Decommodification and Activation in Social Democratic Policy: Resolving the Paradox

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In Esping-Andersen's influential work on three worlds of welfare capitalism, decommodification appears as the central characteristic of the welfare state, and efforts to de-commodify labor are posited to be the main goal of social democracy. Since decommodification is defined as exit from the labor market with little or no loss of income, social democrats' emphasis on decommodification clashes with another purported goal of social democracy, high labor force participation. Drawing on research demonstrating the divergent employment effects of various decommodifying social policies, we resolve the existing paradox by showing that social democratic parties are supportive of decommodifying social policies *insofar as* these policies do not reduce aggregate levels of employment. Pooled time series analysis of employment-impeding policies (long-term unemployment replacement rate, social security and payroll taxes, and employment protection) suggests that they are associated with Christian democracy rather than social democracy. Instead, we find that social democracy is a key determinant of employment-friendly policies, such as active labor market spending and short-term unemployment replacement rate. Given the radically divergent employment effects of different types of decommodifying social policies and the importance of employment-friendly policies for the viability of generous welfare states, our analysis serves to further underline the future viability of the social democratic model

Key Words: welfare state, decommodification, activation, social democratic policy, employment, active labor market policy

In his justly acclaimed *Three Worlds of Welfare Capitalism*, Esping-Andersen argued that a central characteristic, indeed the defining characteristic, of the social democratic welfare state was the high degree of decommodification of labor that resulted from its transfer policies. In the same book, Esping-Andersen also forcefully argues that the social democratic welfare state is characteristically biased in favor of maximizing labor supply and promoting full employment. In the face of an ascending neoliberal agenda arguing that generous welfare states are the cause of high unemployment across European economies, the internal tension within social democratic welfare states between decommodification and full employment seems to have troubling implications for the future of social democracy. According to Esping-Andersen, social policies which result in decommodification make it easier to maintain a satisfactory material standard without entering the workforce and/or to exit the work force with little loss of income (see below) and thus would appear to represent major work disincentives. These work disincentives might well be hypothesized to be serious competitive disadvantages for employers in social democratic welfare states, especially in the context of increasing globalization. The employment crises in Sweden and Finland in the early 1990s appeared to confirm this expectation. However, the subsequent recovery of employment in these two countries and the employment "miracle" in Denmark (Huber and Stephens 2001; Schwartz 2001) cast doubt on this interpretation. Indeed, the fact that the highly decommodifying Nordic countries enjoyed the highest levels of employment of all OECD countries indicates that there might not be a straightforward one dimensional relationship between decommodification and employment, and that social democracy has been the most adept at harnessing these two objectives in a complementary manner. Based on Esping-Andersen's theoretical groundwork, we set out in this paper to examine in closer detail how social democracy has managed to solve the possible tension between decommodification and employment

With social rights data from the Social Citizenship Indicator Project, Esping-Andersen operationalized the concept of decommodification and provided a simple cross-sectional test of the hypothesis that social democracy was closely related to decommodifying social policy. For a decade, his association of social democracy with decommodification went uncontested, at least in the quantitative literature. Meanwhile, evidence from pooled time series analyses of related concepts such as spending generosity, public employment, redistribution, and poverty reduction appeared to support his view that the aim of social democracy was to supplant "markets" with "politics" (to paraphrase the title of his 1985 book) in determining the distributive outcomes in advanced capitalist democracies (Huber, Ragin, and Stephens 1993; Hicks 1999; Huber and Stephens 2000; Bradley et al. 2003; Moller et al. 2003). The absence of pooled time series data on social rights in the public domain with which Esping-Andersen's measure could be replicated prevented scholars from directly testing his hypothesis in a rigorous fashion.

Fortunately, the pooled time series social rights data which Scruggs (2004) has recently placed in the public domain allow scholars to replicate Esping-Andersen's decommodification measure in pooled data and thus provide for a more rigorous test of the thesis. We begin by problematizing the presumed monotonic relationship between

decommodification and aggregate employment levels implied in Esping-Andersen's definition and assumed by the neoliberal agenda. Tracing Esping-Andersen's definition of decommodification from its basis in the Marxist tradition, we show how the understanding of decommodifying social policies as promoting labor market exit has overshadowed the role of social policy in facilitating labor market entry and even increasing productivity. The neoliberal view that generous social policy only creates work *dis*incentives is not supported by studies examining the employment effects of different decommodifying policies. Rather, these studies show that while many social policies facilitate labor market exit in the short and medium term, only a subset of these policies promote long-term labor market exit and thereby lead to lower aggregate levels of employment. In short, as implied in Esping-Andersen' original thesis, generous social policy and employment can be compatible. In fact, this paper provides further evidence that these two are complementary to a certain degree, and only after reaching a given threshold of generosity do welfare policies create negative returns on employment.

Having disaggregated the divergent employment effects of decommodifying policies, we bring political parties back into the mix in the empirical analysis to show that social democracy holds a distinct preference for higher labor force participation. Social democratic incumbency is indeed related to Esping-Andersen's overall decommodification index, but not to the sub-index of unemployment insurance decommodification, precisely the set of policies in which one might think that work disincentives would be the greatest. We go on to show that social democratic government is positively related to policies which Bradley and Stephens (2007) and members of our research team have shown to be positively related to employment and negatively related or not related to policies which are negatively associated with employment. We conclude that social democratic employment policy is aimed at activation as well as decommodification, but only to the extent that the decommodifying social policies in question do not inhibit employment levels.

Literature and Hypotheses

To begin with the concept of decommodification, Esping-Andersen (1990: 23, 37) offers two related but somewhat different definitions: (1) [in] "(d)e-commodifying welfare states . . . citizens can freely, and without potential loss of job, income, or general welfare, opt out of work when they consider it necessary" and (2) "de-commodification . . . refers to the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation." The unifying underlying concept is that, in decommodifying welfare states, citizens are freed from market compulsion to work. Since the income replacement rates in transfer programs, and therefore the ability to exit work with little loss of income, are important components of his actual measure of decommodification (see below), Esping-Andersen's measure comes closest to operationalizing the first of the two concepts. Based on a cross-sectional analysis of income replacement programs in 1980, Esping-Andersen (1990: 129) shows that there is a strong and positive association between his measure of left political influence, the average of left legislative and cabinet seat shares for the period 1949-80, and his decommodification index.

Esping-Andersen's conceptualization of decommodification (and its relationship with the working class parties) can be traced back to a Marxist origin which critically evaluates the effect of the capitalist market economy on the lives of the working class (Marx 1954-1956; Polanyi 1944). Within this theoretical framework, the capitalist system severely limits the potential development of labor power, because it commodifies labor so that the worker is heavily dependent on selling labor in exchange for access to means of sustenance. Based on extensions from the power resources theories of welfare state development (Stephens 1979; Korpi 1983), Esping-Andersen argues that the negative effect of commodification on labor can be corrected through the participation of working class parties in the existing electoral process of capitalist democracy. Left parties in government will develop welfare states which significantly reduce the commodity status of labor (hence decommodification). Decommodification of labor, therefore, is a fundamental objective of social democracy. Based on this logic, Esping-Andersen identifies the Nordic welfare states as the most decommodifying type of welfare states, due to the dominant influence of social democratic parties in these countries. By contrast, the liberal welfare state regimes are the least decommodifying, characterized by much stronger secular center-right parties and weaker social democratic parties.

While social policies provide workers with additional income as a matter of right and thereby reduce the reliance of workers on their labor power, the link between social policies and labor market exit in Esping-Andersen's definition of decommodification holds implications for aggregate employment levels that are not fully explored in his elaboration of welfare state regimes. To be sure, he upholds Hibbs (Hibbs 1977) insight that left parties prefer full-employment policies. He mentions the possibility that social policies may have market correcting effects and shows left parties to be related to high employment, "active manpower" policies and high public employment. However, the labor market exit opportunities implied in the definition of decommodification are not reconciled with left parties' proclivity towards activation and the high employment levels in countries with strong left parties. Rather, decommodification remains securely linked theoretically to the opportunity to "opt out" of the labor market, and, by implication, the work disincentives produced by high levels of decommodification in the Nordic countries are simply more than overwhelmed by active measures and public employment to produce high levels of labor force participation.

These anomalies in Esping-Andersen's work have been raised by a number of scholars, some focusing on the theoretical origin of the decommodification concept (Room 2000), and some based on examination of social democratic welfare reform strategies, either across the OECD world (Huber and Stephens 2001; Iversen 2005) or specifically within Nordic countries (Kvist 2001). What these criticisms have in common, however, is the highlighting of the inability of his decommodification concept to capture the importance of human development and skill investment, not only as assets in overcoming social risks in the long term, but also as goods that only come from active participation in the labor market. The value of employment-based human development, as a form of long-term insurance against social risks, serves to highlight the limitation of decommodification as a fundamental objective of social protection, and in turn the

problems tied to any straightforward association of labor decommodification with social democracy.

According to Room (2000), Esping-Andersen's conceptualization of decommodification as a fundamental cure for working class alienation in capitalism is insufficient because he only partially captures Marx and Polanyi's critique of the capitalist market society as labor commodifier. Marx argues that the commodification of labor results in working class alienation, not only because this limits workers' access to sustenance and consumption by making them reliant on selling labor, but also because commodification takes out the self-creation or self-development potential in work. Room suggests that Esping-Andersen pays sufficient attention to the consumption side, but not to the self-development side, of labor commodification. In his reply to Room, Esping-Andersen (2000) acknowledges that human self-development is increasingly integrated with labor market participation and that this activation-based approach is also a key strategy in coping with emerging new social risks. Furthermore, he implies that this activation-based strategy of social protection cannot be effectively captured through the concept of decommodification.

Other critical accounts of the decommodification thesis do not question the conceptualization and operationalization of decommodification per se, but rather contend that improving individuals' chances in the labor market is more important to the social democratic platform than delivering opportunities to exit the labor market. The feminist welfare state literature, for example, raises the point that labor market participation provides certain benefits to which some parts of the population are systematically not allowed access. In her highly influential article, Orloff (1993) argues that for most women the first objective is to become "commodified", that is, to enter the work force. To accomplish this, it is essential that welfare state social policies include policies which allow women (and men) to combine work and family, such as day care and parental leave. In an early contribution to this literature, Hernes (1987) identifies the Scandinavian countries as the most advanced in the provision of such "women friendly" policies. Later comparative work shows that the strength of women's movements and left government are crucial for the implementation of gender egalitarian policies (Huber and Stephens 2001; O'Connor, Orloff, and Shaver 1999; Stetson and Mazur 1995). The feminist critique, therefore, highlights a central bias in the initial conceptualization of decommodification, namely the absolute focus on the welfare of individuals who are already working. And though the employment relationship causes individuals to rely on their labor and therefore commodifies them, market dependency may actually be less threatening to an individual's autonomy than family or state dependency. Given that some groups of people find it difficult to gain employment, whether women, the low-skilled or immigrants, etc., the obstacles to employment deserve recognition as do the role of political parties in reducing these obstacles.

Other studies emphasize more the manner in which social democratic parties keep individuals in the labor market once they do gain access. Contending that social policies do not play the sole role of allowing workers to "opt out" of the labor market, Iversen (2005) shows that social policies can play a market-correcting role by inducing investment in specific skills. To the extent that workers and employers invest in

skills and wish to ensure returns on these investments in the future, social policies protect the position of workers (and employers) in the labor market. This market-correcting aspect of social policy highlights the interests of workers in securing their position within the labor market (and not simply trying to opt out of work) as well as the role of social policy in addressing these interests. With these ideas in mind, it is possible to conceive of social democratic parties as supporting activating policies, and indeed preferring such policies over decommodifying policies that reduce participation, while simultaneously preferring low inequality. Huber and Stephens (2001: 334) argue that labor market participation takes precedent over labor market exit: "Of course it is true that the social democratic welfare state regime aims at offering a safety net that preserves a person's living standard when that person is separated from the market. However, the emphasis is on involuntary and temporary separation from the labor market, except in the case of old age, and on maximum support for reintegration". Based on quantitative as well as qualitative examination of welfare state changes across the OECD world, they propose a different application of the power resources perspective whereby social democracy is associated with labor market activation, through expansion of active labor market programs and the extensive provision of public childcare. Using Esping-Andersen's (1990) cross-sectional data on decommodification for the year 1980, Huber and Stephens (2001: 80-81) analyzed the determinants of decommodification for different types of income replacement programs. They find no significant association between left cabinet and decommodification with regard to unemployment insurance, the most important type of income replacement benefit which could potentially introduce work disincentives and discourage entry into the labor market. By contrast, they find that social democracy is associated with decommodification for both pensions and sickpay. Unlike early retirement pensions or disability benefits, these regular pensions and short-term sickpay transfers as mainly captured in Esping-Andersen's data do not encourage labor market exit of able bodied workers below retirement age. At the same time, Huber and Stephens also find that social democracy is significantly associated with active labor market programs, the key measures encouraging labor market entry.

In the rest of the paper, we closely examine the relationship between decommodification and employment, as well as the different implications of this relationship for social democracy and Christian democracy. First of all, taking advantage of time-series data now available on welfare benefit entitlements, we expect to replicate the main findings on the relationship between social democracy and decommodification from Huber and Stephens (2001)'s cross-sectional analysis mentioned earlier. Secondly, we also hypothesize that social democracy is strongly associated with a range of policies which are employment-friendly, and it is not associated with policies which potentially discourage labor market entry. Table 1 summarizes the results of pooled time series analyses on the determinants of employment carried out by Bradley and Stephens (2007) and extended by us.[1] For many of these policies, such as active labor market measures, their relationship with the level of employment is intuitive. For a few others, such as the positive effect of short term unemployment replacement rates, the negative effect of waiting days, and the effect of employment protection laws, their effects on employment are not as immediately intuitive, and we explain them here.

(Table 1 about here)

As Table 1 shows, the replacement rate for unemployment insurance of short duration (six months) is positively associated with the level of employment. In other words, high replacement rates with short duration are strongly employment-friendly. High replacement rates may serve more to reward a worker for his/her skill investment while out of work than to create a reservation wage that prevents the worker from seeking re-employment and they may allow workers with industry specific skills to conduct longer and more costly job searches in order to find employment in which their skill is fully utilized. The importance of social insurance for investment in especially asset-specific high skills is the central theme in Iversen (2005) and Estevz-Abe et al. (2000). High replacement rates also serve as a disincentive for workers to leave the work force altogether.

Institutionalist work in the comparative sociology of labor markets and mobility regimes (Gangl 2004; DiPrete and McManus 2000; DiPrete 2002) on the "scar effects" of unemployment spells on individual life courses indicates that high replacement rates do not simply result in upskilling of workers but also in lower unemployment and higher employment in the long run. High replacement rates reduce the "scar effects" of unemployment bouts and thus result in better longer term employment prospects. This process of accumulating disadvantages of job loss is self-reinforcing, because, according to DiPrete (2002), the seriousness of such scar effects is heavily influenced by how often such a trigger event takes place as well as the individual's capacity for recovery. The institutional mobility regime of welfare state transfers can reduce such scar effects, not only through short-term income compensation. More importantly, it also contributes to long-term unemployment recovery by serving as an incentive for private risk taking, so that, during unemployment spells, individuals are more likely to conduct adequate job searches and locate the jobs which match their skills. Through their first-order effect of income replacement and second-order effect of unemployment recovery, Gangl (2004) demonstrates a clearly positive effect of unemployment benefits, not only on the quality but also on the stability of future careers after employment interruption. The macro outcome of the upskilling of workers is to reduce structural unemployment, the mismatch between job seekers' skill and the skill demanded by available opening. As we move into the information age economy, this constant upskilling of worker would appear to be ever more important.

Table 1 shows that waiting days for unemployment compensation are strongly and negatively associated with the level of employment. This not only runs counter to neoliberal economic thinking, it would also appear to lack justification from an institutionalist comparative political economy perspective. One possible interpretation of this finding is that long waiting period increase the scarring effects of bouts of unemployment as workers are forced to accept employment which do not utilize their skills. We would also suggest that part of the explanation for this finding might be reverse causality, whereby countries with a recent history of high unemployment respond by introducing waiting days as a cost saving measure (as was the case in Sweden in the 1990s). This process can potentially lead to covariation of employment and waiting days in the opposite direction.

For employment protection legislation (EPL), again its negative relationship with the level of employment is not immediately straightforward. Neoliberal economic thinking might suggest that the reduced labor market flexibility which results from strong EPL, would reduce employment. Esping-Andersen and Regini (2000) argue since EPL makes employers reluctant to fire as well as hire workers, it creates an insider-outsider divide and thus mainly affects who is employed rather than the total volume of employment.

Finally, from a neoliberal perspective, total taxes depress the incentive for saving and investment, and are therefore harmful for growth and employment. However, the channeling of tax revenues into public sector employment not only directly creates jobs, but also some of this employment, such as day care, may have second order effects on employment by increasing the supply of (female) labor. For this reason, as Table 1 shows, there is no significant relationship between total taxes and the level of employment.

Based on our contention that social democratic government leads to labor market activation policies, we hypothesize that social democratic government is strongly associated with high unemployment replacement rates of short duration and active labor market policies, but is not related (or negatively associated) with unemployment replacement of long duration, duration of unemployment compensation, payroll taxes, and employment protection. Furthermore, we expect that Christian democracy, with its traditional preference for labor market clearing polices, is strongly associated with these employment-impeding measures.

Measurement

Dependent Variables

We operationalize two sets of dependent variables for our analyses, shown in Tables 4 and 5, respectively (see Table 2). First, the dependent variables for the determinants of decommodification are coded according to Esping-Andersen's *Three Worlds of Welfare Capitalism* (1990: 50-54). The time series data were collected by Lyle Scruggs, whose data and coding files were used to recreate these measures.[2] The first decommodification measure is an additive index of decommodification constructed from measures of replacement rates, coverage, and qualifying conditions in pension, sickness pay, and unemployment compensation programs. The three remaining variables are the individual decommodification scores for each program type.

(Table 2 about here)

The decommodification score for pensions is calculated from four dimensions: (1) minimum benefit level, (2) standard benefit level, (3) the length of the contribution period and (4) the individual's share of pension financing. Values on these four variables are coded as 1, 2 or 3 based on the degree of decommodification they provide. The degree of decommodification is based on the distance of one standard deviation from the mean where 1980 is used as the reference point: more than one

standard deviation above the mean is coded as 3, between one standard deviation above and one standard deviation below is coded as 2 and below one standard deviation below is coded as 1.

The decommodification scores for unemployment and sickness insurance are based on (1) benefit levels, (2) number of weeks of employment needed to qualify for benefits, (3) number of waiting days before receiving the benefit after becoming unemployed or sick, and (4) the number of weeks for which the benefit can be maintained. Values are assigned 1, 2 or 3 according to their standard deviation from the mean values as in the pension score coding. The values for each of the four dimensions are summed to form the decommodification score for pensions and unemployment and sickness insurance, respectively, and these scores are then summed to form the overall index of decommodification.

The second set of dependent variables involves the determinants of employment levels listed in Table 1. These variables are regressed on the political and control variables in Table 5. The variable for active labor market policies per unemployed is measured as the spending on active measures as a percent of GDP divided by the unemployment rate. Employment protection legislation is a composite score that measures the notice period required before lay-offs occur, the right to and level of severance pay, fines suffered by companies who lay off older workers, restrictions on fixed term contracts and the ability of temporary work agencies to operate.[3] The variable for payroll taxes is payroll and social security taxes as a percentage of GDP. Long term unemployment replacement rates are the average gross wage replacement of an unemployed worker over the first five years of unemployment.[4] Short term unemployment replacement rates are the net average wage replacement over the first six months of unemployment. Both unemployment replacement rate variables are based on the benefits allocated to the average production worker. Waiting days for unemployment benefits are the number of days that a worker must wait after registering as unemployed before receiving the unemployment benefit. The duration of unemployment replacement rate is the maximum number of weeks that an unemployed worker is allowed to collect unemployment insurance after registering as unemployed. The two cases with unlimited duration, Australia and New Zealand, are coded as 450 weeks, somewhat above the next highest case (442 weeks, Denmark 1980-93). The means of the dependent variables by country and welfare state regime are shown in Table 3.

(Table 3 about here)

Independent Variables

The independent variables included in the analysis are two partisanship variables and a set of economic, demographic, and political control variables taken from Huber and Stephens (2000, 2001, 2006). The coding for the partisan variables is elaborated in Table 2, and these variables measure the cumulative percentage of cabinet seats that left and Christian democratic parties have held in the governing coalition since 1946.

The economic variables are GDP per capita, inflation, military spending, foreign direct investment (out), trade openness, unemployment and lagged unemployment. The measurement for all variables is straight-forward and follows the standard formulas. GDP is the total volume of goods and services produced by national residents measured in current US dollars per capita. Inflation is measured with the Consumer Price Index. Military spending is expenditure on military goods and services as a percent of GDP. Foreign direct investment is a measure of the investment made by an individual or company in the country in question in the productive capacity of another country as a percentage of GDP. The variable of FDI is for outflows of foreign direct investment. Trade openness is the total volume of imports and exports as a percent of GDP. Unemployment is the percentage of the labor force that is unemployed according to the OECD standardized unemployment rate. Long-term unemployment is measured as a five-year average of unemployment beginning six years prior to the year in question and finishing in the preceding year.

The final group of variables includes women's mobilization, percent aged, voter turnout, strikes and authoritarian legacy. Women's mobilization measures the propensity for women to join (non-religious) organizations with values estimated by women's organization regressed on percentage of seats in parliament held by women and the electoral system (PR or single member district).[5] Percent aged is the percent of the population 65 years of age and older. Voter turnout is the percentage of the electorate that voted in the most recent national election. The variable for strikes is the number of working days lost per 1000 workers. Finally, the measure of authoritarian legacy is the nature of the political regime in 1900 coded according to Rueschemeyer, Stephens, and Stephens (1992). As we mentioned, the controls are a standard set which Huber and Stephens (2001, 2006) adopt to operationalize extant theories of welfare state development. Since we employ them as controls to assure that our findings for the two partisanship variables are not the result of omitted variable bias, we do not discuss the hypotheses underlying their inclusion and thus we employ two tailed (non-directional) significance tests for the controls.

The countries included in the models with the Bradley and Stephens data as dependent variables are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Ireland, Japan, Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States. Dependent variables drawn from the Scruggs data (decommodification and the components of unemployment insurance) also include New Zealand. Dropping New Zealand made no difference in the results. The time periods covered were governed by data availability. They are 1961-99 for the five year replacement rate and social security and payroll taxes, 1971-2000 for the Scruggs data, 1980-99 for active labor market policy spending, and 1985-99 for employment protection legislation.

Analytic Techniques

Hicks (1994) notes that "errors for regression equations estimated from pooled data using OLS [ordinary least squares regression] procedures tend to be (1) temporally autoregressive, (2) cross-sectionally heteroskedastic, and (3) cross-sectionally correlated as

well as (4) conceal unit and period effects and (5) reflect some causal heterogeneity across space, time, or both" (p.172). We follow Beck and Katz's (1995) recommended procedure, using panel-corrected standard errors, corrections for first-order auto-regressiveness, and imposition of a common rho for all cross-sections. This procedure is implemented in version 8.0 of the STATA econometrics program. Since there is some trend in our data, we do not include a lagged dependent variable as recommended by Beck and Katz (1996) because in this situation the lagged dependent variable inappropriately suppresses the power of other independent variables, as Achen (2000) has shown.[6] Beck and Katz (2004:16-17) have shown that correcting for first order auto-regressiveness actually does include a lagged dependent variable on the right hand side of the equation (known as Prais Winsten estimations). Thus, it does deal with the problem of serial correlation but without, as our results show, suppressing the power of other independent variables.

Beck and Katz (1996) and others have argued for the inclusion of country dummies in order to deal with omitted variable bias. Plümper et al. (2005: 330-34) in their recent treatment of this issue have countered that inclusion of country dummies does much more than eliminate omitted variable bias. It also (1) eliminates any variation in the dependent variable which is due to time invariant factors such as difference in constitutional structures, (2) greatly reduces the coefficients of factors that vary mainly between countries, (3) eliminates any differences in the dependent variable due to differences at t1 in the time series, and (4) "*completely absorb*(s) differences in the level of the independent variables across the units" (p.331, emphasis in the original). Elaborating on this last point, they argue that if one hypothesizes that the level of the independent variable has an effect on the level of the dependent variables (e.g. the party incumbency and level of replacement rates), "a fixed effects specification is not the model at hand. If a theory predicts level effects, one should not include unit dummies. In these cases, allowing for a mild bias resulting from omitted variables is less harmful than running a fixed effects specification." (p. 334). We do hypothesize (#1 above) effects of time invariant factors (constitutional structure), (#3) effects in the levels of our independent variables prior to t1 on the level of the dependent variable at t1, and (#4) effects of levels of the independent variables on levels of the dependent variable. In addition, variation in several of our independent variables, including the critical political variables, is primarily cross sectional (#2). Thus, it is clear that fixed effects estimation or the inclusion of country dummies is not appropriate in this case.

To check our results for robustness, we reestimated all of the models with OLS estimation of the regression coefficients, which provides consistent estimates of the regression coefficients, and *robust-cluster* estimators of the standard errors. The robust-cluster variance estimator is a variant of the Huber-White robust estimator that remains valid (i.e., provides correct coverage) in the presence of *any* pattern of correlations among errors *within* units, including serial correlation and correlation due to unit-specific components (Rogers 1993). Thus the robust-cluster standard errors are unaffected by the presence of unmeasured stable country-specific factors causing correlation among errors of observations for the same country, or for that matter any other form of within-unit error correlation. The robust-cluster estimator requires errors to be uncorrelated *between* clusters. The latter assumption might be violated if unmeasured factors affect the dependent variable in all units at the same point in time. Global economic fluctuations could produce such contemporaneous effects. To evaluate the potential impact of such unmeasured period

specific factors we re-estimated the models with indicator variables for the oil crisis period (1974-79), the 1980s and for the 1990s; the baseline category corresponds to the "golden age" of post war capitalism (1961-73). None of the three indicators reached significance in any of the models suggesting that period-specific effects are not present. The robust cluster OLS estimations were substantially the same as the Prais Winsten estimations.

Results

Table 4 shows the regressions of decommodification measures on the partisanship variables and controls. Our results are consistent with Huber and Stephens (2001) finding on cross-sectional data with Esping-Andersen's 1980 measures as dependent variable: Social democratic government has positive and significant effects the overall decommodification index and sickpay and pension components but not unemployment insurance. Christian democratic government has positive and significant effects on the overall index and on pensions and unemployment insurance but not sickpay. Thus, social democracy is not associated with decommodification in the policy area which would appears to be most associated with easy exit from paid work and thus would be the largest work disincentive. Pensions, of course, are intended to result in exit from work but pension entitlements (as opposed to the taxes needed to pay for them) for the population aged 65 and over has not provoked controversy as representing a competitive disadvantage for countries with generous pensions. Exit from paid work into early retirement and disability for those not actually physically disabled, both of which are common in continental Europe, have provoked controversy as representing a significant work disincentive, but these practices do not affect the pension decommodification measure. While high levels of sickpay decommodification might be assumed to be a work disincentive, empirically they are actually positively related to employment levels.[7] Thus, the level of generosity (decommodification) of transfer policies in the areas of pension, unemployment benefits, and sickpay characteristic of social democratic governed countries does not appear to be a significant work disincentive.

(Table 4 about here)

In Table 5, we regress the determinants of employment on social democratic and Christian democratic government and the control variables. As we hypothesized, social democratic government is positively related to active labor market policy spending and short term unemployment insurance replacement rates, both of which are associated with high employment. It is not related to long terms replacement rates, social security and payroll taxes, EPL, and unemployment insurance duration, all of which are associated with lower levels of employment. By contrast, Christian democratic government is not related to the two employment improving policies and is positively and significant related to three of the four employment impeding policies.

(Table 5 about here)

As previously mentioned, our research team unexpectedly found that waiting days were negatively related to employment levels. As one can see from the regressions in Table 5, social democracy is negatively and significantly related to waiting

days and Christian democracy is not related to this variable, which is consistent with the overall pattern. While this might be a result of the scarring effect of long waiting periods, we suggested above that the relationship between employment and waiting days might be in part reversed, that governments with a recent history of high unemployment might increase the number of waiting days as a cost saving measure. The second of the two waiting days model is consistent with this interpretation. In this regression, we substitute the average unemployment level of the previous five years for current unemployment level and we find that the recent history of unemployment does have a positive effect on waiting days.

Conclusion

In this paper, we have presented extensive evidence showing how social democracy combines the twin objectives of decommodification and employment as complementarities rather than opposing policies in tension with one another. While there is much evidence to support Esping-Andersen's (1985) early characterization of the social democratic project as "politics against markets, that is, as substituting political determination about distribution for market determination (e.g. see Bradley et al. 2003), we have shown that the neoliberal interpretation of social democratic social policy as resulting in labor market exit is certainly too simplistic. Rather, social democratic interventions in labor markets, such as active labor market policy and high short term unemployment replacement rates, actually improve the performance of labor markets and raise employment levels. State interventions which lower employment, such as high long term replacement rates, high social security and payroll taxes, and strong employment protection laws are associated with Christian democracy and not with social democracy. All of this is consistent with employment patterns one observes in OECD countries: The highest performing countries are the Nordic (social democratic) countries and the lowest are the continental European (Christian democratic) countries, with the Anglo-American (liberal) countries falling in between (see Table 3). Thus, we conclude that social democracy has in general successfully solved the possible tension between generous decommodifying social protection and vigorous employment promotion. By contrast, our evidence suggests that Christian democracy continues to have difficulty reconciling labor market activation and the principle that "labor is not a commodity" as communicated in the papal encyclical of 1993 *Rerum Novarum*.

Moreover, we should note that our data stretch from 1971 to 2000 and thus the large majority of our observations predate the recent "third way" turn of social democratic governments across OECD countries towards greater emphasis on activation policies (Huo 2006). The core third way strategies center on expansion in policies facilitating labor market entry (such as active labor market policies, in-work incentives, and measures to increase labor market flexibility). These measures are further supplemented with adjustment or retrenchment to the passive income replacement programs (such as disability benefits), so that their work disincentives are reduced. These social democratic reforms in active and passive policies generally take place within a context of balanced budget and wage moderation. The social democratic third way attempts to deal with the increasing social risks from the unraveling of the Golden Age, and with a large number of social democratic parties coming to power since the early

1990s (such as the UK, France, Denmark, Sweden, Germany), the deepening of the third way has further strengthened the capability of the social democratic model to pursue decommodification while maximizing labor supply at the same time.

This is not to argue that any given social democratic government has hit the optimal balance between generous policies and activation. The Swedish Social Democratic governments of 1994-2006, for instance, while very successful in restoring growth, increasing employment, increasing activation, and achieving budget balance, struggled with the problem of high levels of work absence in the sickpay program.[8] Our claim is rather that the quantitative evidence supports the view that social democratic governments have successfully combined generous social polices and high levels of employment and that some of the policies that they have pursued (e.g. active labor market policies, high short terms replacement rates) were responsible for the high employment levels.

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Notes

[1] The finding for the components of unemployment insurance other than the replacement rates is based on our re-analysis of Bradley and Stephens (2007) data (available at from the authors on request). See Bradley and Stephens for the other results and for a review of the economics literature on work disincentives, particularly those generated by the OECD Jobs Study.

[2] The data and do-files for the decommodification scores are available at http://sp.uconn.edu/~scruggs/wp.htm.

[3] Additional information on coding can be found in Employment Outlook, OECD, 2004, Table 2.A1.2.

[4] We use the gross replacement rate measure because there are currently no time series data for long term net replacement rates.

[5] The precise construction of the women's mobilization variable is found at Huber et al. (2004, 2006).

[6] In these data, the lagged dependent variable explains 98% of the variation in the dependent variable.

[7] Results (not shown) are available from the authors.

[8] While their failures in this area may have contributed to their defeat in the 2006 election, Swedish political scientist Bo Rothstein (2006), writing an op ed which appeared in Dagens Nyheter the a the day after the elections entitled "Valet en triumf för socialdemokraterna" (The election was a triumph for the Social Democrats), argues that the bourgeois coalition, particularly Conservative leader Fredrik Reinfeldt, won the election only because they (he) so thoroughly adopted the Social Democrats' welfare state policies. He quotes a speech in which Reinfeldt tells party workers "Whatever the Social Democrats promise in terms of health care, care(vård = daycare and elderly care), and education, we will promise more."

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Table 1: Summary of Pooled Time Series Analysis of the Policy Determinants of Employment

Dependent variable is total employment as a % of

Unemployment replacement rate	
Six month (net)	++
Five year (gross)	-
Unemployment Insurance	
Qualifying conditions	0
Waiting days	--
Coverage	0
Duration	-
Total taxes	0
Payroll taxes	--
Active labor market policy	++
Employment protection laws	-

0 not significant, - negative and significant at the .05 level, -- negative and significant at the .01 level, positive and significant at the .05 level, ++ positive and significant at the .01 level

Table 2. Variable Definitions and Sources

Variables	Description
Decommodification Measures	
Composite Index of Decommodification	Composite decommodification index constructed from pension, sickness and unemployment programs[a]
Pension Decommodification	Decommodification score constructed from pension programs[a]
Sickpay Decommodification	Decommodification score constructed from sickness insurance programs[a]
Unemployment Insurance Decommodification	Decommodification score constructed from unemployment insurance programs[a]
Determinants of Employment Levels	
Spending on active measures as a percent of GDP per unemployed individual	Total expenditure on active measures as a percent of GDP[b,c]
Five Year URR (gross)	Percent of gross income provided for average production workers averaged over first five years of unemployment[b,c]
Six Months Unemployment Replacement Rate (URR) (net)	Percent of net income provided for average production worker during first 6 months of unemployment[a]
Payroll taxes	Social security and payroll taxes[b,c]
Employment protection laws	Overall employment protection legislation[c]
Waiting days for URR	Days until one receives URR after becoming unemployed[a]
Duration of URR	Weeks of entitlement benefit for URR[a]
Independent Variables	
Cumulative Left Cabinet	Scored 1 for each year when the left is in government alone; scored as the fraction of the left's seats in parliament of all government parties' seats for coalition governments, cumulated from 1946 to date[b]
Cumulative Christian Democratic Cabinet	Religious parties government share, coded as for left parties[b]
Constitutional Structure	Veto points created by constitutional provisions[c]
Women's Mobilization	Fitted values of women's propensity to join (non-religious) organizations[d]
% Aged	Percent of the population age 65 years and older[b,c]
Voter Turnout	Voter turnout as a percentage of the adult population[b]
Strikes	Working days lost per 1,000 workers[b]
Authoritarian Legacy	Political regime in the late nineteenth century[b]
GDP per capita (1000s)	Gross domestic product per capita in constant US dollars[b,e]
Consumer Price Index	Percent increase in the consumer price index[b,c]
Military Spending	Military spending as a percentage of GDP[b]
Foreign Direct Investment Out	Outward foreign direct investment as a percentage of GDP[b,f]
Trade Openness	Imports and exports as a percent of GDP[b,c]
Unemployment	Percent of the total labor force unemployed[b,c]
History of Unemployment	Five year average of unemployment levels between t-1 and t-6[b,c]

Sources: [a]Lyle Scruggs (2004);[b]Huber at al. (2004a) Stephens (2004);[c]Original data source is OECD; [d]Huber et al. (2004b); [e]Original data source is the Penn World Tables, http://pwt.econ.upenn.edu; [f]Data provided by Duane Swank (see Swank 1998), originally coded from IMF, *Balance of Payments Statistics*, various years. Data for 1960-61 coded by the John D. Stephens and Evelyne Huber from the same source.

Table 3: Means of Dependent Variables by Welfare State Regime

	Determinants of Employment (Table 1)	Determinants of Decommodification (Table 4)				Determinants of Employment-Improving Policies (Table 5)						
								Unemployment Benefits				
	Employment Levels	Composite Index	Pension	Sickpay	Unemploy-ment Insurance	Spending on ALMP per Unemployed	5 Year URR (gross)	Six Month URR (net)	Waiting Days for Benefits	Duration of Benefits	Social Security and Payroll Taxes	EPL
Social Democratic Welfare States												
Denmark	73.6	33.3	13.6	11.8	12.6	0.19	44.9	71.2	0.0	325.5	1.4	2.00
Finland	70.0	29.4	13.0	9.9	10.2	0.17	24.6	52.3	5.4	70.0	5.9	2.20
Norway	71.0	34.5	12.9	12.3	10.4	0.21	22.6	63.7	3.0	71.4	10.8	2.83
Sweden	75.7	36.0	13.8	13.0	12.1	0.54	19.5	79.6	4.2	58.1	11.2	2.97
Mean	72.6	33.3	13.3	11.8	11.3	0.28	27.9	66.7	3.15	131.26	7.3	2.50
Christian Democratic Welfare States												
Austria	66.1	27.8	14.1	11.0	9.8	0.09	24.9	55.7	0.9	30.0	11.8	2.20
Belgium	57.2	29.3	12.8	9.0	11.9	0.15	41.3	64.8	0.1	396.1	13.0	3.00
France	61.9	28.6	12.9	9.8	11.4	0.07	30.2	63.9	1.9	100.8	17.3	2.91
Germany	65.6	30.3	10.9	14.0	10.0	0.18	29.0	63.5	0.0	52.0	13.9	3.04
Italy	54.7	23.2	12.6	11.0	6.7	0.04	5.0	17.0	3.7	26.0	11.8	3.46
Netherlands	57.9	32.8	13.9	11.2	11.3	0.18	45.8	80.8	0.0	47.1	16.0	2.66
Switzerland	77.6	27.9	11.2	11.2	9.6	0.24	13.3	66.6	2.3	35.3	8.7	1.10
Mean	63.0	28.6	12.6	11.0	10.1	0.14	27.1	58.9	1.28	98.17	13.2	2.62
Liberal Welfare States												
Australia	66.3	18.8	12.0	10.0	10.0	0.04	21.7	28.0	7.0	450.0	0.0	0.98
Canada	64.5	25.2	11.8	8.9	8.9	0.05	26.3	63.3	14.0	40.3	3.9	0.80
Ireland	57.3	23.4	10.9	8.3	9.1	0.11	24.3	39.8	11.6	61.3	4.1	0.90
New Zealand		23.1	13.6	10.1	9.5			31.5	11.4	450.0		
UK	69.2	22.8	10.4	8.1	7.8	0.07	22.2	31.2	6.4	37.4	5.8	0.60
USA	66.2	18.1	11.6		9.0	0.03	11.8	63.0	7.0	26.0	6.8	0.20
Mean	64.7	21.9	11.7	9.1	9.0	0.06	21.3	42.8	9.56	177.49	4.1	0.70
Japan	72.4	19.8	9.6	11.0	9.9	0.09	10.9	62.9	7.0	29.5	7.1	2.07

Table 4: Prais-Winsten Estimates of Determinants of Decommodification

	Decommodification			
	Total Index	Pension	Sickpay	Unemployment Insurance
Left Cabinet	.240 ***	.074 **	.143 ***	.034
Christian Democratic Cabinet	.135 **	.094 ***	.008	.030 *
Constitutional Structure	-.451 *	-.325 **	-.089	-.024
Women's Mobilization	-.011	.031	-.089 *	.062 *
Voter turnout	-.034	-.036 ^	.028	-.028
% Aged	.259	.000	.047	.175
Strikes	-4.429	.151	-.703	-2.469 **
Authoritarian Legacy	.106	-.454 *	.860 **	-.223
GDP per capita (1000s)	.099	.059	.004	.039
Consumer Price Index	.297	.237	.077	-.104
Unemployment	-.006	.030	-.042	.003
Military Spending	.253	.059	-.008	.226 *
Foreign Direct Investment Out	-.037	-.029	-.008	-.013
Trade Openness	.022 *	-.001	.004	.025 ***
Constant	18.673 **	10.634 ***	4.317	3.370
Common rho	.90	.80	.93	.88
R-Square	.59	.47	.38	.39
N	521	521	521	521

Level of significance: ***=.001, **=.01, *=.05, (two tailed test, except for partisanship variables)

Years: 1971-2000

Table 5: Prais-Winsten Estimates of Determinants of Employment-Improving Policies

	ALMP Spending Per Unemployed	5 year Unemployment Replacement Rates	Six Month Unemployment Replacement Rates	Social Security and Payroll Taxes	Employment Protection Laws	Unemployment Insurance Waiting Days		Unemployment Insurance Duration
Left Cabinet	.010 **	.029	.621 **	-.004	.014	-.161 **	-.153 **	-1.896
Christian Democratic	.000	.217 *	.081	.324 ***	.040 ***	-.075	-.080	-3.471
Constitutional Structure	-.016	-.244	-.182	-.084	-.153 *	.142	.184	6.768
Women's Mobilization	-.006	.665 ***	-.001	.071	.004	.232 ***	.218 ***	1.441
% Aged	-.029 **	2.264 **	-2.754 *	1.007 ***	.029	-.032	-.083	3.838
Voter Turnout	-.003	.291 **	-.642 ***	-.086 *	.017 *	-.037	-.039	12.682 ***
Strikes	-.022	1.111	-31.385 **	-1.889	-.378	3.310	2.264	-51.836
Authoritarian Legacy	.037 *	-3.433 *	8.880 ***	-.605	-.055	-.997 *	-1.000 **	-87.711 **
GDP per capita (1000s)	.011 **	.071	.543	-.079	-.072 ***	-.168 *	.000 **	4.344
Consumer Price Index	-.020	.482	-1.399	.381 *	-.083	.548 *	.548 *	4.363
Military Spending	.011	-.567	3.919 ***	.121	-.066	-.436	-.412	-5.951
Foreign Direct	.003	.026	-.144	.013	-.003	.009	.003	-.060
Trade Openness	.000	.037 *	.170 ***	-.005	-.007 ***	.022 *	.019	-.048
Unemployment		.191	.229	.101 **	-.034 **	.037		1.487
History of Unemployment							.144 *	
Constant	.553 *	-43.287 **	93.751 ***	0.830	2.835 *	4.302	5.826	-864.622 **
Common rho	.86	.96	.90	.94	.90	.92	.91	.97
R-Square	.18	.12	.56	.18	.67	.14	.16	.09
N	304	653	499	653	254	520	520	531

Level of significance: ***=.001, **=.01, *=.05 (two tailed test, except for partisanship variables)