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Abstract

This paper examines the political mechanisms of welfare state policymaking in two countries with differing levels of institutional and political constraints, Germany and Ireland. The study analyzes the joint impact of political constraints and varying party governments on different dimensions of labor market policymaking. It comes to the conclusion that left-wing governments must cut spending more to accommodate the conservative opposition and gain its support when political and institutional constraints are high. To simultaneously ensure the support from pivotal extra-parliamentary actors, namely labor unions that are closely linked to the governing party, the left has to further compensate the unions' prime constituency, which is the well-integrated core workforce. The privileged treatment of labor market 'insiders' by left-wing governments in countries with high political constraints comes at the expenses of labor market 'outsiders'. Left-wing party governments in countries where political constraints are low are better able to address the needs of broader segments of society.

Zusammenfassung

Diese Studie analysiert Arbeitsmarktreformen in Deutschland und Irland, zwei Ländern, welche unterschiedliche politische und institutionelle Zwänge aufweisen. Untersucht wird, wie sich der gemeinsame Effekt des institutionellen Gefüges und der Regierungsideologie auf die Gestaltung der Arbeitsmarktpolitik auswirkt. Die Fallstudien zeigen, dass linke Regierungen in Ländern mit hohen institutionellen Zwängen mehr Kosten einsparen müssen, um sich die Unterstützung der Oppositionsparteien zu sichern. Damit die Regierung die Unterstützung der Gewerkschaften nicht verliert, wird bei der Gestaltung der Reform besonders auf die Bedürfnisse der Kernarbeitnehmerschaft Rücksicht genommen. Die bevorzugte Behandlung von ‚Insidern' in Ländern mit hohen institutionellen Zwängen geschieht auf Kosten der Arbeitnehmer, welche nicht von einflussreichen Interessen-organisationen vertreten werden (‚Outsider'). In Ländern, wo linke Regierungen bei Reformen nicht auf die Unterstützung der Opposition angewiesen sind, hat die Regierung die Möglichkeit, die verbliebenen Resourcen auf unterschiedliche Segmente der Arbeitnehmerschaft zu verteilen.

Keywords

Party government, social policy reform, welfare state, redistribution, labor market 'insider' and 'outsider'

Schlagwörter

Parteienregierung, Arbeitsmarktreformen, Wohlfahrtsstaat, Umverteilung, Dualisierung des Arbeitsmarktes

General note on content

The opinions expressed in this paper are those of the author and not necessarily those of the IHS Department of Political Science

Contents

Introduction

During the past decades, the challenges that mature welfare states are facing have increased significantly. Among these challenges that party governments in post-industrial countries are facing are high economic interdependence, fiscal austerity and the structural change of the economy. The combination of these developments affects the room to maneuver for political actors and have a strong impact on domestic labor markets. In addition, globalization and related phenomena also influence how different groups in society are affected by unemployment, atypical employment and other societal risks. Inequality among different groups of labor market participants has increased due to globalization and the aforementioned developments. This article, which is part of a larger project that combines macro-level evidence with subsequent case studies, examines the impact of party governments on labor market reforms and how labor market 'insiders' and 'outsiders' are affected by varying party governments.[1] It addresses the question whether party governments still have room to shape policies according to their underlying party ideology and how labor market reforms are mediated by varying levels of political and institutional constraints.

To examine how varying party governments affect different groups of labor market participants, I focus on labor market reforms. Labor markets in post-industrial economies are particularly vulnerable to the contemporary developments, and governments in post-industrial democracies are under pressure to adjust social security schemes to meet the needs of workers in a more flexible environment. One of the characteristics of the most recent wave of globalization is the increasing dualization of the labor market and the unequally distributed risk to lose employment (e.g. Goldthorpe, 1984; Rueda, 2006; Blanchard, 2006; Lindbeck and Snower, 2001). Important elements of labor markets in post-industrial economies are an increasing percentage of part-time and fixed-term employees, and a bigger share of women participating in the labor market. In order to address the challenges related to globalization, party governments are under pressure to reform social security schemes and labor market institutions. When reforming labor market policies and labor market institutions, the specific aspects that party governments emphasize greatly differ in scope and range.

Unlike most scholars, this larger project examines the impact of party governments on two dimensions of social policy reforms, the expenditure dimension and a redistributive dimension. In addition, the theoretical framework makes clear predictions how varying levels of political constraints differently affect party governments with different ideological backgrounds. My argument implies that both left-wing and right-wing governments in

[1] The quantitative study includes the following mature welfare states: Austria, Australia, Belgium, Canada, Denmark, France, Finland, Germany, Italy, Ireland, Japan, Netherland, New Zealand, Norway, Sweden, Switzerland, United States, United Kingdom and covers the period between 1971-2002.

countries with little institutional constraints cut social spending. However, when institutional constraints are high, left-wing governments must cut spending more to accommodate the conservative opposition and gain its support. To simultaneously ensure the support from pivotal extra-parliamentary actors, namely labor unions, the left has to further compensate the unions' prime constituency, which is the well-integrated core workforce. The compensation of these 'insiders' through an increase of the redistributive generosity of social security schemes by left-wing governments therefore increases with greater institutional constraints. This increase in redistributive generosity beneficiary for the core workforce comes at the expenses of the poor and the increasing share of atypically employed people in post-industrial countries.

In this paper, I examine this argument using case study research and empirically trace the above mentioned processes in two countries with varying political constraints, Germany and Ireland. The analysis of labor market reform processes in Germany and Ireland shows that institutional and political constraints have influenced leftist and conservative governments in different ways, and therefore also affected the content of the reform and the reform process as such. Each country study covers two reform processes affecting labor market and unemployment policies in the mid 1990s and early 2000. This paper thus adds to the debate on the role of party politics in welfare state policymaking and the reform of social policy schemes in industrialized Western European countries.

1. Theoretical Argument

It is generally accepted that party governments face high reform pressure and thus have to focus on cutting social expenditures (e.g. Green-Pedersen, 2002; Pierson, 2001; Ross, 1997; Starke, Obinger and Castles, 2008). Governments of both right- and left-wing partisanship are similarly affected by these economic and fiscal constraints. While the two differing party governments may vary with respect to their desired amount of spending, both must accept that actual expenditures have to be stabilized because the economic constraints do not leave room for alternative choices on this dimension.[2] This implies that party governments converge on the expenditures dimension, but it is plausible that they still take different policy positions on how the remaining resources are distributed among particular societal groups. This would allow governments to compensate 'losers' of retrenchment, in particular the so-called labor market 'outsiders' or 'working poor', by reforming social policies in a way that other, less affected groups carry a higher share of the reform.[3]

Generally, cuts in social welfare measures affect the labor force and poor people most. Especially the well-organized core workforce (the so-called 'insiders') will demand that the government offers protection from an increasing loss in social security. The focus on a single dimension, which implicitly underlies most research on welfare state reforms and change (e.g. by Kittel and Obinger, 2003; Huber and Stephens, 2001; Swank, 2005), thus neglects important aspects about the content of a reform (i.e. the size of compensation/changes within the redistributive dimension), and, more importantly, fails to capture important ideological differences among political actors. To concentrate on redistribution or the redistributive generosity of social policies as the second dimension of interest is justified by recent empirical evidence. Individuals demand more redistributive policies because they are increasingly exposed to economic risks (Rehm, 2009). Taking into account more dimensions than just expenditures therefore should yield different predictions about the role of party politics on welfare state reforms than the widely used one-dimensional conceptualization.

This flexibility that governments have on a second social policy dimension is important when we analyze the role of parties across institutional settings. Although institutional analyses of social policymaking are very popular (e.g. Steinmo and Tolbert, 1998; Immergut, 1992; Crepaz and Moser, 2004; Obinger et al., 2005), they usually do not take into account how the role of parties differs across institutional settings.[4] Whether or not a party government

[2] This assumption largely reflects the findings of the last decade (e.g. Castles, 1998; Huber and Stephens, 2001; Kittel and Obinger, 2003; Kwon and Pontusson, 2005).

[3] Labor market 'outsiders' largely consist of unskilled labor, long-term unemployed people relying on social assistance, people in public employment schemes, to some extent part-time workers and immigrants also belong to this category. These groups are often underrepresented by organized interests.

[4] Two exceptions are Green-Pedersen (2002; 2001) and Bonoli (2001) who both offer a partial framework of contingent effects of particular party governments and the institutional framework for the politics of retrenchment.

has a significant impact on the further development of welfare states is not only contingent on the state of the economy and societal factors, but also depends on the institutional setting of a country.[5] The presence or absence of institutional and political constraints in a country therefore enables or hinders parties in opposition and organized interests to pressure the incumbent to move closer towards their preferred policies. However, the constraining effect of institutions is likely to differ across parties in government. This means that institutions constrain left-wing governments differently from right-wing parties in power. Constraints in this paper are broadly defined as formal institutional constraints present in a country (such as a powerful second chamber of parliament or the federal organization of a country) and political constraints (such as powerful trade unions strongly vested with the social democratic party) that restrict governments in their capacity to implement their most preferred policy.[6]

The effect of government change and the policies implemented therefore differ in high- and low-constraints countries. The following paragraphs first discuss the mediating effects of political constraints for both types of government. As I start from the assumption that different party governments must reduce or at least stabilize spending, the reform mechanisms principally work through the redistributive dimension. I expect that both, left- and right-wing governments implement retrenching elements in their reforms, but that significant differences exist with respect to the redistributive elements implemented depending on the countries institutional structure. Figure 1 and 2 summarize the theoretical argument presented in the following paragraphs.

Left-wing governments in countries with little institutional and political constraints tend to implement welfare state reforms that stabilize overall spending, but at the same time compensate workers and people that are negatively affected by globalization and structural change by increasing transfers towards these groups. This is in line with recent empirical research, which shows that leftist governments aim at implementing more egalitarian policies and try to decrease inequality within society (see e.g. Brady and Leicht, 2008; Boix, 1998). For this reason, left-wing governments may be more successful than right-wing governments in implementing social policy reforms. When social democratic governments attempt to cut expenditures in times of fiscal constraints the affected segments of the electorate tend to 'trust' left-wing government more, i.e. workers assume that left-wing governments do not cut social spending more than necessary. By offering compensation for those who lose from retrenchment measures through greater redistribution, left-wing governments can also signal

[5] The importance of institutions for social policies is well established in comparative political economy (see e.g. Esping-Andersen, 1990; Steinmo and Tolbert, 1998; Ebbinghaus and Visser, 1998; Hall, 1997; Steinmo, 1989).

[6] The presented framework comes closest to Immergut's (1990; 1992) notion of veto-points. It differs from Tsebelis' veto-player framework (1995; 1999) because the capacity to produce political change is not solely dependent on the political system but also on the partisanship of the incumbent. The mechanisms proposed in this paper also differ from 'New Politics' literature, which is heavily based on institutionalist arguments. However, the factors crucial to Pierson's framework (2001; 1996; 1994) is the institutional stickiness of existing social security schemes that influence the further development and reforms (path-dependency). The formal institutional setting and party struggles are of limited importance.

their concern for the interests of the core workforce and the main 'losers' of globalization, i.e. unskilled labor and people that are not part of the core work force. A left-wing government thus can gain politically even from a reform that includes retrenchment measures if it offers compensation through an increase of the redistributive generosity of the major social security schemes.

Figure 1: Redistributive generosity mediated by political constraints – Implications for 'Insiders'

		Constraints	
		low	***high***
Government	***left***	medium	large
	right	low	low

When institutional and political constraints are large, the logic of the policymaking process for left-wing incumbents changes. Social democratic governments still receive greater potential support when reforming social policies, but they also have to accommodate conservative forces and must design the social policy reforms accordingly. For instance, the government may have to offer greater retrenchment to the conservative opposition to reach an agreement. More retrenching measures are against the interests of the core workforce, and labor unions will oppose such a reform and may take actions against such a plan. Labor unions can pressure the government through extra-parliamentary actions, such as demonstrations or strikes, or by activating union members that are also members of parliament.[7] In addition to greater retrenchment, the government then has to offer more compensation to the constituencies of labor unions, which generally are skilled workers that are well-integrated into the working process, the so-called 'insiders' (Rueda, 2005, 2007, 2006). In other words, to achieve greater retrenchment, the left-wing government has to make sure that 'insiders' are not affected too much by the reform. However, to increase the redistributive generosity for 'insiders', the government cannot increase the tax burden of the wealthy because this would provoke the resistance of the right-wing/conservative opposition.

[7] As an example, during the 12th legislative period, over 70 percent of the social democratic members of the German parliament were also union members (1990–1994). This figure even increased to over 80 percent during the 14th legislative period (1999–2003). On the other side, the share of Christian democratic members of parliament, which were also members of a labor union decreased from 7.5 percent to 1 percent, between the 12th and the 14th legislative period, respectively (Trampusch, 2003, p. 92).

A possible solution is a disproportionate retrenchment on the side of 'outsiders', i.e. the unskilled without regular employment, to satisfy the needs of the well-integrated core workforce and, at the same time, achieve a sufficient reduction in social expenditures to accommodate the opposition.[8] In contrast, in a political system with less constraints, a left-wing government does not need to accommodate conservative parties. Moreover, the government may face less pressure from lobbying groups representing 'insiders'. This implies that in such a less constraining system left-wing party governments are able to propose and implement reforms that redistribute the available resources in a more egalitarian way. In such a system, the compensation measures are likely to be directed towards all segments of the labor force and not only towards the core social programs that mainly benefit the core workforce represented by powerful organized interest. In high constraints countries, we should see greater distribution towards 'insiders', while in low constraints countries, we should see less redistribution that is particularly directed towards the well-integrated workforce.

Figure 2: Redistributive generosity mediated by political constraints – implications for 'outsiders'

		Constraints	
		low	**high**
Government	***left***	large	medium/low
	right	low	(low)

Adapting the same logic to right-wing governments, we should expect that right-wing governments that face few institutional constraints tend to decrease spending without compensating the losers of the reform. It is widely acknowledged that right-wing governments – during the times of welfare state expansion and development – preferred less expansive social policies than social democratic governments. Similarly, in times of fiscal constraints, conservative governments still prefer less expansive policies because they intend to lower the tax burden for reforms and capital owners to increase economic growth. With regard to the second dimension, right-wing governments do not have much interest in

[8] 'Outsiders', i.e. unskilled labor, long-term unemployed people relying on social assistance, people in public employment schemes, to some extent part-time workers and immigrants are often underrepresented by organized interests.

compensating particular groups in society, but mainly focus on retrenching policies. In countries with little institutional constraints and few or no access points for extra-parliamentarian actors to the decision-making arena, right-wing governments can implement their preferred policy without the consideration of special interests. Conservative governments, which are constrained, tend to end up with social policy reforms that bring little change both in terms of retrenchment and redistributive generosity because of the pressure that interest groups – mainly labor unions and, for right-wing governments, employers' organizations – exert on the government. In order to implement the necessary retrenching measures, the government would have to compensate special interest groups in a society, mainly organized labor. Labor unions demand measures, which alleviate the effect of the retrenching measures of the reform on their constituencies. However, these measures are against the interest of employers' organizations that are close to the conservative party in power. The compensation of the core workforce, however, is not attractive for a right-wing government, because the political gains from such a strategy in electoral competition is small. Since social policy and welfare state issues are traditionally occupied by left-wing parties, conservative parties cannot credibly offer policy solutions that are similar to those of left-wing parties. The distributive effect of right-wing party governments in countries with high constraints therefore is low or at least remains unclear.[9]

[9] Recent empirical research by Jensen (2010) shows that right-wing governments tend to even spend more on social welfare because the public in general does not trust right-wing governments when it comes to social policies. However, this study does not examine the impact of conservative/right-wing governments on various segments of labor market participants. Empirically, the policy position and the impact of right-wing governments on labor market 'outsiders' remain unclear and should be subject for further research.

2. Research Design

The selection of cases to empirically examine the theoretical argument and to trace the underlying processes follows a two-step procedure. First, I rely on the results of a preceding quantitative analysis (Hübscher, 2009). This analysis focused on the effect of left-party governments on social policies towards labor market 'insiders' and largely confirms the hypothesized relationships. The study, however, largely ignores the role of labor market 'outsiders' in this process and does not verify whether the postulated mechanism in fact leads to these results. Following a nested analysis design (Lieberman, 2005), I choose countries that are well explained by the quantitative analysis to substantiate the theoretical mechanisms described in the previous section in a manifold way.[10] First, I examine to what extent the policy positions of government parties in the two-dimensional social policy space are consistent with those underlying the theoretical discussion. Second, the case studies analyze the policymaking process of each reform in detail by focusing on the joint effect of institutions, political constraints and party governments on social policies vis-à-vis 'outsiders'.[11]

The second step in the case selection procedure is to select countries that show variation on the key independent variables (Geddes, 2003). Since I expect that the level of political constraints together with the party affiliation of the incumbent government affect the outcome of a reform, the countries included in the case study must have different levels of political constraints and varying party governments. Germany and Ireland both fulfill these criteria. In Germany, the level of political constraints is high because the formal institutional setting (federalism and a second chamber of parliament) allows opposition parties and lower-level state authorities to influence or block policy proposals. Moreover, influential interest groups have strong personal ties to political parties and can access the policymaking procedure in various ways (Trampusch, 2003; Streeck, 2003). The Irish political system, on the contrary, has little political constraints that inhibit the policymaking process (Chari and McMahon, 2003; Connolly and O'Halpin, 1999), e.g. Ireland is a unitarian state where regional authorities have very limited competences. Even though Ireland also has a bicameral system, the Seanad (the second parliamentary chamber) has little power in the legislative processes. Moreover the Taoiseach has the right to appoint eleven senators, which means that the governing coalition always has the majority in the Upper Chamber.

Finally, I select two social policy reforms in each country, one that was implemented by a conservative government and another one by a left-wing government. For Germany, I will analyze the 'Beschäftigungsförderungsgesetz' (employment promotion act) and the JobAQTIV law in 1994 and 2001, respectively. For Ireland, I choose the Financial and Social

[10] The results are available from the author.

[11] The terms 'change' and 'impact' are understood in a qualitative manner and I will not measure the impact the examined reforms had on different groups using individual level or macro-economic indicators.

Welfare Bills in 1996 and 2001.[12] The first reform in Germany was implemented by a conservative coalition government between the Christian Democrats (CDU/CSU) and the Liberals (FDP) led by Helmut Kohl. The second reform was designed by the coalition government between the Social Democrats (SPD) and the Green Party under chancellor Gerhard Schröder. The Irish Financial and Social Welfare Bill of 1996 was presented by a left-wing coalition government consisting of Fine Gael, Labour and the Democratic Left ('rainbow coalition'). Despite the fact that the existence of the classical left-right dimension has been contested in the context of Ireland, the 'rainbow coalition' can be labeled as left-wing government because the Democratic left, which had a significant impact on the government's policymaking, corresponds to traditional left-wing parties present on the continent.[13] In 2001, the reform was implemented by a conservative government consisting of Fianna Fàil and the Progressive Democrats.

To empirically analyze the reform processes, I evaluate the content of parliamentary minutes and legislative documents.[14] Unlike in Germany, where the reforms exclusively address unemployment and labor market issues, social policy issues affecting the labor market are not treated separately in a single legislative act in Ireland. Social policy issues are included in two major legislative bills, the Financial and Social Welfare Bills. I analyze the annual parliamentary discussions related to the Financial and the Social Welfare Bills in the Dàil Éirann (the Irish parliament). From these bills, I single out the relevant issues related to unemployment and labor market policymaking.

The issues of interests are primarily changes that affect various aspects related to unemployment insurance schemes, such as eligibility, benefits and contributory issues but also reforms affecting the functioning of the labor market, such as the implementation of placement agencies or measures inducing more flexibility of the labor market. In addition to the parliamentary minutes, I also add evidence from committee hearings (for Germany) and newspapers (Ireland) to include the policy positions of the relevant extra parliamentarian actors.[15] This is useful to substantiate the policy positions of the extra parliamentarian actors, mainly trade unions and employers' organizations, because the committee stage of the legislative process in Ireland has very little impact on the design of the draft and, unlike in

[12] Because the reforms analyzed in this study should be related as closely to the precedent quantitative analysis, I choose reforms that were designed and implemented before 2002. My quantitative analysis ends in 2002.

[13] On the Irish party system and its particularities and similarities with continental European party systems (see e.g. Mair, 1987; Laver, 1992; Gilland Lutz, 2003).

[14] The documents (parliamentary minutes, legislative proposals, and reports) for the German case studies are accessible online on http://dip.bundestag.de. The minutes of the committee hearings can be obtained from the parliamentary services. The parliamentary minutes of the Irish Dàil Éirann have been extracted from http://historical-debates.oireachtas.ie/index.html.

[15] The newspaper articles were selected from the Irish Times. The content of the Irish times is included in the LexisNexis data base. I used the following key words: unemployment, social welfare, labor market. I selected articles that were published up to two months before the respective bill was discussed in parliament and articles published during the period the bills were discussed in the Dàil.

Germany, the committee system is less institutionalized, and the committees varied over time. Besides the original positions of political parties and intentions of party governments at the outset of the reform, I analyze how the original reform plan changed during the policymaking process, and whether and how labor market ‘outsiders’ and ‘insiders’ are affected by the final bill that was approved by the legislature. In the subsequent empirical part, the core issues of the reforms are assigned to one of the two dimensions, redistributive generosity or spending, and summarized in tables 2 through 5 in the next two sections. Issues assigned to the redistributive dimension have in common that they affect the redistributive generosity of programs by altering benefits or contributions relative to an individual’s income, and/or are directed towards specific groups (e.g. higher income groups). Issues attributed to the expenditure dimension either affect every individual equally (e.g. general cuts of benefits, cut in the duration of benefits) or aim at increasing the efficiency of the labor market by implementing active labor market policies and outsourcing services to private agencies (see table 1).

Table 1: Reform Issues

Redistributive Issues		**Expenditure Issues**	
Issue	*Description*	*Issue*	*Description*
Benefits Compared to Previous Income	Unemployment insurance benefits often depend on previous earnings. The level of benefits sets the rate to which extent the original income will be replaced by unemployment benefits in case of job loss. This is a matter of redistribution if low incomes get a higher percentage of their previous income than individuals with a high previous income (or benefits for people in high income brackets are subject to a maximum benefit).	Duration of Benefits	Unemployed people are eligible for unemployment benefits during a certain period only. Shortening or extending the duration of benefits influences the expenditure dimension.
Contributions Relative to Income	The contributory rates can be different for employees given a particular income. A related issue is how the contributions are split between employee and employer and whether there are different contributory rates for different income levels.	Public Funding	Unemployment insurance schemes are mostly financed through contributions from employers and employees. However, a minor part of the insurance scheme is covered by the state and usually, the state also provides deficit guarantee. Higher/lower coverage by the state leads to more/less public expenditure.
Eligibility	The inclusion of new groups into the unemployment insurance scheme leads to a broader coverage of employees. Reforms can also exclude groups of employees (e.g. employees with salaries above or below a certain threshold, part-time employees, etc.). Eligibility is also related to the length of the necessary contributory period.	Active Labor Market Policies (ALMP)	Most labor market/unemployment insurance reforms nowadays include ALMP measures. Often, these policies aim at re-integrating unemployed people in the labor market more efficiently. The aim is to unburden the insurance scheme and ultimately to cut expenditures. Also included in this category is the establishment of (privately organized) regional placement centers with the aim of closer monitoring and lowering the costs of placing unemployed people.

3. Labor market reforms in Germany and Ireland

3.1 Germany

Employment Promotion Law 1994 (*'Beschäftigungsförderungsgesetz'*)

The *'Beschäftigungsförderungsgesetz'* was one of the first legislations focusing on active labor market policies in Germany. The Bill was presented by the conservative CDU/CSU/FDP government, which aimed at addressing the persistently high unemployment and the rigidity of the German labor market. The following issues were included in the reform proposal: First, part-time jobs should be promoted by compensating employees when changing from a full-time to a part-time job or accepting a part-time job after being unemployed. Second, to increase self-employment and create jobs, the government offered additional six months of unemployment benefits for people who start their own business. Both measures were intended to be financed through the unemployment insurance scheme. Third, the maximum income of a person working in a public employment scheme (so-called *'Arbeitsbeschaffungsmaßnahmen'*) should not exceed 80 percent of the salary a person in a regular work relationship would earn, and fourth, private placement centers were established. According to the theoretical framework presented in the previous section, the analysis should result in the overall conclusion that the privileges of the core workforce will be largely preserved and that 'outsiders', such as contractors and part-time employees, did not significantly benefit from this reform. As table 2 indicates, most of the adjustments implemented by the conservative party government only minimally reduced the privileges of the core workforce. The redistributive generosity of the unemployment insurance scheme was hardly affected by the *'Beschäftigungsförderungsgesetz'*. However, due to the budgetary pressure, the reform as a whole had to be cost neutral, the least. This aim was mainly achieved by reducing the salaries for people working in public employment schemes, which compensated the additional costs caused by promoting part-time work and self-employment through unemployment insurance schemes.

Table 2: Reform Issues and Direction of Changes 'Beschäftigungsförderungsgesetz'

	Effect on		**Dimension**	
Reform Issue	'Insiders'	'Outsiders'	Redistribution	Expenditure
Promotion of part-time work (3 year top up if person takes a part-time job after being unemployed or changes from full-time to part-time employment)	+	-	X	
Start up help ('Überbrückungsgeld'), additional six months of unemployment benefits when starting a business	+	-	X	
Reducing the salaries for participants in public employment schemes	+	-		X
Private placement centers	+	Neutral		X

Legend: + implicates that the implemented measure had a positive effect for the group indicated. – implicates that the reform negatively effects 'insiders'/'outsiders'.

Several elements, such as the promotion of part-time jobs and self-employment should result in an increase in overall labor market participation. This aim was particularly accentuated by the liberal party (FDP). The need for more part-time jobs and the involvement of larger segments of society in the labor market was widely acknowledged by the parties in opposition. Yet, the manner how the government planned to increase labor market participation and part-time jobs was sharply criticized. Members of the social democrats and the Green party stressed that the envisaged aim of increasing the number of part-time jobs would in the end be at the expenses of the core workforce, which would increasingly need to give up social rights, which were often tied to regular employment relationships. To minimize the negative effects that the reform would have on the core workforce, the government offered to compensate employees with regular work arrangements and unemployed people, who change from a full-time to a part-time job. The compensation offered was a further payment of unemployment insurance benefits (over three years) to even out the difference between a full salary and a salary paid to a part-time employed person.

The promotion of self-employment should also increase labor market participation, and in the long run even create additional jobs. Similarly to the governmental support of part-time jobs, unemployed people who decided to start their own business were offered compensation in the form of additional six months of unemployment insurance benefits. This capital should encourage entrepreneurial people and help them through the first months of their self-employment. The main beneficiaries from this legislative change were the well-educated and skilled people (core workforce), who lost their job or decided to start something on their

own.[16] People with little education and vocational training often do not have the expertise and know-how to launch a business or fail to be successful in the long run. Whereas German labor unions, together with the social democrats, asked for an extension of the planned six months assistance, the employer's organizations opposed this part of the legislation because *'the allocation of financial means for start-up firms and to encourage self-employment is not a core task of the unemployment insurance scheme and their contributors'*, (written statement to the *'Ausschuss für Arbeit und Soziales'*).[17] Overall, the efforts by the government to reduce costs and increase labor market participation hardly affected 'insiders' negatively. Their privileges and the redistributive generosity of the unemployment insurance scheme were preserved and some of the changes even improved their standing in the labor market, e.g. the immediate eligibility to participate in training and qualification measures after losing the job certainly helps unemployed people to improve and adapt their skills, what makes it more attractive to hire them.

The legislative proposal did not include measures, which were exclusively targeted labor market 'outsiders'. On the contrary, the decision to cut salaries paid to people working in public employment schemes in order to finance the promotion of part-time jobs and to increase labor market participation had a negative effect on these groups of society. The salary cuts were framed as *'increasing the incentives for people working in the so-called '2nd labor market' to re-integrate themselves in the competitive first labor market'* (Gesetzesentwurf , 17.05.1994, p. 9, Beschlussempfehlung und Bericht – Ausschuss für Arbeit und Sozialordnung, 13.04.1994, p. 27) by the government. The parties in opposition strongly opposed this change. The social democrats accused the government to *'suspend tariff autonomy and to establish low-wage jobs by law [...]',* (Renate Jaeger, SPD, parliamentary minutes, 14.04.1994, p. 18944). The 20 percent cuts in salary finally established must be seen as a compromise, because the employer's organization pressured the government to cut salaries by 50 percent and even criticized the governing coalition that it would not exploit its room to maneuver (written statement to the *'Ausschuss für Arbeit und Soziales'* by the DIHT).

The private placement centers should help to decrease public expenditure and pressure the public job agencies to work more efficiently. It was also expected that the private job agencies will be better able to establish close ties with business and therefore be more successful in placing unemployed people as fast as possible. Though the service was open to everyone, the opposition argued that *'unemployed people which are hard to place will be left behind, depending on the public placement centers, whereas unemployed with more*

[16] Evidence from more recent start-up programmes show that only a small percentage of needy people start their own business (Wolff and Nivorozhkin, 2008) and though these self-employment programmes of the German government have been positively evaluated, studies show that a large percentage of the recipients are male and have qualifications and skills above average (Caliendo et al., 2007).

[17] All translations by the author.

options will be placed through private centers', (parliamentary minutes, 14.04.1994, p. 18936). Therefore, the main beneficiaries will be skilled and well-educated people who lost their job.

Mediating Effects of Political Constraints

At the time when the *'Beschäftigungsförderungsgesetz'* was debated in the two chambers, the conservative government was constrained by a majority of the opposition in the *'Bundesrat'* (second chamber of parliament), which is the most important veto player in the legislative process and consists of the representatives of the federal states. The SPD-led opposition was represented by 9 SPD members as opposed to 7 for the conservative parties in government. The initial bill as proposed by the government was heavily criticized by the SPD, the Green Party and the PDS/Linke Liste in the *'Bundestag'* and would not have passed the SPD-dominated second chamber of parliament. However, there was disagreement whether the law needed the approval by the second chamber of parliament to pass in the first place. Whereas the government parties claimed that the reform proposal did not need the approval by the second chamber, the opposition parties insisted that the legislative proposal included changes, which concern the competences of the states and thus requires the approval by the second chamber of parliament. Oskar Lafontaine (SPD), prime minister of Saarland and leader of the social democratic party, denied the support for reform proposal. Consequentially, the bill was rejected by the left-wing majority.

After the defeat in the second chamber of parliament, the *'Ausschuss für Arbeit und Soziales'* in the *'Bundestag'* quickly redrafted the reform and eliminated the paragraphs falling under the competence of the states. The disputed issues were integrated into a separate reform plan and postponed to be implemented at a later point. This strategic move allowed the coalition government to circumvent the second chamber of parliament and prevented a blockade of the reform process. Although the SPD-led *'Bundesländer'* and the opposition parties in the parliament opposed this strategic maneuver, their hands were tied and the reform was finally approved after the fourth reading of the bill in the parliament. Because of the intervention by the parties in opposition in the second chamber of parliament, the reform as a whole did not dismantle the unemployment insurance scheme as such, e.g. it did not alter the contribution scheme or the entitlements for regularly unemployed people and therefore affected the core of the redistributive scheme in minor parts only. One reason why the government coalition between the CDU/CSU and the FPD was not able to draft and propose a reform with a more radical impact on the redistributive scheme was the lack of support for the government's proposal in the second chamber of parliament. The implementation of the *'Beschäftigungsförderungsgesetz'* by the conservative government shows that a more retrenching reform at the expense of the core workforce was politically not possible, mainly because the political constraints that the government faced in the second chamber was too large.

The political cleavages in the debates of this reform process correspond to the assumption made in the theoretical section. The government was under great pressure to reform the labor market in order to stabilize the social insurance scheme and ameliorate the general conditions on the labor market. The main issues included in the '*Beschäftigungsförderungs-gesetz'* aimed at cutting expenditures for labor market policies and reducing the redistributive and encompassing effect of labor market policies. Most measures, however, indirectly affected unemployed people negatively and made it more difficult for people with little education and professional skills to find a new job.[18] In the end, the reform only offered superficial solutions to a more complex problem, which was the rigidity of the German labor market and the ongoing structural change of the German economy. However, due to the partisan constellations in the important policymaking bodies, a more encompassing reform was not possible.

'Gesetz zur Reform der Arbeitsmarktpolitischen Instrumente 2001' (Job-AQTIV)

Similar to the preceding conservative government, the coalition between the Social Democrats and the Green party also experienced significant reform pressure because of high unemployment figures and a high budgetary deficit. The reform of the labor market and a significant decrease in unemployment thus were central issues of the social-democratic election campaign and also a cornerstone of the subsequent coalition treaty. Table 3 summarizes the major reform issues associated with the 'Job-AQTIV' legislation. The overarching goal of the 'Job-AQTIV' reform was to lower the duration of unemployment by increasing labor market flexibility through more vocational training and education measures for people in and out of employment.[19] In addition, the reform also aimed at increasing the efficiency of the job placement centers by establishing improved reintegration procedures for unemployed people.

[18] Gregor Gysi (PDS/Linke Liste): *'I do not criticize the fact that the government aims at cutting expenditure or to open up new sources of income, I criticize that this reform is mainly at the expenses of the weakest members of our society while the wealthy are always treated with care'*, (see parliamentary minutes, 14.04.1994, p. 18935).

[19] The name of the reform AQTIV is an abbreviation that summarizes the main goals of the legislative proposal: A = Aktivierung (activation), Q = Qualifizierung (qualification), T = Trainieren (training), I = Investieren (investment), V = Vermitteln (brokerage/improved placement).

Table 3: Reform Issues and Direction of Changes 'Job-AQTIV 2001'

	Effect on		**Dimension**	
Reform Issue	'Insiders'	'Outsiders'	Redistribution	Expenditure
Secure work for specific groups (elderly/young people) by offering them the opportunity to participate in training measures	+	+/-	X	
Job-rotation scheme (unemployed person – temporarily – takes the job of a person that participates in qualifying measures	+	+	X	X
Subsidies for employers/firms if temporarily employing long-term unemployed people	-	+		X
Implementation of degressive elements to the unemployment assistance scheme (if person declines a job, declines to participate in additional vocational training)	Neutral	-		X
Increase of the maximum period temporary employment ('Leiharbeit') is allowed	+/-	+/-		X

Overall, the 'Job-AQTIV' legislation reflects the general direction of labor market policymaking under a leftist government as outlined by my theoretical argument. The government aimed at re-activating unemployed people, reintegrate labor market 'outsiders' and employees and help labor market participants with an increased probability to lose employment (mainly elderly employees). The new policies were also meant to focus on integrating women and people with lower skills and little education, which contrasts traditional labor market policies in Germany, which were mainly directed towards the core work force, i.e. the unionized and skilled male population. Though efforts were made, the 'Job-AQTIV' legislation did not address these issues very successfully, a fact that was harshly criticized by the parties in opposition. According to the theoretical framework we should come to the conclusion that the reform will make a strong effort in cutting expenditure without significantly helping labor market 'outsiders' and largely preserving the privileges of the core workforce.

The most important issue included in the 'Job-AQTIV' legislation was the so-called 'job-rotation' scheme. This scheme should, on the one hand, help elderly and young people to acquire further skills, which should secure their employment status and increase their

competitiveness. On the other hand, long-term unemployed people should get the chance to participate in 'on the job training', while temporarily taking over the position of a regular employee who participates in training measures. Firms participating in the job-rotation scheme will be subsidized by the government. Another measure designed to increase overall labor market participation was to extend the period temporary employment is allowed. In addition, private placement centers should increasingly engage in 'profiling' unemployed people and help them to find an adequate job.

The prime intention of the job-rotation scheme was to help both people with regular work arrangements, which are most exposed to the risk of losing their job (young and elderly employees) and labor market 'outsiders', which should be re-integrated. Criticism evolved around the government's proposition how the additional vocational training should be financed. The intention of the government was to finance the qualifying measures through the unemployment insurance scheme. Even though the peak labor union (DGB) agreed that additional training was needed, they disapproved the idea to finance the measure through the unemployment insurance scheme. Labor unions would have preferred if costs related to the 'job-rotation' scheme would be paid through the tax system (statement by Ursula Engelen-Kefer (DGB) to the *'Ausschuss für Arbeit und Soziales'* 10.10.2001, p. 9). To pass on the costs associated with this legislative change to the general taxpayer would again be beneficiary for labor market 'insiders' since financing training measures is not the key task of unemployment insurance schemes and additional costs imposed on the scheme increase the pressure to adjust benefits paid to people covered by the scheme. Similar to the labor unions, the employer's organization also opposed the way the scheme should be financed. However, in line with their general policy preferences, the additional qualification measures should not be financed by employers and employees but be based on the principle of self-responsibility (minutes *'Auschuss für Arbeit und Soziales'* 10.10.2001, p. 3). The impact of the 'job-rotation' scheme for labor market 'outsiders' is mixed. On the one hand, labor market 'outsiders' are given the chance to be integrated in a regular working environment, on the other hand, the period is strictly limited and there is no guarantee that the person finds a follow-up job.[20]

Bridging the gap between long-term unemployed people and people in the first labor market was seen as a necessity by all parties. The job-rotation scheme, however, was criticized as *'inflating the bureaucracy in the job placement centers'* (FDP, CDU/CSU and peak-employer's organization). The FDP also stressed that small and medium firms will fear the costs to participate in the scheme. To combine the further education of targeted groups with the (re)-integration of 'outsiders' was also criticized, because job-rotation should only be an instrument to re-integrate people and not offering (additional) qualification measures for 'insiders'. In the view of the employer's representatives, the legislation as proposed by the

[20] The +/- in the table summarizing the impact of the implemented measures for labor market 'insiders' and 'outsiders' implicates the ambivalent impact of the job-rotation scheme for labor market 'outsiders'.

government put too much emphasis on training measures.[21] Rather than activating the labor market through the job-rotation scheme, the opposition would have preferred a more encompassing and drastic reform of the labor market, including severe cuts in unemployment benefits and contributions. Especially the liberal party argued that job security would increase with the further deregulation of the whole labor market and lower costs associated with employment (Irmgard Schwaetzer, FDP: *'Why doesn't the government acknowledge that for most employees a decrease of their salary would be better than losing their job entirely?'*, parliamentary minutes, 27.09.2001, p. 18519).

The controversially discussed extension of temporary employment (*'Leiharbeit'*) should increase labor market participation and especially help people employed in low-wage sectors keeping their job. The plan to include workers with temporary contracts in the job-rotation scheme was sharply criticized by labor unions and the PDS/Die Linke. Both, the leftist political party and the labor unions were generally skeptical regarding temporary employment, mainly due to the fact that temporary contract would undermine wage bargaining autonomy and boost the low-wage sector. To include temporary employed people in the job-rotation scheme was seen as a subsidy for the contracting agencies and part of the labor unions (e.g. IG-Metall) feared that instead of securing employment for elderly workers, the inclusion of contractors would in the end crowed out the elderly skilled labor (see *'Ausschuss für Arbeit und Sozialordnung'*, 10.10.2001, p. 17).

Though the 'Job-AQTIV' legislation included several attempts to re-integrate 'outsiders' of the labor market, these attempts on the redistributive dimension directed at 'outsiders' were moderated by the rather huge concessions made towards the 'insiders'. This happened mainly through the promotion of additional professional training – financed through the unemployment insurance scheme – for (elderly) employees in regular employment. Similar to the *'Beschäftigungsförderungsgesetz'*, retrenchment should not happen through cuts in benefits but through increased efficiency in the placement of the unemployed. Even though the parties in opposition called for a more encompassing reform with a more retrenching effect on the social insurance schemes (especially the combination of the unemployment assistance and social assistance scheme), the governing coalition did not include these suggestions.[22]

[21] *'We have to make it very clear that the 'job-rotation-scheme' has to enhance the chances for unemployed people on the labor market and should not be used for targeted training measures beneficiary to employees'*, (written statement to the *'Ausschuss für Arbeit und Sozialordnung'*, p. 5).

[22] It can be argued that since the government was under pressure to cut expenditure, it might have tried to impose more financial burden to the sub-national units, e.g. shortening the period of unemployment insurance benefits are paid, often lead to an increase in social assistance payments. Social assistance however, is administrated through the 'Länder' and therefore a change would have needed the support of the 'Länderkammer'.

Mediating Effects of Political Constraints

The content as well as the timing of the 'Job-AQTIV' legislation was influenced by several types of constraints. First, the government had to signal to the electorate that the announcements made during the electoral campaign in 1998 to reform the labor market and to significantly decrease the level of unemployment were not only empty promises. However, the reason why the government was reluctant to engage in reform activities earlier – especially to propose reforms that significantly affected the redistributive generosity towards 'insiders' – was motivated by the fear that the labor unions would withdraw from the *'Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit*' (Alliance for Jobs). The cautious design of the reform and the fact that the government was very considerate towards the needs of the labor unions led to criticism by the parties in opposition. Irmgard Schwaetzer (FDP), for example, urged the government to *'wake up'* and to *'end the flirtatious relationship with the labor unions, which is having a catastrophic impact on the unemployed'*, (parliamentary minutes, 27.09.2001, p. 18519). Second, the fact that the second chamber of parliament was dominated by the opposition parties had an important impact on the original reform plans. As Manow and Burkhart (2007) show, in situations were governments are divided, the incumbent anticipate the veto of the second chamber and draft the reform proposals accordingly, e.g. restrain themselves in order to avoid the blockage of legislative processes.

According to the theoretical argument, reforms by a leftist government that is constraint by the institutional setting and its close ties to labor unions should lead in disproportional retrenchment on the back of labor market 'outsiders' and preferential treatment of labor market 'insiders'. The empirical evidence presented in the previous paragraphs largely confirms these expectations. Even though the government should have cut expenditure more (according to the opposition parties), the main cuts implemented only affected people living from unemployment assistance. Regular unemployment insurance benefits, which are directed towards 'insiders', were not affected by these cuts. An attempt to cut the latter benefits would have resulted in a loss of political support from labor unions and their representatives in parliament. Other measures, such as the job-rotation scheme, which was expected to reduce expenditure also worked in favor of labor market 'insiders'. The extension of temporary employment had a negative effect on labor market 'outsiders'. Empirical evidence shows that employees with fixed-term contract earn significantly less and have difficulties to find a regular job (e.g. Gash, 2008; Giesecke and Gross, 2003).[23]

The legislative change brought by the 'Job-AQTIV' law is an important landmark in German labor market policymaking and already included many aspects of the subsequent series of reforms known as 'Hartz-reforms' (see e.g. Leschke, Schmid and Griga, 2006; Fleckenstein,

[23] Research by Giesecke and Gross (2003) shows that temporary employees risk to end up in a 'chain of temporary' jobs and have difficulties finding regular employment. Long sequences of temporary employment deprive individuals from social rights and may lead to social exclusion.

2006; Berthold and von Berchem, 2003).[24] The Job-AQTIV legislation was a first shift away from a passive system of guaranteeing income security and the commitment to maintain the standards of living towards a more active labor market policy, which aimed at activating the unemployed and increasing the flexibility of the rigid German labor market. Though the Hartz-legislations also included cuts in benefits for the core workforce and reduced the duration unemployment benefit is paid, many of the measures that should open up the labor market and decrease the shadow economy, mainly had a negative effect on unskilled labor, this is also supported by Martin and Thelen (2007, p.34), who conclude that the Hartz reforms deepened the divide between labor market 'insiders' and 'outsiders'.[25] The mini- and midi-job schemes, for example, do not offer full social insurance coverage and therefore predominantly reduced the entitlements for 'outsiders'.[26]

4.2 Ireland

Financial and Social Welfare Act 1996

In 1996, the Irish cabinet consisted of a three party coalition between Fine Gael, Labour and the Democratic Left. The Democratic Left was represented with one minister only, De Rossa, who was the party leader and served as Minister for Social Welfare within the coalition. The social policy reforms presented by the center-left government primarily aimed at addressing the needs of the very poor, or 'outsiders'. De Rossa, characterized the bill as the *'first integrated approach to address the most pressing social and economic problem, long-term unemployment',* (parliamentary minutes, 12.03.1996). Even though the Irish economy was booming, long-term unemployment and social inequality was a major problem of the Irish economy. The minister for Social Welfare justified the measures proposed in the budget and the welfare act that *'they are intended to give particular help to our unacceptably large number of people who are long-term unemployed because this group is not benefiting enough from the current dynamic growth in employment'*, (parliamentary minutes, 23.01.1996).[27]

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[24] The Hartz reforms further promoted instruments such as the 'self-employment' scheme (known as 'Ich-AG'), tightened and further enforced the 'capability to work' definition and put more emphasis on personnel service agencies (temporary job agencies), to name a few. Already discussed during the preparation phase of the Job-AQTIV legislation but only implemented in the course of Hartz IV was the merger of unemployment assistance and social assistance into a single means-tested scheme (see Konle-Seidl, Eichhorst and Grienberger-Zingerle, 2007, for an overview over the changes implemented by Hartz I-IV).

[25] According to Kemmerling and Bruttel (2006, p. 106), the retrenchment generated by the Hartz legislations are not substantive given the size of the German welfare state.

[26] Mini- and midi-jobs are best suited for people – mainly married women – who are insured through their partner and/or are looking for a part-time job, such as students and people in retirement (see e.g. Leschke, Schmid and Griga, 2006; Konle-Seidl, Eichhorst and Grienberger-Zingerle, 2007).

[27] During the parliamentary debate, members of the coalition also emphasized that the social needs of 'outsiders' should finally be addressed, e.g. Joe Costello (Labour Party) stated that *'this is the first time the long-term unemployment problem has been the main focus of a budget'*, and Liz McManus (Democratic Left) pointed out the failures of previous governments to help the poor: *'For decades, social and economic policy has failed to address*

The overview in table 4 already shows that the majority of the issues affected the expenditure dimension and was mostly targeted at labor market 'outsiders'. In addition, both, 'insiders' and 'outsiders' benefited from an overall increase in redistributive generosity. Several issues related to the PRSI scheme (PRSI = payment related social insurance scheme), should lead to an increase in the take home pay of employees belonging to the low-income bracket, e.g. by exempting the first $80 from the payments to the PRSI scheme) while simultaneously securing the funding of the scheme by increasing the contributory ceiling.

Table 4: Reform Issues and Direction of Changes for 'Financial and Social Welfare Bill 1996'

	Effect on		**Dimension**	
Reform Issue	'Insiders'	'Outsiders'	Redistribution	Expenditure
Increase of contributory ceiling of core social welfare programs (PRSI)	+	-	X	
Exemption of the first £80/weekly income from payments to core social security programs (PRSI)	+	-	X	
£80 recruitment subsidy for employers when hiring long-term unemployed person	Neutral	+		X
Implementation of community employment schemes	Neutral	+		X
Compensation of long-term unemployed for taking low-wage or part-time job	-	+	X	

Fianna Fàil, the main party in opposition, together with the neo-liberal Progressive Democrats criticized the exclusive focus on the poor and people working in atypical employment relationships while ignoring the needs of middle- and high-income workers. Michael Dowell from the Progressive Democrats, for example, criticized that *'[...] the government has shifted the burden of PRSI from the lower paid to the top of the structure'*, (parliamentary minutes, 23.01.1996). Measures related to the promotion of part-time work (e.g. subsidies for employers) were less contested than the shifts affecting the redistributive dimension of the PRSI scheme.

The 1996 Social Welfare and Financial Bill also included considerable changes on the expenditure dimension. Other than in Germany, the changes implemented by the 'rainbow

the needs of two groups in society, those without work and those in low paid jobs', (both quotes: parliamentary minutes, 31.01.1996).

coalition' increased public expenditure and expanded spending on social welfare issues. This was possible because the Irish economy was booming and tax incomes increased during the 1990s. Even though all parties agreed that long-term unemployment was a serious problem of the Irish economy, many measures proposed by the 'rainbow coalition' were opposed by the conservative parties. Critical voices regarding the help for long-term unemployed were also raised by some exponents of Labour, which was part of the coalition government. They were concerned that the subsidies for employers who hire long-term unemployed people would harm employees with regular working relationships. Roising Shortall (Labour Party) basically echoed the objections of the peak labor union (ICTU) by saying *'we need to be extremely careful to ensure that proper guidelines are in place to safeguard against its [the implementation of the recruitment subsidy] resulting in the displacement of existing workers by long-term unemployed people – on the back of a subsidy such as this – with the potential of benefiting employers only'*, (parliamentary minutes, 01.02.1996).[28] The Progressive Democrats did not support the strategy of the government to increase labor market participation and lower long-term unemployment. According to Mairin Quill *'the key to ensuring competitiveness is a reduction in costs for industry. In particular we must seek to reduce the cost of employing people. That means substantial cuts in personal taxation and PRSI both for employees and employers'*, (parliamentary minutes, 30.01.1994). Overall, the conservative opposition would have preferred tax reductions and a substantial reform of the taxation system over the measures directed at the very poor. They expected that the government takes advantage of the booming economy, which would have allowed to implementing tax cuts.

Mediating Effects of Political Constraints

Irish governments – together with the peak labor and employers' organizations – negotiated three-year macro-economic programs, which set the lines for broader macro-economic policies and, more importantly, laid the ground for the development of the industrial wages. The annual Social Welfare Bill and the Financial Bill need to be in agreement with these broader principles defined within the program. However, the final design of the proposals and reforms is in the hands of the respective government. Interest organizations have only limited access to the actual legislative policymaking process. Thus, there is only little direct in influence of interest groups on the Financial Bill and the Social Welfare Bills. In the Bill presented in 1996, the strong role of the Democratic Left in the government is evident. Even though the Democratic Left only had one government seat (De Rossa), De Rossa and the Democratic Left was – according to Mary Harney (leader of the Progressive Democrats) – *'running the show'* and considerably pulled the incumbent 'rainbow coalition' towards the left on the social policy dimension. John O'Donoghue (Fianna Fàil) even claimed that *'in*

[28] The ICTU (Irish Congress of Trade Unions) was also worried that the Budget and the Social Welfare Bill will neglect the interests of PAYE workers, i.e. employees in a regular working relationship who contribute to the PRSI fund ('The Irish Times', January 24, 1996).

delivering the Budget Statement, the Minister for Finance, Deputy Quinn, showed all the sincerity of a hostage speaking at gun point. When the Minister for Social Welfare, Deputy De Rossa, demanded a political ransom from the Government, it decided to pay, and the Minister, Deputy Quinn, was sent out to read the terms of surrender. The Minister, Deputy De Rossa, is the real Taoiseach', (parliamentary minutes, 25.01.1996). Bertie Ahern (Fianna Fàil) also complained that *'economic policy has been hijacked by Labour and the Democratic Left, a party with one percent of national support'*, (parliamentary minutes, 23.01.1996).

With little political and institutional constraints and a marginalized Fine Gael within the 'rainbow coalition', the left-wing government was able to design the Social Welfare Bill in a way that it addressed the needs of those societal groups that were generally neglected, specifically the long-term unemployed people and other groups that are not represented by trade unions and other interest organizations. This focus on labor market 'outsiders' was not appreciated by the center-right parties who accused Labour that *'it has deserted the trade union movement again. The PAYE workers, the trade union members and the small entrepreneurs have been let down by this government'*, (Bertie Ahern, parliamentary minutes, 17.04.1996). These political processes and social policy outcomes of the 1996 Social Welfare Bill confirm that unconstrained left-wing party governments are willing and able to implement policies that are beneficiary to societal groups who are generally underrepresented in political systems and often left behind. After many years of center and center-right governments, the parliamentary discourses and media coverage also documents how unusual the government's emphasis in social policymaking on the poorly organized 'outsiders' in Ireland was. It was possible only because the left-wing government did not have to find a compromise with the center parties.

Financial and Social Welfare Act 2001

In 2001, Fianna Fàil was governing together with the Progressive Democrats. Nominally, the Progressive Democrats were fairly weak, but just as for the Democratic Left in the previous government, their influence on the policy agenda was strong. Mary Harney, the party leader, was appointed as deputy prime-minister (Tanaìste) and in charge of the important Ministry of Enterprise, Trade and Employment. Despite the strong rhetoric used by Dermot Ahern, the Minister for Social, Community and Family Affairs, the shifts in the Irish social welfare system were less pronounced and comprehensive than in the previous Bills implemented by the left-wing government. In 2001, he opened the second reading of the Bill by claiming that *'we have turned around our social welfare system from one that simply compensates people for economic failure to one that helps people to help themselves'* (Dermot Ahern, Fianna Fàil, parliamentary minutes, 21.02.2001).

As the overview in table 5 indicates, and as we would expect based on the theoretical framework presented in the previous section, the focus of the Social Welfare Bills presented by the Fianna Fàil-Progressive Democrats government perfectly mirrors the different

approach of the governments towards social policies. The Budget and Social Welfare Bill by this liberal-conservative coalition did not include specific measures targeting at unemployed people, and the government did not implement any encompassing new programs or policies. This was not only the case during the incumbency of the conservative government after 1997, but also during the period preceding the leftist 'rainbow coalition' when unemployment was still high and the Irish economy was not performing well. The main focus of the Fianna Fàil/Progressive Democrats government was a reform of the Irish tax system and to reduce income taxes. Mary Harney (Progressive Democrats) characterized the government's program as following: *'this government is committed to cutting tax rates [...], if low tax works for corporations, it works for the workers who work in those corporations'*, (parliamentary minutes, 07.12.2001).

Table 5: Reform Issues and Direction of Changes for 'Financial and Social Welfare Bill 2001'

	Effect on		**Dimension**	
Reform Issue	'Insiders'	'Outsiders'	Redistribution	Expenditure
Tax cuts for higher income brackets	+	-	X	
Increase of PRSI ceiling	+/-	Neutral	X	
Reduction of contribution rate (for regular employees)	+	Neutral	X	
Minimal increase of social welfare benefits (adjustment to annual inflation)	+	-	X	X
Abolition of PRSI contributory ceiling for employers	Neutral	Neutral		X
Reduction of social insurance contributions for self-employed	Neutral	Neutral		X

In general, the two bills reinforced the orthodox and neo-liberal economic policies of the Fianna Fàil/Progressive Democrats Government and – according to Joe Higgings (Socialist Party) – will *'result in an increasing polarization between the super rich and the very highly paid on the one hand, and the poor and low middle income earners, on the other hand'*, (parliamentary minutes, 28.02.2001). The set of policies that can be attributed to the redistributive dimension is dominated by changes affecting the taxation of income, with an emphasis on tax cuts privileging people in higher income brackets and business owners. Though tax cuts for business and companies were considerable, IBEC (Irish Business and Employers Confederation) opposed the abolishment of the PRSI contributory ceiling, mainly they feared a loss of overall economic competitiveness ('The Irish Times', December 7, 2001).

The changes that altered the redistributive characteristic of genuine social policies (such as the contributory and benefit schemes) were bound to the standard increase in the employees' PRSI ceiling and a very limited decrease of the PRSI contributory rate for employees. Policy changes affecting the expenditure dimension included moderate increases of social insurance benefits and social welfare assistance. However, in most categories these increases were just enough to cover for the generally increasing costs of living and the persistently high inflation. Positive effects for labor market 'outsiders' were marginal. The raise in benefits offered by the government hardly covered the increasing costs of living, a fact that has been widely criticized by the labor unions and even more so by the INOU (Irish National Organization of the Unemployed) and CORI (Conference of Religious Ireland). They made clear that the benefits offered to their clientele (mainly 'insiders') in this package were close to the minimum that they would accept. However, in a setting where institutional constraints are low, governments do not need to accommodate the 'insiders' and conservative government put little emphasis on improving the situation of 'outsiders'.

Mediating Effects of Political Constraints

Despite the relatively good economic conditions, labor unions became more critical towards the tripartite partnership agreements. After years of wage restraints in some (mostly the manufacturing) sector, the labor unions expected that their constituencies were rewarded and finally received more generous benefits in the wake of the economic boom. The government saved the partnership agreement by accommodating the unionized 'insiders' and employers with a pay review and generous tax cuts. Labor market 'outsiders' were put off with a minimal increase in welfare benefits. This confirms the theoretical assumptions as the economic situation would have allowed for a more egalitarian reform, but the center-right government was not much interested in such a more balanced reform.

Even though the formal institutional setting did not change between 1996 and 2001, the de facto political constraints that the two governments faced have slightly changed. In particular, the government by Fianna Fàil and Progressive Democrats had to accommodate organized interests to save the social partnership agreement as ICTU and other volunteer organizations implicitly threatened to leave the 'Programme for Prosperity and Fairness'. The threat was credible because the power balance between the actors negotiating the partnership programme has shifted. Whereas in the beginning, when the government initiated the partnership programmes, the three participating groups had similar interests and depended on each other, the power balance had shifted towards organized labor in 2001. Due to near full employment and even a possible shortage of labor supply, the unions had greater bargaining power than in 1996 when unemployment still was high. This political constellation was mainly in favor of 'insiders' and at the disadvantage of societal groups that – unlike peak-labor unions and employer organizations – were not as important for future tripartite agreements.

Despite these shifts in the relative political power of the incumbent and the positive economic performance, the 2001 reform documents how the focus of a liberal conservative government regarding social policy reforms and the economy differ from a social democratic government. The needs of labor market 'outsiders' and people in atypical employment relations were not addressed by the government despite the fact that income inequality and the low wage sector in Ireland (which mostly hired unskilled people) was significantly increasing during this period. The pattern of the redistributive generosity of the core welfare state programs thus did not change considerably and it mainly helped the well-organized insiders for reasons discussed in the previous paragraphs. Moreover, the Social Welfare and Financial Bill 2001 led to considerably lower social spending, which continuously fell under the conservative incumbency, from 11.5 percent of GDP when the government took office to around 7 percent in 2001 (see parliamentary minutes, 07.12.2001).

Conclusion

This study has examined the mediating impact of party governments and political constraints on social policy reforms. In particular, I assess labor market policymaking in two countries with varying levels of institutional constraints, Ireland and Germany, under each, a left-wing and a conservative party government. Whereas in Germany, the social democratic government had to accommodate the opposition in the upper chamber of parliament and compensate organized interests (mainly labor unions), the conservative government 'only' had to consider the social democratic majority in the second chamber of parliament. Both governments, however, were unable to design encompassing labor market reforms and both governments in the end privileged labor market 'insiders' over 'labor market' outsiders despite the stated aim to re-integrate long-term unemployed and increase overall labor market participation.

In Ireland, the 'rainbow coalition' government managed to implement a reform that predominantly focused on labor market 'outsiders' and aimed at improving their social situation. Because of a low level of political constraints, the social welfare minister from the Democratic Left was able to implement encompassing social policy reforms that led to an increase in overall redistributive generosity and especially targeted the long-term unemployed people in society. In contrast, conservative government in Ireland in 2001 faced a fairly good economic climate and was not under pressure to cut expenditure. However, over all welfare state efforts decreased and wage inequality significantly increased. People employed in the low-wage sector were only partly covered by the insurance-based social security schemes and the coalition between Fianna Fàil and the Progressive Democrats did not significantly improve their situation. The government focused on implementing large tax cuts for business and people in high-income brackets. The results of the analysis largely confirm the expectations, derived from the theoretical framework and add to the work by Rueda (2005; 2007). The result also contradicts the popular wisdom that left-wing parties pursue policies that aim at helping the most disadvantaged in society. The joint impact of party governments and political constraints works in favor of the core workforce covered by insurance based social security schemes and at the expenses of labor market 'outsiders' in countries where institutional constraints are high. The results to some extent add to the 'paradox of redistribution' formulated by Korpi and Palme (1998), but imply that this paradox is especially prominent in countries where political constraints are high, such as Germany.

To further explore the mediating effect between party government and political constraints and whether the implications of this effect have changed over the recent decades, evidence from a wider range of countries would be helpful. Such an enterprise would benefit from more data on social policy decisions in parliaments. The often-used aggregate measures of policy change, e.g. data on social spending, are not useful in this context because they also reflect developments and changes that are unrelated to partisan choices and only 'indirectly'

measure social policy reforms. This study presented a detailed analysis of reform contents and processes in different countries with varying levels of constraints. A next step could be to collect a more encompassing data set that captures the reform content of such proposals and debates in a comparative perspective. Such data of social policy reforms/welfare state change would help to better explore how politics influence social policies in post-industrial democracies.

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