

Does the role of political parties in unemployment benefit reform depend on economic conditions?

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Outline

- Cross-country variation net unemployment benefit replacement ratios (NRR)
- Political economy literature → both Western and Eastern European countries (database).
- Error correction model.
- Variety of variables: globalization, socio-economic and demographic, however, focus on partisan politics and corporatism.

Tests:

1. Do left-wing parties and a strong corporatist tradition have a positive impact on unemployment protection levels?
2. Dependency of these factors on the economic situation
3. Western versus Eastern European countries

Outline

- Literature and hypotheses (partisan politics and corporatism
→ Eastern European Countries)
- Data
- Method
- Results
- Conclusions

Partisan government and welfare reform

- Partisan theory: left-wing versus right-wing parties
(Castles, 1982; Hicks & Swank, 1984; Huber, Ragin & Stephens, 1993)
 - Left-wing: preference for expansions
 - Right-wing parties: retrenchments
- Mixed empirical results → New politics perspective
(Pierson, 2001)
- Power resource theory (Korpi and Palme, 2003)
- Empirical focus: mainly 22 Western OECD countries

Partisan politics and deteriorating economic situations

- Budgetary pressure: cuts in NRR by rightist and leftist parties (Vis, 2009)
- Median voter: both parties expand spending at high levels of unemployment (Jensen, 2012)
- Do partisan differences (not) matter?
- Both left-wing and right-wing governments opt for retrenchments in times of high levels of unemployment, also in CEE countries.

→ Hypothesis: effect of partisan government composition on NRR is conditional on economic shocks

Employment relations

Generally, a positive effect of a corporatist tradition of coordinated bargaining by strong and centrally organized social partners (Ebbinghaus and Hassel, 2005; Swank, 2011):

- Unions exchange wage moderation for full employment commitments and expansions in unemployment protection
- Collective bargaining at the national level: social partners are able to resist welfare state retrenchments

Employment relations (2)

- A lot of variation within Eastern Europe
- Social partners are less effective in Eastern Europe than in Western Europe (Ost, 2000; Hassel, 2009):
 - Corporatism regarded as a way of providing public support for economic reforms
 - Labour unions almost only present in (formerly) state-owned enterprises

Employment relations (3)

Hypotheses:

- Corporatist tradition of policy making is positively related to benefit generosity
 - similar for West and East European countries?
- Positive effect of corporatism on unemployment protection increases at higher unemployment levels

Data

- Panel data: 34 countries, period 1990-2009
 - 27 EU member states and 7 non-EU countries
- Unemployment benefits: own update of Scruggs
- Partisan politics → left and right cabinet seats: Armingeon et al (2011)
- Corporatism → labor relations: own index, based on Swank (2011)
- Other variables: World Development Indicators
 - Globalization / trade openness / financial openness
 - Socio-economic variables (GDP per capita; unemployment rate)
 - Demographics (age dependency ratio)

Unemployment benefits

- Unemployment replacement rate dataset among 34 welfare states 1971-2009
- Update and extension of Scruggs Comparative Welfare Entitlements Dataset 1970-1999 (CWED1, 2005):
www.hsz.leidenuniv.nl
- Net replacement rates: from gross to net
- Two household types

PM Recently CWED2 is launched

Net unemployment replacement rate (NRR)

- NRR:
$$\frac{\text{net income from unemployment benefits}}{\text{net income from work}}$$
- Calculations assume:
 - Worker, aged 40, earnings wage APW
 - Initial phase of unemployment
 - Family benefits include child / means tested benefits

Note: There is no such thing as *the* replacement rate in any country, rather there is a myriad of replacement rates → personal and family characteristics of the unemployed, history of work and unemployment, different structures and entitlements of unemployment insurance and social assistance systems, interaction with tax systems.

	Welfare State Entitlements Dataset	Unemployment Replacement Rates Dataset
Assembled by	Lyle Scruggs	Olaf Van Vliet & Koen Caminada
Launch / Year	June 2005	January 2012
# Countries	18	34
Time-series	1971 – 2002	1971-2009
Replacement Rates	<ul style="list-style-type: none"> ○ Unemployment ○ Sickness ○ Minimum Public Pension ○ Standard Public Pension 	Unemployment
# Observations of unemployment replacement rates	1,110	4,026
Income level	Average Production Worker	APW, AW & Modified Average Production Worker
Availability	http://sp.uconn.edu/~scruggs	www.hsz.leidenuniv.nl
Reference	Lyle Scruggs (2005) "Unemployment Replacement Rate Data Set," Welfare State entitlements Data Set: A Comparative Institutional Analysis of Eighteen Welfare States, Version 1.1, June 2005.	Olaf Van Vliet & Koen Caminada (2012), "Unemployment replacement rates dataset among 34 welfare states 1971-2009", NEUJOBS Special Report No. 2, NEUJOBS project, January 2012.

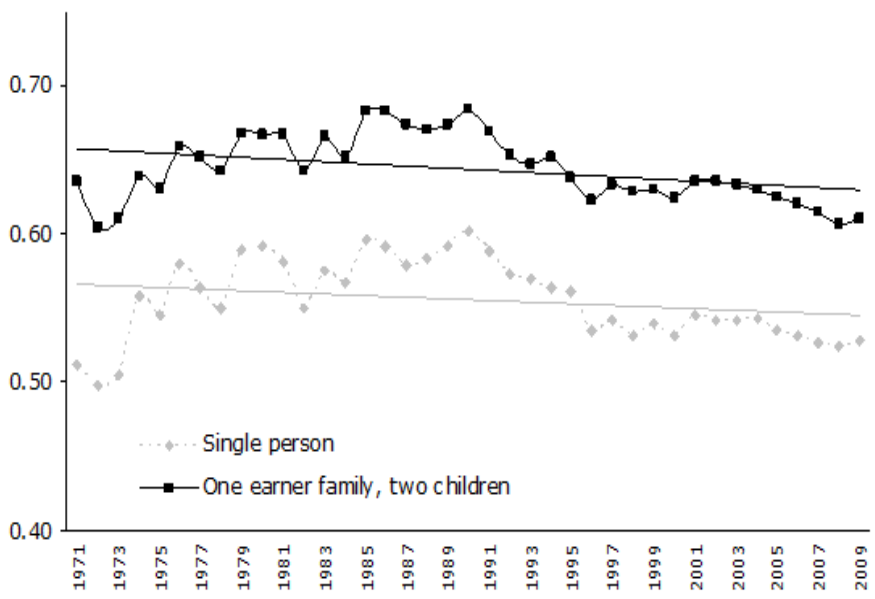
Net unemployment replacement rates

	<i>Single person</i>			<i>One earner couple with two children</i>		
	1990	2000	2009	1990	2000	2009
Mean 34 countries	0.57	0.54	0.53	0.65	0.63	0.62
Coef of Variation	0.33	0.32	0.30	0.24	0.21	0.20
Mean 27 EU	0.58	0.54	0.53	0.64	0.62	0.61
Coef of Variation	0.34	0.32	0.28	0.27	0.22	0.20
Mean 15 West-EU	0.59	0.57	0.56	0.66	0.66	0.66
Coef of Variation	0.35	0.32	0.29	0.26	0.18	0.16
Mean 10 CEE-EU	0.54	0.51	0.51	0.59	0.55	0.53
Coef of Variation	0.33	0.28	0.24	0.29	0.25	0.19

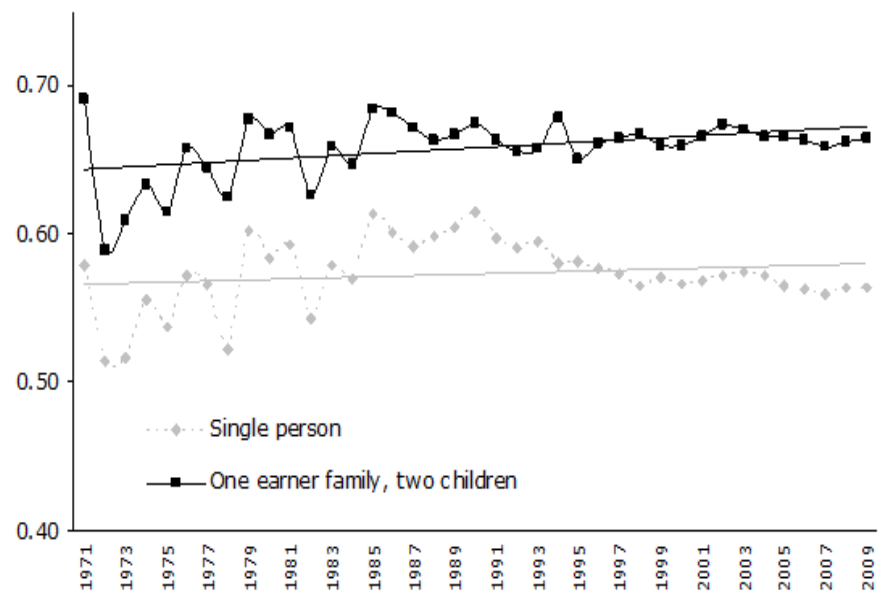
- Levels vary to a large extent across countries
- High NRR around 2009: Luxembourg, Switzerland and Portugal
- Low NRR: Australia, Greece, Malta, Poland, and the United Kingdom
- Generally: NRR single persons < NRR one earner couples with two children
Exceptions: Japan, Latvia, Portugal, Slovak Republic, Slovenia and the United States
- 15 EU-West versus 10 CEE-EU: levels NRR considerably lower in 10 CEE-EU
- Mean NRR in CEE countries have fallen 1990-2009

Figure 5. Mean of net unemployment replacement rates across (subgroups of) countries, 1971-2009

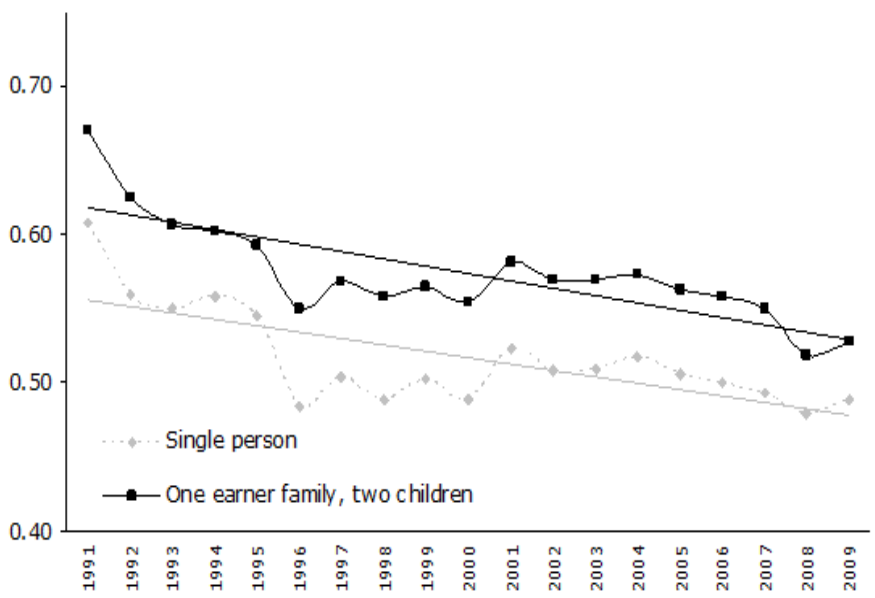
Mean NRR across 34 countries



Mean NRR across 15 EU countries



Mean NRR across 12 NMS



Mean NRR across AUS, CAN, JPN, NZ, NOR, SWI, and US

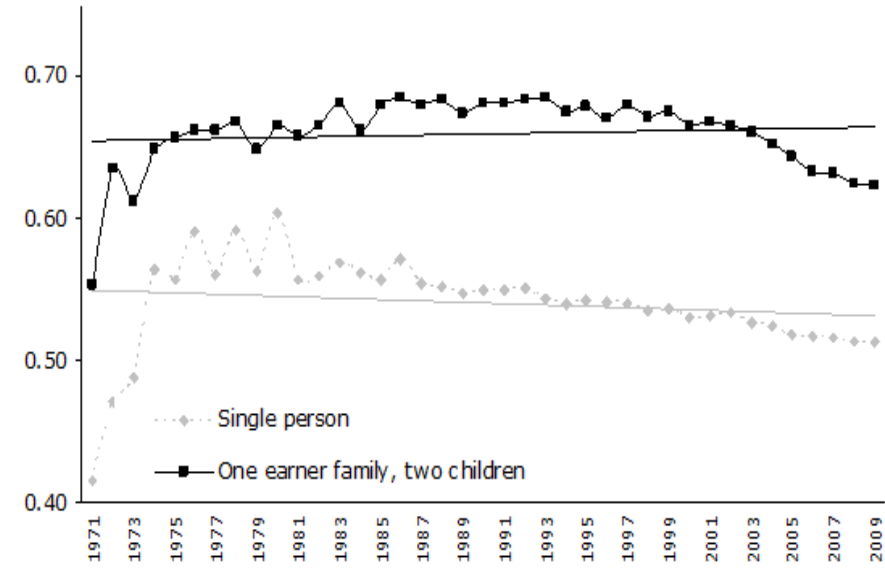
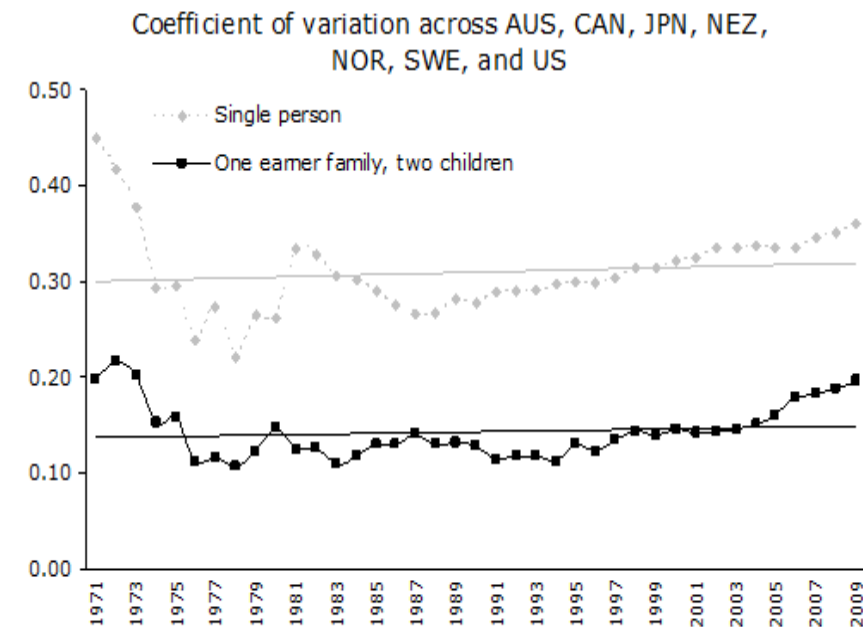
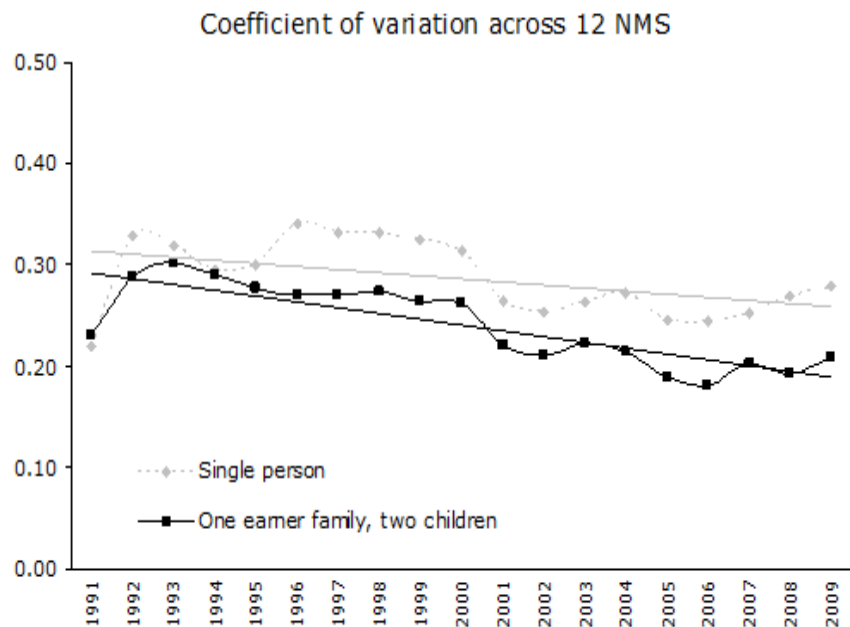
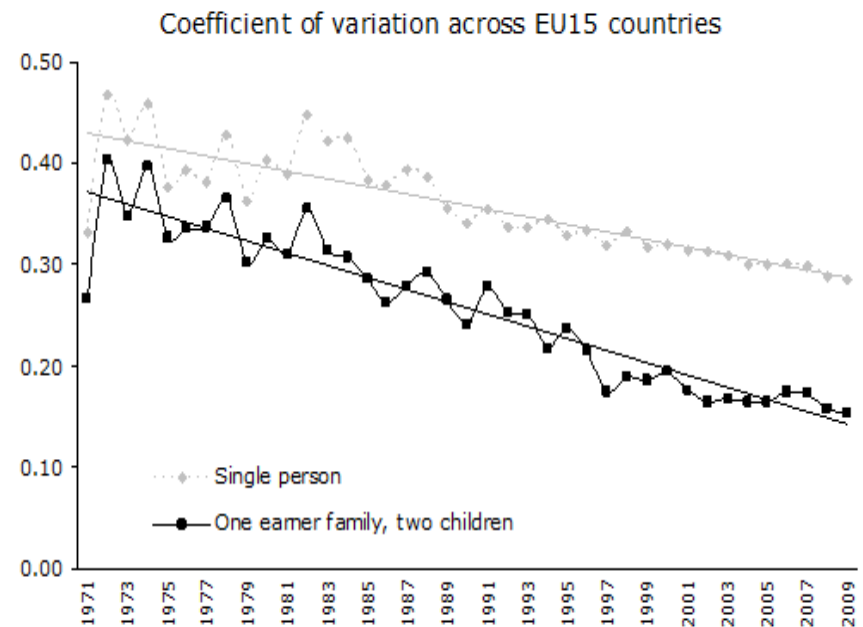
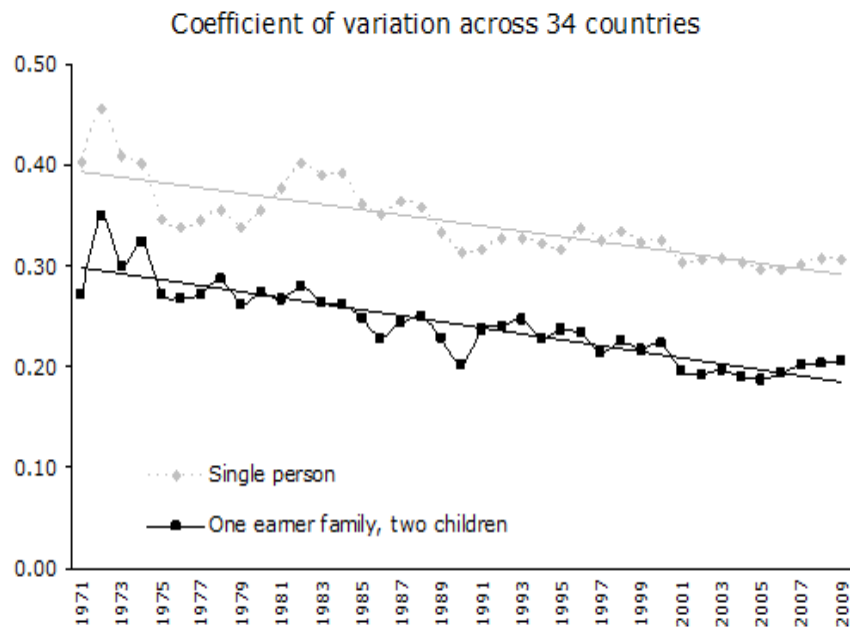


Figure 6. Convergence of net unemployment replacement rates across (subgroups of) countries, 1971-2009



Method

- Error correction model:

$$\Delta y_{it} = \alpha + \theta y_{it-1} + \sum \beta^j X_{it-1}^j + \sum \gamma^j \Delta X_{it}^j + \varepsilon_{it}$$

- Changes NRR are regressed on lagged levels NRR, and both lagged levels and changes of independent variables.
- Estimator captures both short-term transitory effects and long-term structural effects.
- OLS regressions.
- Panel corrected standard errors.
- Negative coefficient θ : below average NRR are catching up, conditional on other independent variables.
- Fixed effects (country – time): sensitivity analysis.

Method (2)

- Conditional to socio-economic situation → interaction term
- Examination to what extent the relationship between partisan differences and corporatism on the one hand and NRR reforms on the other is conditional on the socio-economic situation.
- Interaction term between left-wing (right-wing) governments and unemployment rates.

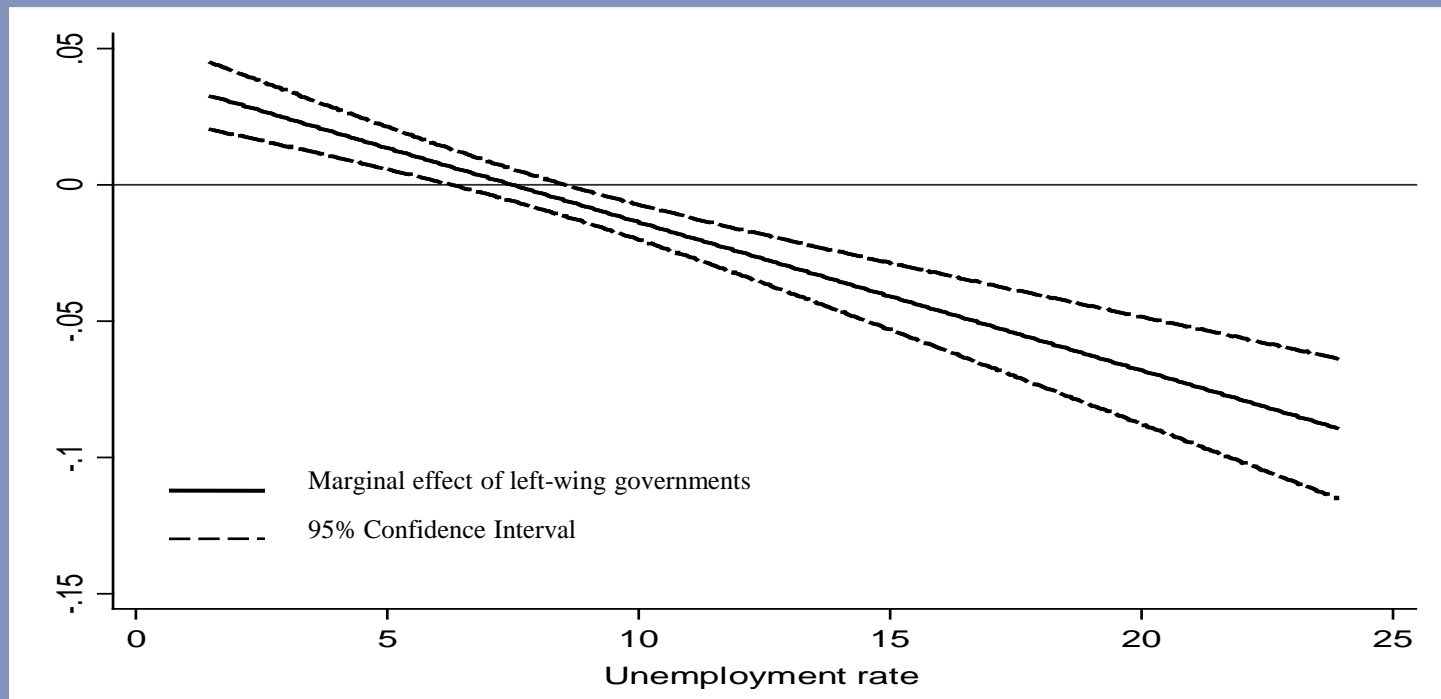
Results:

- Left-wing governments are positively and significantly related NRR, but that this effect becomes smaller at higher unemployment rates.
- At high unemployment rates, leftist governments are even negatively associated NRR.
- Constraining effect of rising unemployment stemming from budgetary pressure dominates the effect of higher demand for unemployment protection from the median voter.

Regression results

	34 countries	27 EU countries	15 West-EU countries	10 CEE-EU countries
Left gov. (t-1) x unem. rate (t-1)	-0.004***	-0.005***	-0.002**	-0.016***
Left government (t-1)	0.027***	0.041***	0.009	0.156***
Right gov. (t-1) x unem. rate (t-1)	-0.001	-0.001	-0.000	-0.010**
Right government (t-1)	0.003	0.008	-0.005	0.117**
Corporatism (t-1)	0.375***	0.365***	0.022	2.027**
Capital mobility (t-1)	0.001	0.000	0.004**	-0.004
Trade openness (t-1)	-0.003**	-0.006***	0.005	0.024**
Unemployment rate (t-1)	0.179***	0.214***	0.037	0.623**
GDP per capita ($\times 10^{-2}$) (t-1)	0.004***	0.006**	-0.005***	-0.037***
Age dependency ratio (t-1)	-0.058	-0.070	0.026	-0.525***
Replacement rate (t-1)	-0.048***	-0.056***	-0.044***	-0.216***
Constant	3.525*	3.753	2.553	28.654***
N x T	515	382	269	99

Marginal effect of left-wing governments (EU 27)



Left-wing governments are positively related to NRR, but that this effect becomes smaller at higher unemployment rates.

At high unemployment rates, leftist governments are even negatively associated with unemployment protection levels.

Turning-point for 27 EU: 7 percent unemployment rate (EU15 : 9%)

Results (2)

Labour relations

- Coordinated bargaining by strong and centrally organized labour unions is positively related to benefit generosity
- Weak evidence for a positive interaction effect between labour relations and the unemployment rate

Sensitivity analyses

- Specification with country and year fixed effects:
 - results for partisan politics and labor relations are robust
- NRR for a single person
- NRR for a one earner couple with two children:
 - similar results

Conclusions

- Left-wing governments are positively related to unemployment benefit replacement rates; this effect becomes smaller at higher unemployment rates
- Coordinated bargaining by strong and centrally organized labour unions is positively related to benefit generosity
- No substantial differences between Western and Eastern European countries
- Convergence of unemployment benefit levels to some extent; relatively strong for Eastern European countries

Data and Codebook

Unemployment Replacement Rates Dataset
via www.hsz.leidenuniv.nl

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Descriptive statistics (1)

	Net replacement rate			Left government			Right government		
	1990	2000	2009	1990	2000	2009	1990	2000	2009
Mean 34 countries	0.61	0.58	0.57	28.2	38.5	36.3	41.3	37.1	41.7
Standard Deviation	0.17	0.14	0.13	30.0	33.4	29.6	35.7	32.6	32.4
Mean 27 EU	0.61	0.58	0.57	27.0	44.0	37.1	37.3	34.8	38.0
Standard Deviation	0.18	0.15	0.13	27.6	33.9	28.8	34.3	31.6	31.5
Mean 15 West-EU	0.63	0.62	0.61	31.5	57.6	36.1	38.0	20.1	38.7
Standard Deviation	0.18	0.15	0.13	27.7	34.6	30.2	38.9	26.1	37.1
Mean 10 CEE-EU	0.57	0.53	0.52	24.7	30.3	41.5	39.9	55.2	42.1
Standard Deviation	0.17	0.14	0.11	27.5	24.6	26.5	27.5	22.9	21.0

Descriptive statistics (2)

	Corporatism (-/+ 1.76)			FDI as % GDP			Trade as % GDP		
	1990	2000	2009	1990	2000	2009	1990	2000	2009
Mean 34 countries	0.13	-0.02	-0.07	4.2	20.5	30.6	77.0	93.8	103.1
Standard Deviation	0.73	0.82	0.74	11.4	65.5	113.6	40.4	48.8	54.1
Mean 27 EU	0.21	0.10	0.03	4.6	24.4	36.7	85.0	103.7	115.1
Standard Deviation	0.66	0.78	0.71	12.8	73.3	126.8	40.5	48.5	53.3
Mean 15 West-EU	0.41	0.45	0.41	7.3	39.8	54.9	73.6	95.4	105.7
Standard Deviation	0.68	0.69	0.63	17.0	97.2	167.4	40.8	56.4	64.3
Mean 10 CEE-EU	-0.11	-0.43	-0.53	1.5	5.3	13.2	91.7	109.0	125.3
Standard Deviation	0.52	0.66	0.47	1.2	2.4	16.2	30.3	30.7	29.4

Descriptive statistics (3)

	Unemployment rate			GDP per capita			Age dependency ratio		
	1990	2000	2009	1990	2000	2009	1990	2000	2009
Mean 34 countries	8.2	8.0	6.6	20.570	24.903	30.253	50.2	48.9	47.3
Standard Deviation	4.6	4.0	2.1	9.589	11.674	13.782	3.5	2.8	3.9
Mean 27 EU	8.6	8.7	7.1	18.455	22.547	28.028	50.4	48.6	46.9
Standard Deviation	4.9	4.1	2.0	9.397	11.626	14.276	3.5	2.8	4.1
Mean 15 West-EU	8.3	7.3	6.9	25.191	30.701	36.453	49.8	49.6	49.9
Standard Deviation	4.0	3.5	2.0	6.921	8.812	13.782	4.2	2.7	2.2
Mean 10 CEE-EU	10.4	11.5	7.8	9.177	11.212	16.890	50.8	47.3	43.3
Standard Deviation	5.9	3.9	1.8	2.997	3.990	4.829	2.0	2.6	2.7