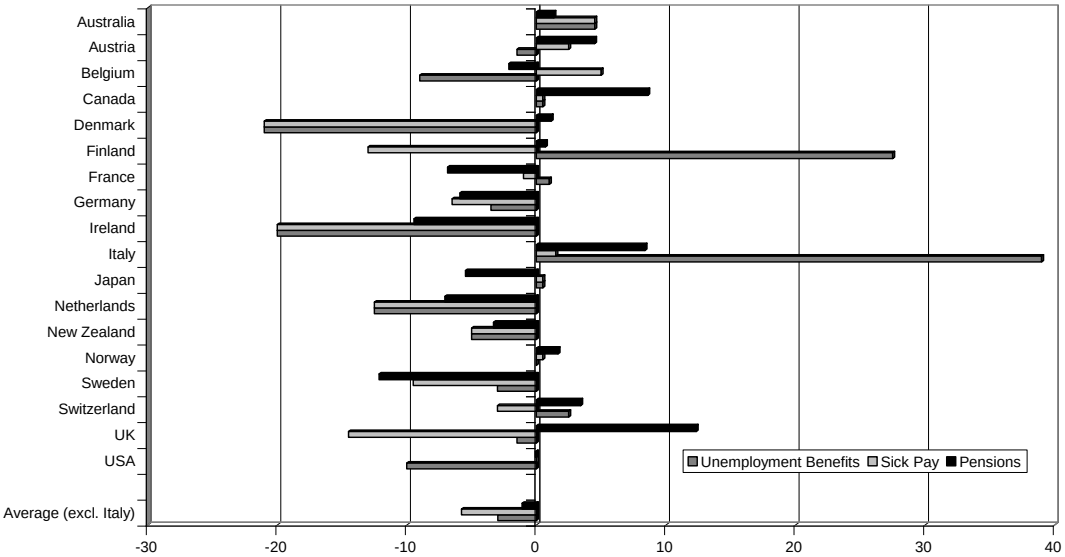


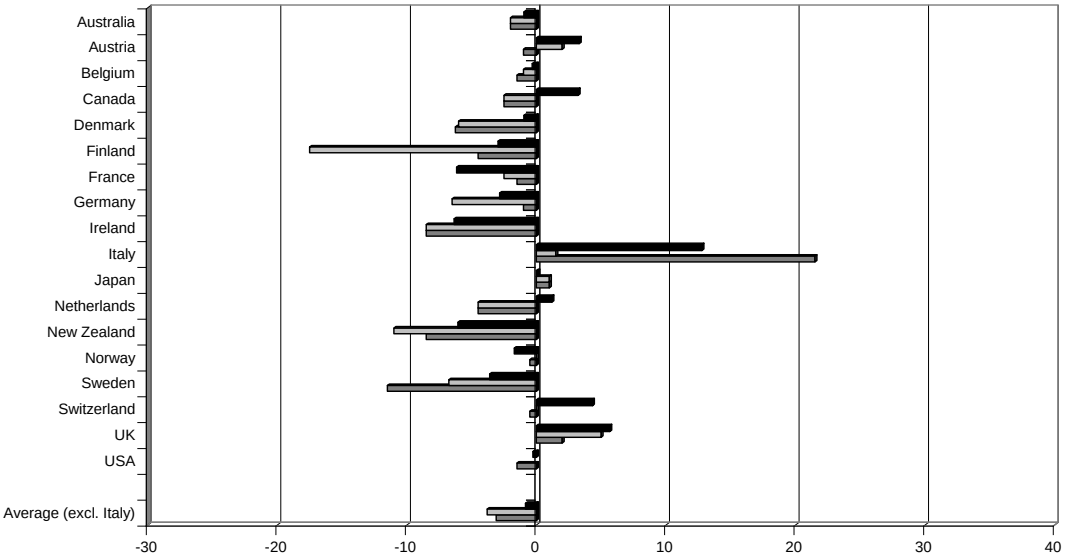


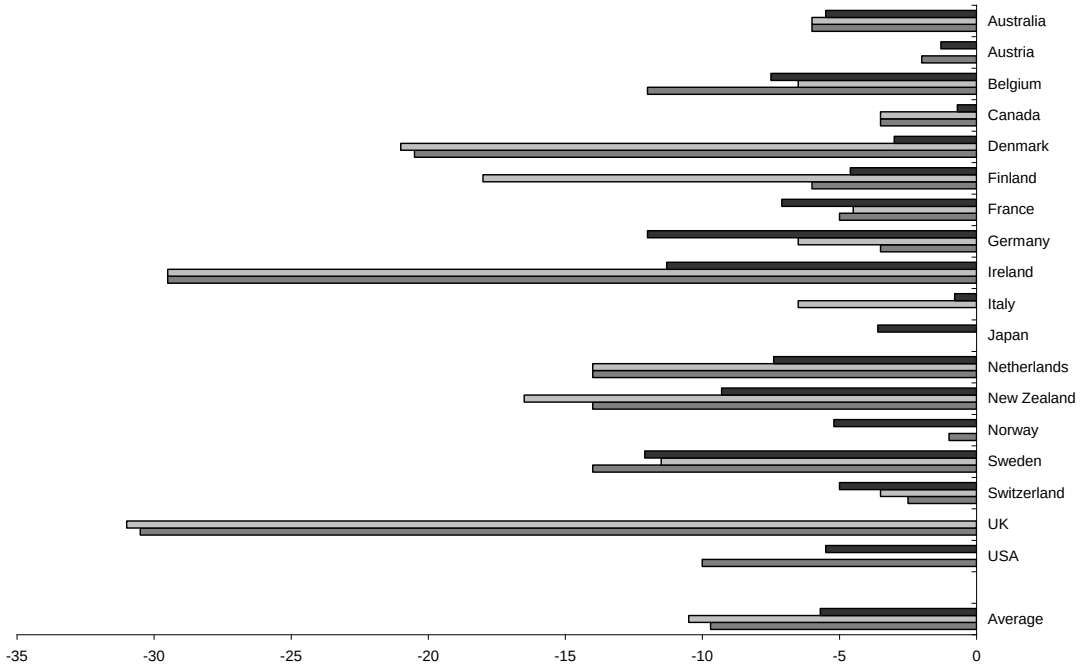
Source: ISSP 1996, 2006.

Question: ‘Listed below are various areas of government spending. Please show whether you would like to see more or less government spending in each area. Remember that if you say "much more", it might require a tax increase to pay for it.’

Figure 2: Replacement Rate Changes Regarding Pensions, Unemployment and Health Insurance, Early 1980s-1999 (3a), 1990-1999 (3b), Maximum-1999 (3c)







Source: Authors‘ calculations on the basis of Scruggs 2004.

Table 1: Determinants of Unemployment Benefit Generosity in 18 OECD Countries

	Early1980s-1999		1990-1999	
Constant	39.79***	32.207***	26.122***	18.534***
	(8.881)	(7.989)	(7.759)	(5.451)
Incipient Unemployment Benefits	-0.751***	-0.765***	-0.487***	-0.507***
	(12.492)	(12.902)	(9.787)	(7.500)
Social Insurance State	11.04***	12.999***	7.584***	10.462***
	(4.948)	(6.495)	(4.822)	(5.357)
EU	-10.78***	-9.850***	-4.531***	-3.485*
	(4.289)	(3.950)	(3.049)	(1.888)
Conservative Parties Cabinet Share	-0.086*		-0.102***	
	(1.999)		(3.682)	
Liberal Parties Cabinet Share	0.622***	0.771***	0.330***	0.474***
	(4.425)	(6.635)	(4.202)	(4.767)
Social Democrats Cabinet Share		0.082*		0.066*
		(2.057)		(1.872)
Adj. R^2	0.921	0.922	0.863	0.774
N	18	18	18	18

Notes: Unstandardized regression coefficients, T-statistics in brackets. * p≤ 0.10; ** p≤ 0.05; *** p≤ 0.01.

Table 2: Determinants of Health Benefit Generosity in 17 OECD Countries

	Early 1980s-1999		1990-1999
Constant	23.266***	11.497**	34.438***
	(3.219)	(2.630)	(5.072)
Incipient Health Benefits	-0.327***	-0.403***	-0.381***
	(3.875)	(5.308)	(5.099)
Social Insurance State	9.481***	13.007***	5.509**
	(3.914)	(5.941)	(2.829)
EU	-9.087***	-12.052***	
	(3.536)	(5.174)	
Unemployment Rate			-1.233***
			(4.138)
Conservative Parties Cabinet Share	-0.183***		-0.156***
	(3.536)		(3.818)
Liberal Parties Cabinet Share		0.284**	
		(2.527)	
Christian Democrats Cabinet Share		0.237***	
		(4.663)	
Social Democrats Cabinet Share		0.130***	
		(3.282)	
Adj. R^2	0.706	0.822	0.657
N	17	17	17

Notes: Unstandardized regression coefficients, T-statistics in brackets. * p≤ 0.10; ** p≤ 0.05; *** p≤ 0.01.

Table 3: Determinants of Pension Generosity in 18 OECD Countries

	Early 1980s-1999	1990-1999
Constant	26.21**	-7.727**
	(2.331)	(2.374)
Incipient Pensions	-94.758***	
	(4.698)	
Social Insurance State	12.98***	
	(3.365)	
EU		-7.448***
		(3.879)
Population Share of the Elderly	1.886**	
	(2.595)	
Budget Balance	-2.235***	-1.998***
	(3.993)	(5.552)
Corporatism		2.694**
		(2.712)
Unemployment Rate	-1.048*	
	(2.088)	
Social Democrats Cabinet Share	-0.039	-0.094**
	(0.804)	(2.404)
Non-Christian Center Parties Cabinet Share		-0.108*
		(2.076)
Adj. R^2	0.533	0.612
N	18	18

Notes: Unstandardized regression coefficients, T-statistics in brackets. * p≤ 0.10; ** p≤ 0.05; *** p≤ 0.01.

[1] We do not consider accident insurance due to its rather marginal political importance.

[2] The ISSP surveyors also inquire after people's opinion on health expenditure. Yet the greater part of the latter is spent on medical provision, not on sick pay. Therefore, these data are not suited to our purpose.

[3] These differences in the valuation of spending categories were also found in earlier studies (cf. Pettersen 1995: 212-214).

[4] For example, the German government argued in 2008 that pensioners should partake in the economic upswing and decided that in 2008 and 2009 pensions should be increased by more than the amount determined by the pension formula. This formula was also modified in 2009 so that future nominal cuts to pensions are precluded. Both measures took effect immediately and led to a perceptible increase of pensions already in 2008 and 2009 (i.e. prior to the 2009 general election; cf. Schmidt 2010: 305 for details).

[5] Technically speaking, a lower number of degrees of freedom is associated with more demanding t-values. Yet the multitude of significant results indicates that the comparatively small number of cases does not affect the robustness of our findings considerably.

[6] Results do not change substantially if the variable is coded otherwise.

[7] Unemployment and sick pay replacement rates are operationalized as averages of benefits for single and married recipients. This is in line with the proceedings of Allan and Scruggs (2004), whose replication dataset is once again our data source.

[8] As there was no health insurance on the federal level in the USA during our period of observation, only 17 countries can be analyzed in this field.

[9] The development of Italian unemployment benefits is a special case among OECD countries well into the 1990s. While actual unemployment benefits were only a minimal safety net for a long time, several notably generous special programs were created and expanded from the 1960s onwards. Yet these programs were highly segregated, so that not all employees could enjoy their generosity. It took a decision of the constitutional court in 1987 denouncing unemployment benefit levels as inadequate to trigger a massive increase in the generosity of unemployment benefits themselves, while by the same token the special programs were strongly retrenched (cf. Picot 2008: 88-96 and 107-116). The stark increase in Italian unemployment benefits displayed in figure 2 thus does not correspond with an actual increase of what most unemployed Italians would receive. To the contrary, for some of them this amount decreased considerably.

[10] Some of the partisan effects are not completely robust. When Japan, Sweden, or the USA are excluded from our models for the longer period, conservative as well as social democratic cabinet shares narrowly fail to reach conventional significance levels. Regarding conservative parties this also applies to Denmark. For the 1990s the effects of conservative and liberal parties are very robust, but not social democratic cabinet shares which fall below established thresholds when nine different countries (in turn) are excluded from the sample; yet in only one case (Italy) below $p<.2$ ($p=.253$), so that in the light of the limited number of cases and our dealing not with a random sample, but all members of the basic

population of established OECD democracies, a careful substantial interpretation of these results should still be possible.

[11] However, the partisan effects lose significance when we control for conservative welfare states (according to Esping-Andersen 1990) instead of the social insurance state variable. Yet given the reasonable doubts about the empirical selectivity of Esping-Andersen's regimes (cf. Scruggs & Allan 2006, 2008), we hold that the social insurance variable is the more plausible choice. Jackknife analyses of the sickness pay regressions yield only one result worth reporting: The effect of liberal parties over the longer period of observation falls slightly below standard thresholds of significance when Ireland is removed from the sample.

[12] When Canada, Finland or Italy are excluded from the sample, the cabinet share of non-Christian center parties falls slightly below standard thresholds of significance.

[13] This finding is of special interest because none of the earlier studies of pension generosity had included an EU variable.

[14] In the unemployment benefit regressions for the 1990s, the EU variable fails to reach significance with the exclusion of seven single cases.

[15] Reminding ourselves of the causal mechanisms invoked by Pierson for his 'new politics'-argument, this is no big surprise. For "institutional stickiness" as well as the low popularity of cutbacks apply to pensions to a higher degree than to unemployment and health programs. Interestingly enough, in his case studies Pierson mainly draws on evidence from the pensions sector.

[16] This is in line with the conclusions Francis G. Castles (2008) and Carina Schmitt & Peter Starke (2011) draw from their disaggregated analyses of welfare expenditure.