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Biting the Hand that Feeds: Reconsidering Partisanship in an Age of Permanent Austerity

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Abel Bojar*

Abstract

The New Politics of the welfare state suggests that periods of welfare retrenchment present policy-makers with a qualitatively different set of challenges and electoral incentives compared to periods of welfare expansion. An unresolved puzzle for this literature is the relative electoral success of retrenching governments in recent decades, as evidenced by various studies on fiscal consolidations. This article points to the importance of partisan biases as the main explanatory factor. I argue that partisan biases in the electorate create incentives for incumbent governments to depart from their representative function and push the burden of retrenchment on the very constituencies that they owe their electoral mandate to ("Nixon-goes-to-China"). After offering a simple model on the logic of partisan biases, the article proceeds by testing the unexpected partisan hypotheses that the model generates. My findings from a cross-section-time-series analysis in a set of 25 OECD countries provide corrobarative evidence on this Nixon-goes-to-China logic of welfare retrenchment: governments systematically inflict pain on their core constituencies. Some of the losses that the core constituencies suffer during austerity, however, are recouped during fiscal expansions when traditional partisan patterns take hold.

Keywords: Welfare retrenchment, social spending, austerity, partisanship, Nixon-goes-to-China, representation

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Biting the Hand that Feeds: Reconsidering Partisanship in an Age of Permanent Austerity

Introduction

In the wake of the financial crisis and the Great Recession of 2008-2009, governments across the industrialized world have accumulated unprecedented peace-time debt levels. If lessons from earlier episodes of debt stabilization are any guide, the arduous road towards sustainable public finances must involve deep cuts in public budgets both in core and in social expenditure items (Castles, 2007). Welfare budgets, across the board, are coming under intense pressure, creating a politically treacherous terrain for any government to tread. We may thus enter another era of "permanent austerity", where scholarly consensus suggests a qualitatively different electoral logic of welfare policy from the era of welfare expansion. However, the vast empirical arsenal of electorally successful retrenchment episodes presents us with an empirical puzzle which has been largely unexplored by the welfare state literature. This article seeks to account for the relative electoral viability of welfare retrenchment by reconceptualising our understanding of partisanship in hard times.

The notion of "permanent austerity", according to the logic of the "New Politics "literature (Pierson, 1994, 1996, 1998, 2001) is a qualitatively different political game from the prior era of welfare-state building because of entrenched constituencies, organized interests and the general popularity of welfare programmes. Outright assaults on the welfare state, even under ideologically highly committed conservative opponents, such as Margaret Thatcher and Ronald Reagan in the 1980s, are thus unlikely. What one can expect, at best, is hidden adjustment whereby policy-makers attempt to introduce cost-saving measures in less visible welfare items – such as tax expenditures, indexation rules, etc. – to obfuscate the true impact of their policies (Howard, 1997; Hacker 2002, 2004). Open retrenchment, on the other hand, is likely to trigger electoral backlash.

While the New Politics literature provided valuable insights on the apparent timidity of many conservative governments, a central piece in the electoral logic behind retrenchment has been largely overlooked. The number of electorally succesful overt retrenchment episodes is simply too high to ignore as idiosyncracies of the political context of the time and place (Alesina et al, 1998, 2011; Mulas-Granados, 2006). This article seeks to revive the „New Politics" literature by building a bridge between the qualitatively different nature and the apparent electoral viability of retrenchment. Specifically, a crucial factor that has been underemphasized, if not ignored, in welfare retrenchment debates is partisan loyalties. By incorporating the idea of loyalties into this debate, I point towards an important blame-avoidance strategy that re-election seeking incumbents can employ. I will argue that even highly visible adjustment is feasible when incumbent governments have a high level of electoral loyalty among certain constituencies. Relying on what I will call partisan biases, these governments have an incentive to shift a large part of retrenchment efforts onto their core constituencies in an effort to broaden their electoral appeal by sheltering tradtionally more hostile constituencies. The notion of partisan bias, in times of austerity, can thus create a Nixon-goes-to-China environment where the axe falls on those welfare programmes where one would least expect.

I will proceed with my argument in the following structure. After reviewing the current state of the partisanship-welfare state nexus, the next section will offer a more formal conceptualization of partisan bias in times of austerity leading up to my hypotheses to test. Next, I will operationalize my data and measurements. I then proceed to my empirical analysis in a time-series-cross-section framework in a set of 25 OECD countries over three decades. The final section concludes.

The partisanship-welfare state nexus in an era of "permanent austerity"

Literature Review

The role of partisanship in shaping the post-war consensus in economic and social policymaking has been long recognized. Left-wing governments have been widely acknowledged as responsible for ensuring full employment in face of adverse economic shocks, providing decommodification to workers, or expanding social programmes to the socially weak in an attempt to protect against various sources of social risks along the life-cycle (Cusack, 2001 ; Esping-Andersen, 1990; Hibbs, 1977; Korpi, 1983). As slowing growth, structural unemployment, deindustrialization (Iversen and Cusack, 2000), increased pace of globalization (Jahn, 2006; Swank and Steinmo, 2002)[1], population aging and other concomitant social processes put an end to a period of welfare expansion in the 1970s, the importance of partisanship came under closer scrutiny (Huber and Stephens, 2001).

In his seminal work on welfare-state resilience in the face of an international surge in conservative power. Pierson (1994) provides a comprehensive analysis of how welfare-recipients managed to block retrenchment efforts. The channels of this logic were twofold. On the one hand, mature welfare states created their own constituencies with vast organizational capacity and popular support to block reform efforts (e.g. the Association of American Pensioners in the US). Secondly, as Pierson's subsequent works emphasize, governments also recognized the "tremendous electoral risks" of retrenchment policies (Pierson, 1996, p. 178). Even though their political mandate pointed towards welfare cuts, conservatives simply could not disregard the electoral risk that an outright assault on welfare programmes would entail. The "New Politics" literature thus generated two important research agendas to pursue for political economists. First, would permanent austerity really render partisanship irrelevant on the economic policy-making domain? Second, when governments occasionally do engage in retrenchment politics, are they doomed to suffer electoral punishment?

In the decade following Pierson's ground-breaking work, the answer to the first question was a qualified no. Soon after the publication of the New Politics of the Welfare State (Pierson, 2001) some of the "Old Politics" factors have staged a spectacular revival. Allan and Scruggs (2004), Bradley et al (2003), Korpi and Palme (2003), Kwon and Pontusson (2005), Swank (2005)

[1] The so-called efficiency, or "race-to-the bottom" hypothesis, however, has been challenged from different angles (Rodrik 1997; Garrett 1998).

have all provided evidence that partisanship continues to shape welfare outcomes in a conventional way. By operationalizing welfare retrenchment ("welfare effort") in a number of alternative ways (spending ratios, replacement rates, generosity indices etc.) these works concur that left-wing governments have been more successful in resisting the multiple sources of pressure on the welfare state. Although a few critiques pointed to the instability of the effect of partisanship over time (Huber and Stephens, 2001; Kittel and Obinger, 2003), the main thrust of the partisanship debate can be largely summarized as "partisanship still matters". The welfare-state may have survived its conservative assault, but on the margin, left-wing governments have appeared its more reliable defendant nevertheless.

There are doubts, however, about these "politics as usual" conclusions of welfare research. Political sociology has long recognized the rather dated conceptualization of what right-wing and left-wing constituencies are. The "decline of class voting" thesis, in particular, cast doubt on the relevance of the underlying class cleavage that partisan theory rests upon (Hibbs, 1977). In the most comprehensive edited volume to date contrasting different "bottom-up" versus "top-down" accounts of changing class-voting in industrial democracies, the consensus that emerges is that class-voting has indeed declined in most countries over time (Evans and De-Graaf, 2013). Whether due to ideological convergence by parties (Evans, 2000; Evans and Tilly, 2011), or to changes in underlying policy preferences across the electoral space (Clark and Lipset, 1991; Kitschelt, 1994), the implication for contemporary party politics is one of discontinuity. If traditional party systems structured by historical cleavages (Lipset and Rokkan, 1967) give way to growing partisan fluidity, traditional conceptualization of partisanship is on a rather weak theoretical footing.

While the “New Politics” view on welfare retrenchment resonates well with the changing nature of partisan constituencies, it has been less successful in anticipating the electoral repercussions of retrenchment efforts. If welfare recipients were indeed as averse to welfare cuts as suggested by “New Politics”, one would expect electorates to behave accordingly at the polls. Yet, Alesina et al (1998; 2012) convincingly show that fiscal adjustments episodes had little, if any, predictive power on the re-election prospects and within-cycle popularity of incumbent governments. In a similar vein, Brender and Drazen (2008) find no direct evidence for deficits increasing incumbent popularity. Moreover, as subsequent contributions to this debate have confirmed (Ilera and Mulas-Granados, 2001; Mulas-Granados, 2006; Von Hagen et al, 2002), the composition of adjustments has been a strong predictor of the duration and hence the political viability of adjustment efforts: cuts in transfer programmes and public wages, in contrast to public investment cuts and tax hikes, have led to more permanent debt stabilization programmes. Studies treating social policy retrenchment, rather than fiscal adjustment as the main subject of analysis (Giger, 2010; Giger and Nelson, 2011) have also arrived at similar results: these retrenchment efforts entail very limited systematic electoral punishment in their wake. While these contributions are largely silent on partisan dynamics driving the adjustment efforts, a related study by Alesina et al (2006) shows that when faced with fiscal crises, governments led by left parties tend to undertake adjustment earlier than their conservative rivals. Not only do these findings suggest that elections may not necessarily spell the death knell of retrenching governments, but they also potentially shed light on an unexpected partisan dynamics at play.

In fact, when one takes a closer look at these retrenchment periods, the frequency of consolidation efforts initiated by the left is striking. While a detailed analysis of retrenchment periods lies beyond the scope of this article, a few well-known cases bring the point home. The Swedish Social Democrats long-tenure in power under the premiership of Goran Persson following its banking and fiscal crisis in the early 1990s, New Zealand's Labour governments under Helen Clark in the years preceding the Great Recession, Britain's New Labour's first term in office between 1997 and 2002, Denmark's Social Democrat-led coalition governments in the second half of the 1990s all saw a significant reduction of cyclically-adjusted measures of social expenditure (OECD economic outlook database 92, 2012). Not only were these and other episodes successful in stabilizing public finances but they also resonated well with the electorate who returned these governments to power in a number of consecutive occasions.

These unexpected partisan outcomes are closely linked to a crucial, but often neglected aspect of the electoral game: parties compete for each election with *a priori* held beliefs of the electorate on where these parties stand on different policy domains. These beliefs entail a degree of partisan loyalty between certain voting groups and political parties on the one hand, and create credibility (dis)advantages for these parties concerning their ability and willingness to deal with problem pressures, on the other[2]. Moreover, as Adams (2001) argues, these partisan loyalties imply a biased assessment of parties' policy platforms by a part of the electorate, creating incentives for parties to deviate from the static predictions of median-voter models. For conceptually similar considerations, Kitschelt (2001) concludes that the Left can more effectively deal with welfare pressures than the Right when it doesn't face opposition parties that are credible defenders of the welfare

[2] See Cukierman and Tomassi's (1998) formal model that builds on the notion of credibility deficit to explain unexpected partisan outcomes. The examples include stabilization and pro-market policies conducted by Latin American presidents elected on a populist platform as well as land for peace policies undertaken by hawkish Israeli leaders.

state. The electoral importance and implications of the Left's credibility advantage on the welfare state is perhaps best captured by Ross (2000) who emphasizes left-wing parties' issue-association with welfare programmes that has been accumulated over more than half a century (p.164):

"According to this logic, rightist parties should be more vulnerable in their retrenchment efforts than parties of the left—and especially so on explosive issues like welfare reform. The principal psychological mechanism conditioning voters' response to issue-associations appears to be trust—specifically the opportunities trust provides for framing retrenchment initiatives in a manner that voters find acceptable if not compelling"

These insights have crucial implications for the theoretical propositions of this article, outlined in the next sub-section.

Theory: preference polarization under partisan - biased constituencies

Before incorporating the idea of partisan biases in parties' strategic positions on a policy space, a basic conceptualization of permanent austerity with regards to welfare preferences of the electorate is in order. Importantly, I assume endogenous preferences by the electorate whereby their preferred welfare provision takes into account the possibility frontier defined by permanent austerity. Specifically, I make the assumption that in times of "normal" or "old" politics, electoral preferences will point toward an expansion of multiple welfare programmes. In times of retrenchment politics, however, recognizing the trade-off nature of welfare provision, electoral preferences will reflect the defence of one's favoured program at the expense of the other(s).This assumption chimes in well with the seminal piece by Alesina and Drazen (1991) who elegantly model a war of attrition game where two constituencies attempt to shift the burden of adjustment onto the other side. Furthermore, this characterization of voters stuck in a redistributive battle for scarce resources have been borne out by a number of different scholars in the social policy literature (see Busemeyer, 2012 and Tepe and Vanhuysse, 2009 with regards to education policy and public pensions, respectively).

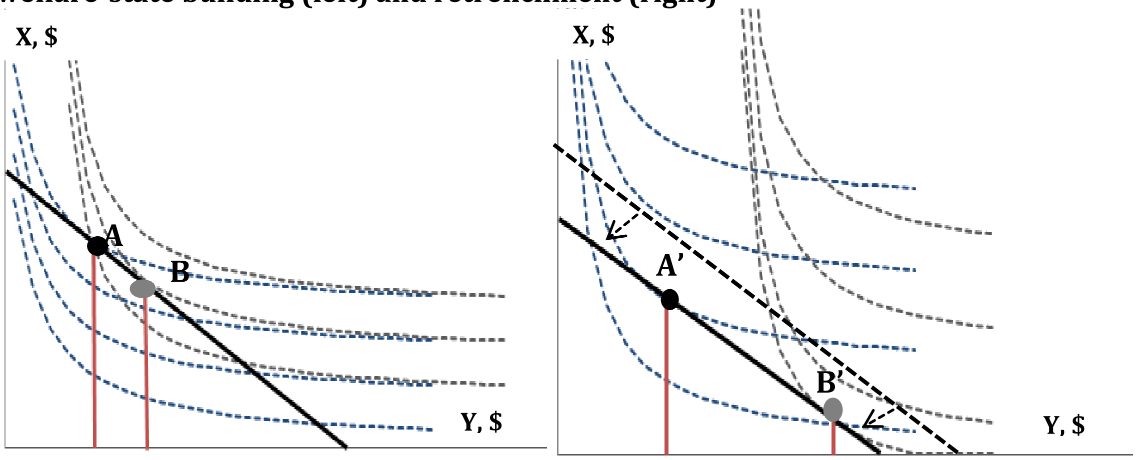
More specifically, assume government provides two public services (or two welfare programmes) in the political economy: X and Y[3] with two distinct constituencies (group 1 and group 2) benefiting from them. Figure 1 is a stylized illustration of the pre-retrenchment period (left panel) compared to "permanent austerity" (right panel). In the first period, as high growth and low debt levels allowed the expansion of the welfare state without running into financial constraints, the two groups are expected to forge an alliance for the parallel expansion of the programmes: their preferences are relatively proximate. One can conceptualize this idea by regular (circular) indifference curves for two groups of voters: group 1 preferring higher provision in good X and group 2 preferring higher level of provision in Y. Both groups, however, are willing to trade off X for Y at similar rates at any given combination of X and Y. As a result, given the budget constraint of the welfare state, ideal points A and B are relatively close to each other.

Once permanent austerity hits, the mutual expansion of spending programmes gives way to a distributional conflict between the two groups

[3] For illustration's sake, the two welfare programmes can be thought of as unemployment programmes for the working age and pension programmes for the retired population.

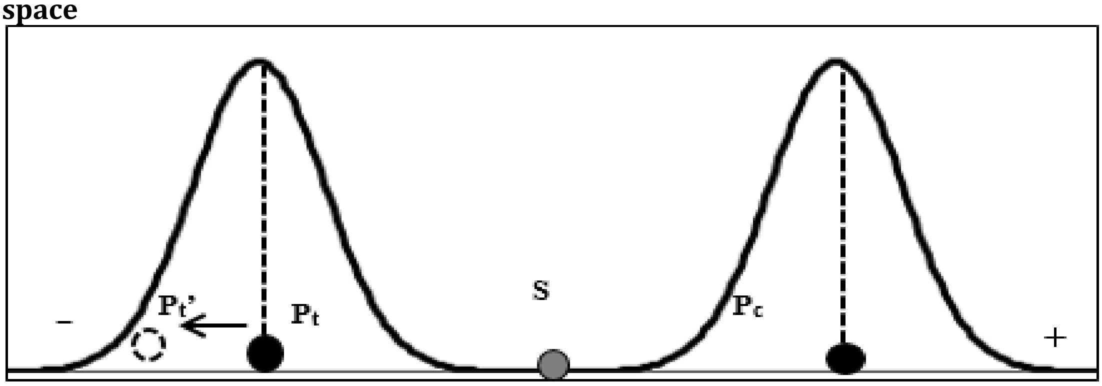
under a tighter budget constraint. Translating this into visual representation on the right-hand panel, indifference curves for the two groups are now very different. The most intuitive way to understand the new scenario is that for group 1 (2), a higher level of Y (X) is required to leave it at the same level of utility compared to the pre-retrenchment scenario. Alternatively, at any given combination of X and Y, the terms of trading off X for Y for the two groups will be sharply different. As a result, given the new budget constraint of the welfare state, the ideal points A′ and B′ will be further apart compared to the pre-retrenchment period.

Figure 1. Indifference curves and ideal points for two groups of voters during welfare-state building (left) and retrenchment (right)



The next step in the analysis is translating this distributional conflict to a single-issue space for X. The incumbent party – labelled S for social-democratic – tries to optimize its vote share among two groups, its traditional core constituency and a target group that it tries to sway over. The groups are caught in a distributional conflict on the provision of X, as the core is interested in its maintenance/expansion while the target is interested in its reduction in order to free up resources for its own preferred program. Intuitively, the two groups along the single-issue space are distributed bimodally, with the two peaks located at the two groups' "ideal points" of provision level[4]. Therefore, in Figure 2, the core constituency for party S has an ideal preference point P_c. The target constituency[5] of party S has an ideal preference point P_t. The core constituency is the one with preferences towards the bottom-right corner of Figures1 and 2 (point B, B*), in other words who benefit more from the provision of Y. The target constituency is the one with preferences towards the upper-left corner in Figures 1 and 2 (point A, A*), in other words who prefer less provision of Y to allow for increased provision of X.

Figure 2. The preference distribution of two g roups of voters on a single-issue space



The incumbent government party's vote-maximizing strategy is to find an ideal location along the issue space (ranging from less to more provision of X). The farther it locates from the ideal preference point of its core (target) constituency the more votes it will lose among the respective constituencies. Specifically, I adopt a quadratic loss function for the vote share the government faces with a minor, but crucial modification. Building on the logic of partisan biases, I assume that party S, the natural guardian of X,

[4] This bimodal distribution follows from a stylized restriction of the electoral space to the two groups under analysis; since each group has a favoured program to defend, their preference distribution, following from Graph 1, will be polarized around the two ideal points.

[5] I use the notion of target constituency to emphasize the idea that in order to increase its electoral support, the incumbent must make policy concessions to traditionally antagonistic groups.

enjoys positive (negative) partisan bias among the core (target) constituency because of its historical commitment (or ideology) to the core group and its preferred program, X. In political terms, this idea can be expressed by an asymmetric evaluation of a policy shift by the core and the target group: if the government reduces the provision of X, the core can expect that due to party S's ties to the core, this shift doesn't fully reflect S's true preferences and it will thus revert back to more provision in the future. In a similar vein, being distrustful of S's true preferences, the target group will reward S's shift by a smaller vote gain compared to a similar shift undertaken by a traditionally less hostile party. The vote loss function of S can thus be expressed as follows:

$$F(V) = -(P_c - S)^2\alpha - (S - P_t)^2\beta$$

where $0<\alpha<1$ and $2>\beta>1$ are two partisan bias parameters to reflect the idea above[6]. The constraints of these parameters reflect the idea that the vote loss function can be either amplified (by β) or dampened (by α) as a function of the relative partisan biases of the ruling party among the two constituencies. By minimizing the loss function with respect to S, the first-order condition gives

$$\frac{dV}{dS} = 2(P_c\alpha + P_t\beta) - 2(S\alpha + S\beta) = 0$$

Which solves to:

$$1)\ S = \frac{Pc\alpha+Pt\beta}{\alpha+\beta}$$

[6] The range of parameters α and β are constrained between 0 and 1 and 1 and 2, respectively as a matter of convenience to allow for a symmetric range around 1, a scenario with no partisan bias among either of the constituencies.

Comparing this result to a party with no partisan bias among the electorate (ie. $\alpha = 1$;, $\beta = 1$) the vote loss function simplifies to:

$$F(V) = -(P_c - S)^2 - (S - P_t)^2$$

Which results in the solution of:

2) $S = \frac{Pc+Pt}{2}$

Which leads party S to locate exactly half-way between the two groups' ideal points. To the extent permanent austerity sharpens the trade-off between the provision of two welfare programmes, one can expect that austerity shocks trigger into redistributive preferences by moving P_t to the left towards P_t* on Figure 2, reflecting the target group's attempt to safeguard its own preferred programme, Y. What happens to S's vote maximization location in response to a one-unit leftward shift of P_t? Under a government with no partisan bias among either of the constituencies, the result is straightforward from 2): S follows P_t by half a unit. However, once partisan biases are introduced, the impact on S's new location is given by taking the first derivative of 1) with respect to P_t, resulting in: $\frac{\beta}{\alpha+\beta}$. It is easy to see that given the constraints of the partisan bias parameters, this fraction is strictly $> \frac{1}{2}$ and asymptotically converges to 1 with β going to 2 and α going to 0. In other words, the austerity shock is expected to result in the greatest move against the core constituency when the incumbent government has high partisan bias (low α) among them.

The result of this simple model suggests two hypotheses to test in the empirical section of this paper. The two hypotheses offer two different conceptualizations of permanent austerity. According to the first (baseline) hypothesis, austerity implies a permanent preference shift for voters (from Figure IV.1 to Figure IV.2) as they recognize the inevitable trade-off between the welfare programmes that the government delivers – in the present and the future. Put differently, voters will permanently abandon their prior expectation of welfare consensus on the mutual expansion of welfare programmes and will sharpen their defence of their preferred ones. Alternatively, according to the second (conditional) hypothesis, voters' preference change will follow the short-term exigencies of austerity politics. In other words, periods of retrenchment will reflect the preference alignment of Figure IV.2, but in times of relative prosperity, regular preferences will dictate no polarization between the two groups' ideal points (Figure I) and hence no Nixon-goes-to-China effect. Stated more concisely, therefore:

H(baseline): Since the mid-1970s, welfare retrenchment is guided by a Nixon-goes-to-China logic. Parties enjoying high degree of partisan bias among certain social groups are more likely to inflict pain on these groups when structuring their welfare budgets.

H(conditional): Since the mid-1970s, governments occasionally had to surrender their commitments to welfare programmes in their effort to stabilize debt levels. Only in times of retrenchment do we observe a Nixon-goes-to-China logic, but when budgetary exigencies are absent traditional partisan effects dominate.

Operationalizing the partisan bias parameter and different fiscal periods as well as introducing our data and measurement will be the subject of the next section.

Partisan bias in times of "permanent austerity": data and measurement

As our literature review and theoretical propositions indicated, partisan biases could be crucial modifying factors in providing room for manoeuvre for certain political parties to engage in austerity politics when in government. The problem of course is that partisan biases are hard to observe. The simplest approach would be to rely on traditional party family labels as the bulk of partisanship debate in welfare state research has done (Huber and Stephens, 2001, Alan and Scruggs, 2004). The crucial limitation of this approach – as highlighted by the earlier discussion – is that with the decline of class voting, traditional party family labels are considerably less useful in capturing the political representation of socioeconomic interests than they were at the time of early partisan theory (Alesina, 1987, Hibbs, 1977). An alternative solution would be to look at policy stances of political parties based on electoral manifestos (Finseraas and Vernby, 2011; Haupt 2010; Kim and Fording, 2002; Ward et al, 2011). However, it is a highly dubious assumption whether occasional (written) emphases on certain issue priorities automatically translate into partisan loyalties that my argument requires for empirical testing[7].

I therefore opt for yet another approach which relies on revealed preferences of voters. I argue that partisan biases should be reflected by the relative appeal of given parties to social groups. This relative appeal is measured by the vote share parties can expect to obtain among members of a given social

[7] See also Budge and Bara (2001) for a critical review on the reliability of data from the Comparative Manifesto Project

group relative to the overall vote share in the population, based on annual opinion data from Eurobarometer and ISSP (details in Appendix 1).

More specifically, I constructed a group-specific relative support measure[8] (RSP from here on), which is defined as follows:

$$RSP_{gp}=\frac{Vgp-Vtp}{Vtp}$$

Where V_{gp} and V_{tp} are the vote (intention) share of party P among social group G and and its total vote (intention) share, respectively. The logic behind this measure is that the deviation of group-specific support from overall support (numerator) is divided (standardized) by the overall strength of the party (denominator). A 5% vote share deviation from its overall support share is surely more important for a fringe party in a multiparty system than for a catch-all party in a two-party system. Standardizing by party strength thus ensures that group-specific deviation from overall support is measured relatively to the party's overall strength. Accordingly, the obtained measure takes on the value 0 when the group-specific support share equals the overall support for the party. It takes on the value -1 when no member of the given group votes for the party. If the group-specific support is double that of the overall support, RSP will equal 1[9]. Therefore, an alternative reading of partisan bias is the extent to which parties are

[8] This is a modification of a popular measure in the class voting literature called the Alford Index, defined by the % of manual occupations voting left minus the % of non-manual occupations voting left (Alford, 1963). While the Alfold Index could be modified to allow for more meaningful post-industrial occupational categories than the crude "manual" vs. "non-manual" distinction, I argue that there are two other advantages of this new measure: first, it is party-specific, which is crucial for multiparty systems with more than one left parties. Second, it is standardized, ie. it takes into account the size of party in question.

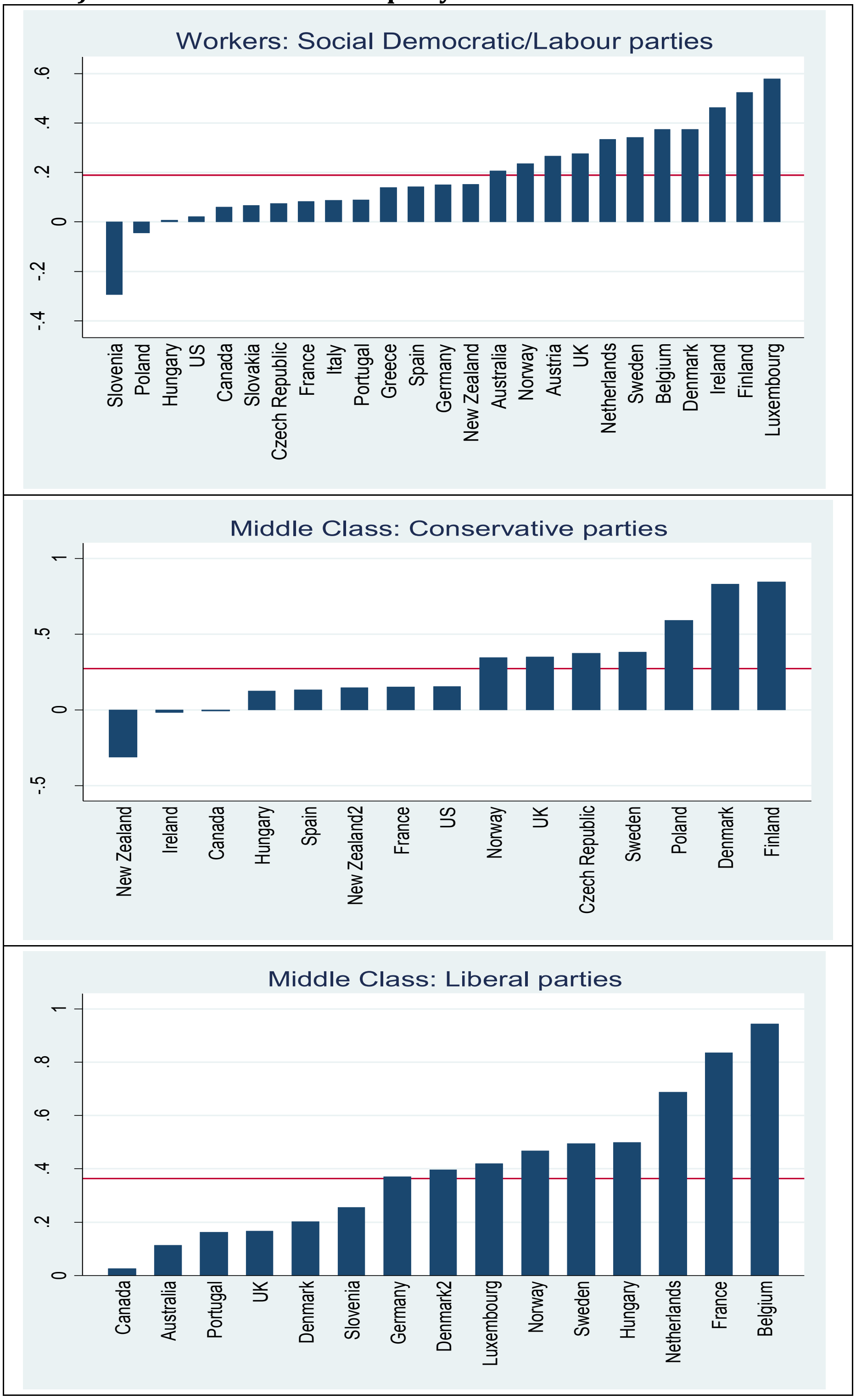
[9] While in theory RSP can exceed 1 (when the group-specific support is more than twice of the overall support) in the empirical distribution of the cases it is very seldom above 1. Therefore, it is practical and convenient to think of -1 and 1 as the lower and upper bounds of RSP.

beholden to certain constituencies measured by the relative electoral support among them.

With RSP thus defined, the next task is to pin down the social groups of interest. One concern is identifying groups with clear material interest in welfare programmes. Another was size: overly small groups' (less than 5% of the electorate) electoral support is notoriously hard to reliably measure in electoral surveys. Moreover, including small groups in the analysis is also problematic for their likely limited electoral influence. My choice thus fell on two important voting constituencies that are comparable in size (each comprising around 20% of the voting population) and constitute important clienteles of the welfare state: pensioners and low-/semi-skilled working age individuals. The identification of pensioners was unproblematic as both survey series ask respondents about their current job status. Identifying the latter group was based on occupation categorization in the two survey series (see Appendix for details).

To offer a brief illustration of the utility of our RSP measure, it is helpful to recall partisan theory's conceptualization of partisan preferences. According to traditional partisan approaches, party preferences can be approximated by low-skilled workers constituting the core electoral bloc behind social-democratic parties while the middle classes should overwhelmingly support conservative and liberal parties. Figure 3 depicts the average RSP for workers and the middle-class for these three party-types over the time-span of our analysis.

Figure 3. Average RSP for workers (top row) and the middle classes (middle and bottom rows) across their traditional party families*



* Horizontal red line indicates the sample average over the study period.

While the general pattern confirms partisan theory, the variation among parties in different countries is far from trivial. Average social-democratic/labour RSP for workers ranges from 0.58 in Luxemburg to -0.3 in

Slovenia. Regarding the middle class's alignment with conservative parties, their RSP ranges from 0.84 in Finland to -0.31 in New Zealand's smaller conservative party. Liberal parties' middle class RSP is unambiguously in the positive territory, but the range is still remarkable: from 0.94 in Belgium to 0.03 for the Canadian liberals. This wide variation calls into doubt the analytical value of party family labels and suggests that even historically similar party types owe their mandate to a fundamentally different composition of electoral blocs today.

Turning to the main dependent variable of our study, welfare retrenchment, a lively debate has emerged on measurement issues. Allan and Scruggs (2004) cogently argue that looking at the policy parameters of welfare programmes (replacement rates, eligibility criteria etc.) is a superior measure of welfare retrenchment to conventional expenditure data, because as Esping-Andersen famously remarked, "it is hard to imagine that anyone struggled for spending per se" (1990, p.21). Green-Pedersen (2004), by contrast argues that what has become known as the "dependent variable problem" should be resolved by conceptualization rather than rules of thumb. Moreover, critics of spending measures - see Starke's (2006) excellent review in this regard - often make the valid point that spending is driven by a number of structural developments in welfare states, such as aging, structural unemployment and deindustrialization (Huber and Stephens, 2001; Iversen and Cusack, 2000).

An appropriate choice of our dependent variable and the estimation strategy must take these considerations seriously. For our purposes, however, a number of other considerations weigh against these arguments. First, as the welfare regime literature (Esping-Andersen, 1990, Iversen and Wren, 1998) has long emphasized, welfare services constitute a significant part of "welfare effort" in a number of welfare states, especially among the Nordic/Social-democratic types. Since spending data on cash and in-kind captures these services (elderly care facilities for instance) which the welfare entitlement measures relying on replace rates do not, the former constitutes a more encompassing and thus more appropriate measurement to use. Secondly, much of the welfare retrenchment debate revolves around the goal of cost-containment (Pierson, 2001; Starke, 2006) which, in contrast to Esping-Andersen's famous remark above, is primarily a spending-related issue and hence not *epiphenomenal* to the study of interest as he argued (1990, p.19). In other words, if our primary object of interest is welfare retrenchment in the context of (permanent) austerity, expenditure outcomes *per se* are of high conceptual relevance for this study. On a related note, a lot of retrenchment reforms do not directly impact on the welfare of current beneficiaries (a rise in the retirement age would be a typical example) and hence do not show up in current expenditure outcomes. However, since my constituency-based partisanship measure (see the foregoing discussion) relies on current beneficiaries of welfare programmes, it is important to prioritize those reforms in my empirical measures that actually affect these groups (e.g. changed pension indexation formula). Expenditure measures go a long way in taking this consideration into account. Thirdly, the valid concerns on demand- as opposed to policy-driven spending outcomes are less problematic than they first seem; careful control variables (see a more detailed discussion below) on these structural drivers are easily available and applicable for quantitative analysis, allowing the researcher to clean the estimate of theoretical interest of the confounding effect of these structural driving forces. Last but not least, expenditure data is widely available, expanding the empirical horizon to countries and time periods that are not covered by the commonly used entitlement datasets.

Accordingly, I chose programme-specific expenditure data (as a % of GDP) as the dependent variable of interest. As previously mentioned, one of the main considerations in defining social groups was to clearly align them with welfare programmes where they have a vested interest. For the first group, the pensioner population, old age pension expenditure is an obvious program that satisfies this criterion. Workers face a number of risks along the life-cycle so it less obvious which program they are most prepared to defend. I argue that given the occupation categories that constitute this group in this study, unemployment is probably the most prominent of these risks: a shrinking manufacturing base in advanced economies, global competition, structural employment, dualized labour markets (Rueda, 2005) etc. all expose this low-skilled group to the risk of job loss (Rehm, 2011). I thus chose unemployment benefits as the core program of workers.

In addition to these core measures, I also adopt a broader measure for the two groups that take into account other welfare programmes that are potentially relevant for their interest. For pensioners, the broader measure includes health expenditure and survivor benefits. The elderly are frequent users of healthcare facilities, regular consumers of subsidized drugs as well as the main beneficiaries of survivor programmes. For workers, these complementary programmes largely address what the welfare state literature identifies as "new social risks" in the post-industrial economy (Bonoli, 2005; Hauserman, 2010): measures to fight structural unemployment by activation policies, family policies to ease women's entry and re-entry in the labour force after child-bearing and so on. I thus included active labour market policies, incapacity and family benefits because these policies primarily target working age individuals. Given their relatively low-income status, family and incapacity benefits are important complements to workers' income especially when faced with temporary income loss due to sickness, maternity/paternity leave, etc. Active labour market policies in turn can increase reemployment opportunities for workers faced with a high risk of job loss and a generally higher risk profile in their sector of employment (Cusack et al, 2006).

To summarize, the core dependent variables of interest are old age pensions and unemployment benefits for pensioners and the low-/semi-skilled working-class, respectively. The broader measures for the two groups will additionally include health care expenditure and survivor benefits for pensioners and incapacity, family benefits and active labour market policies for workers. In the empirical analysis, all these spending measures are expressed in % of GDP.

The final variable of main interest to discuss is the fiscal consolidation variable. The second hypothesis addresses the possibility that the era of "permanent austerity" should not be understood in a homogenous manner, but rather as extended efforts to stabilize/bring down debt levels interspersed with times with less pressure on public budgets. There is, of course, considerable cross-national variation as well in the extent to which characterizing the last three to four decades as permanent austerity is appropriate. Recognizing this heterogeneity I followed Alesina and Ardagna's (2009) approach who identify large fiscal efforts by changes in the cyclically adjusted primary balance of the general government (capb). Specifically, they separate their empirical sample into three periods: 1) consolidation periods, where the capb increases by more than 1.5% of potential GDP; 2) expansion periods, where the capb drops by at least 1.5% of potential GDP 3) "neutral" periods in between. While the 1.5% threshold, as any other, is admittedly arbitrary, the advantage of this relatively high threshold is to rule out idiosyncratic and one-off changes in the fiscal stance.

Setting the threshold high allows the researcher to pin down periods where changes in the fiscal stance are policy-driven. In addition to measuring adjustment periods through these consolidation and expansion dummies, I also introduce the capb as a continuous variable to test my second hypothesis in a linear functional form.

In addition to the main variables of theoretical interests, a number of control variables will be essential for the analysis. Most importantly, structural developments driving programme-specific expenditure outcomes have to be correctly specified. First, as expenditure data is expressed as a % of GDP, GDP growth has to be accounted for to take into account the denominator effect. Moreover, growth has an indirect effect on expenditure as the cyclical position of the economy affects the pool of beneficiaries of welfare claimants. Secondly, unemployment will be taken into account for the worker-related specifications because it increases the pool of unemployed, directly impacting unemployment benefits and indirectly other welfare expenditure for the working age. For pensioners-related expenditure, in turn, aging will be controlled for in the form of the % of elderly (people aged above 60) in the population. In addition to these structural developments, a political party family control will be used to disentangle the effects of partisan biases (RSP) from the traditional effects of ideology (party families). Although the descriptive analysis above has shown that RSP is by no means just an equivalent measure for party family labels, I nevertheless control for party families to purge the estimates from the possibly confounding effects of ideology.

In addition to these controls, a number of further variables could be of potential theoretical interest. One common theme in the welfare retrenchment literature is the varying degree of leeway different incumbent governments have in enacting policy change (Bonoli, 2001; Obinger, 2002; Tsebelis, 2002). A large number of veto players – coalition partners, second chambers, presidential veto etc. – can create policy deadlock even when the government's partisan leaning (ie. its constituency composition) is otherwise favourable towards welfare retrenchment. Hence I included a political constraint index (POLCON III) index (Henisz, 2006), a popular composite index ranging between 0 and 1 to capture the political constraint that a government faces at any point in time. Furthermore, another important theme in the welfare retrenchment literature is the impact economic integration and globalization have on welfare state stability. To adjudicate between two competing claims on the directional effect of globalization in the empirical literature[10], I included a sub-component of the popularly used Dreher index that captures economics flows and restrictions on movements of goods, services and capital (Dreher, 2006). Finally, I included an EMU dummy to pick up the potentially constraining effect of the currency union on public budgets and hence on welfare programmes. However, none of these additional control variables were remotely close to achieving statistical significance in any of the models so I discarded them from the final analysis.

Before proceeding to the empirical analysis of this article, a final note on the partisan variables is in order. The welfare state literature, as a rule, measured incumbency by incorporating all parties holding cabinet portfolios. This is warranted on the grounds that government portfolios offer the primary tools for parties to affect policy. It is not all that clear, however, that a numerical (%) measure of junior coalition parties is appropriate to determine their influence on welfare decisions: a small coalition partner controlling the environmental and the transport ministry, for instance may have

[10] See Meinhard and Potrafke (2012) for an excellent summary, literature review and empirical re-examination of the so-called "efficiency" and "compensation" hypotheses.

considerably less policy-making power than one controlling welfare-related portfolios. Focusing on the leading government party is thus arguably a safer choice because the control over the premiership and the finance ministry[11] (typically the case for large senior coalition members) gives the leading party considerable, if not predominant leverage in acting according to its own welfare preferences. Moreover, the clarity-of-responsibility thesis in electoral research (Duch and Stevenson, 2008; Powell and Whitten, 1993) has consistently shown that senior parties are held more responsible for electoral outcomes, hence their strategic incentives for Nixon-goes-to-China policy-making should be also sharper. Finally, reliably measuring group-specific RSP from electoral surveys is extremely difficult for small parties due to the limited (sub)sample size. Although the omission of coalition partners should be kept in mind as a possible limitation, these considerations suggest that focusing on leading parties is a reasonable choice.

Empirical analysis: Nixon-goes-to-China in times of welfare retrenchment

To begin the discussion on specification issues for the empirical analysis, I lay out the general time series-cross section model to be estimated, taking the general form of:

$$Y_{it} = \beta_0 + \sum_1^k \beta_k * X_{kit} + \alpha_i + \mu_t + e_{it}$$

[11] Although traditional models on portfolio allocation (Laver and Shepsle, 1990) assumed a great degree of ministerial autonomy, a large number of countries have taken radical steps towards strengthening the role of finance ministers in the allocation of public funds (Hallerberg et al, 2009)

Where Y_{it} is the endogenous (dependent) variable of the model, $\sum_1^k \beta_k * X_{kit}$ is a vector of k regressors (may or may not including lagged dependent variable(s) to account for dynamics), α_i, μ_t are unit- and time-specific intercepts and e_{it} is an observation-specific error term. The observations are taken from a sample of 25 OECD countries – including 5 new member states of the European Union – over more than 3 decades (1975-2007)[12] that largely covers the period of "permanent austerity".

The first concern that immediately arises is to what extent the main variable of our interest, RSP can be regarded as exogenous so that the weak exogeneity assumption – $E(X_{it}e_{it}) = 0$ – holds. If that assumption is violated, the estimated parameters of interest will be biased. Theoretically, we have strong expectation to assume that the contemporaneous RSP and expenditure data are mutually endogenous, as the relative party support among different constituencies may very well depend on welfare spending decisions. To circumvent this possibly severe endogeneity bias, I "fixed" my RSP measure to the year that a new government comes to power. For the entire term of the incoming government, the group-specific RSP will reflect the preceding four years' average of the RSP measure at the beginning of the term[13]. Measuring RSP from the pre-incumbency period is a theoretically informed way to capture the notion of a government's "electoral mandate" and goes a long way in addressing endogeneity concerns.

[12] In practice, program-specific expenditure data is available from 1980 only, so that year is the starting point for all panels. Moreover, for some of the countries in the sample have different availabilities for expenditure data and electoral surveys, resulting in an unbalanced panel for the analysis.

[13] Taking a four-year average as opposed to just the annual observation when the government comes to power helps to reduce sampling error which would pose serious problems if RSP was measured based on a single electoral survey. The four-year moving average RSP series are thus considerably smoother than the very noisy "base" series. The window of four rather than some other moving average window was chosen to reflect the length of a typical electoral cycle.

A second important theoretical consideration is the functional form of the dependent variables. While level specifications are usually interpreted as models predicting "long-run" effects, first-difference specifications are better suited to capture "short-run" dynamics. For our purposes, it is the latter aspect that we mostly care about: to what extent do incumbent governments adopt retrenchment policies – often in the face of financial pressures to take urgent decisions – as a function of their electoral constituencies. Moreover, as Kittel and Winner (2005) discussed in their re-analysis of Garrett and Mitchell's (2001) public expenditure data, the level form of these series can be often non-stationary with a coefficient of the autoregressive term being very close to unity. First differencing the dependent variable thus also has a technical advantage wherein the risk of running spurious regressions is minimized. As for the structural predictors (old age ratio, unemployment and growth) the first two of these entered with a first-differenced format in the specifications, but I left growth – which is theoretically speaking a "change variable" itself – in its level form to control for the denominator effect. The political variables (RSP and party types) were introduced in levels[14].

The first step of my estimation strategy was to investigate unit (and time) heterogeneity by testing for inclusion of fixed effects (α_i and μ_t) in the models. If unobserved unit-/time-specific characteristics – and hence the error terms – are correlated with our regressors, the estimated coefficients will suffer from omitted variable bias. However, in the absence of this source of bias, a random-effects model is preferable as it allows for more precise (more efficient) estimates. First, I began with the inclusion of time-dummies

[14] Unlike with the structural variables where it is theoretically justified to expect that "changes drive changes", political variables have a different logic: government continuity – hence non-changing RSP and party family variables – is very well compatible with changing expenditure outcomes.

because of well-known periods of time-specific shocks (e.g. Maastricht process) that simultaneously affected many countries in the sample. Predictably, an F-test on the joint significance of these time dummies ($p<0.001$ in all cases) allows us to convincingly reject the null hypothesis of no time-specific effects. As for unit-heterogeneity, F tests for different dependent variables and models provided mixed results: for unemployment benefit programmes, for instance, there is no evidence for unit-specific effects; for old-age spending, however, the joint effects are marginally significant. I thus proceeded to a set of Hausman tests to check whether the more efficient random effects estimator is also consistent[15] (the H0 of the test). These tests unambiguously indicated that where unit-specific effects are present (e.g. for old-age spending), these effects are not correlated with the regressors, hence the omission of fixed effects to gain a more efficient random effects estimator is warranted. That said, I will provide fixed effects specifications as robustness check in section 5 to examine the stability of the findings.

With these random effects specifications – with time dummies – as our benchmark, I proceeded to test for violations of the standard Gauss-Markov conditions (Beck, 2001) under which regular standard errors of individual coefficients may be severely inflated, yielding invalid test results. The first possible source of these violations is panel heteroskedasticity. This is a highly plausible scenario because countries with higher levels of program-specific spending are expected to display higher fluctuations (annual changes) around the mean. These expectations were confirmed by a modified Wald-test which strongly rejected the null hypothesis of homoskedastic errors across units ($p<0.001$). Proceeding to the covariances of

[15] The more technical null hypothesis that the Hausman specification test tests against is whether the unit- (country-) specific effects are correlated with the regressors, which would render the random effects or fully pooled OLS estimates biased (Bartels, 2008).

the residuals, valid standard error estimates require independence across the rows in the variance-covariance matrix of the errors (no contemporaneous correlation) as well as in the columns (no autocorrelation in panels). Based on a Pesaran test, most of the models appear to be contaminated by contemporaneous correlation (test results are provided in the Appendix). First order serial correlation[16], on the other hand was detected only in the unemployment benefit series, indicating that changes in unemployment benefit programmes have a high degree of "stickiness". In other words, a given change in unemployment benefit spending is likely to entail a similar change in the next period. To model this feature of the unemployment benefit data, I included a lagged dependent variable in the specifications. Regressing residuals on past residuals after this LDV specification showed no remaining serial correlation in the data.

Equipped with these diagnostic results[17], I estimated the random effects models correcting for panel-heteroskedasticity and cross-sectional correlation, using panel-corrected standard errors as suggested by Beck and Katz (1995) as a superior alternative to the FGLS-based Parks method.

Table 1 summarizes the main findings on old-age spending (time dummies suppressed from this and all subsequent tables). The baseline model shows that structural variables are important determinants of spending outcomes: higher growth and a larger increase in the ratio of the elderly decreases and increases the share of output devoted to old age expenditure, respectively. By contrast, the Henisz index, our proxy for veto players in the political systems, did not achieve statistical significance in any of the models hence I omitted it from the final analysis.

[16] A Wooldridge (Lagrange Multiplier) test was used to test against the null hypothesis of no first order serial correlation in the data.
[17] All diagnostic test results are provided in the Appendix

Table 1. Models explaining old-age spending in OECD countries†

	Baseline	Extended	Interactive I	Interactive II
RSP_pensioners	-0.215	-0.249	-0.343	-0.204
	(2.79)***	(4.37)***	(4.71)***	(5.23)***
growth	-0.042	-0.038	-0.045	-0.043
	(3.32)***	(3.39)***	(3.82)***	(3.67)***
Δoldage	39.712	39.261	36.847	37.266
	(5.57)***	(4.19)***	(4.21)***	(4.79)***
conservative		-0.061	-0.046	-0.048
		(1.49)	(1.10)	(1.27)
christdem		0.044	0.049	0.041
		(1.44)	(1.50)	(1.27)
liberal		-0.002	-0.001	-0.003
		(0.04)	(0.02)	(0.06)
other		-0.100	-0.083	-0.077
		(2.34)**	(2.15)**	(1.91)*
Consolidation			-0.072	
			(1.68)*	
Expansion			-0.011	
			(0.25)	
RSP_pensioners*Consolidation			0.238	
			(2.19)**	
RSP_pensioners*Expansion			0.854	
			(4.50)***	
Δcapb				-0.020
				(2.45)**
RSP_pensioners* Δcapb				-0.091
				(2.54)**
R^2	0.19	0.21	0.25	0.25
N	489	415	392	392

$p<0.1$* $p<0.05$; ** $p<0.01$***

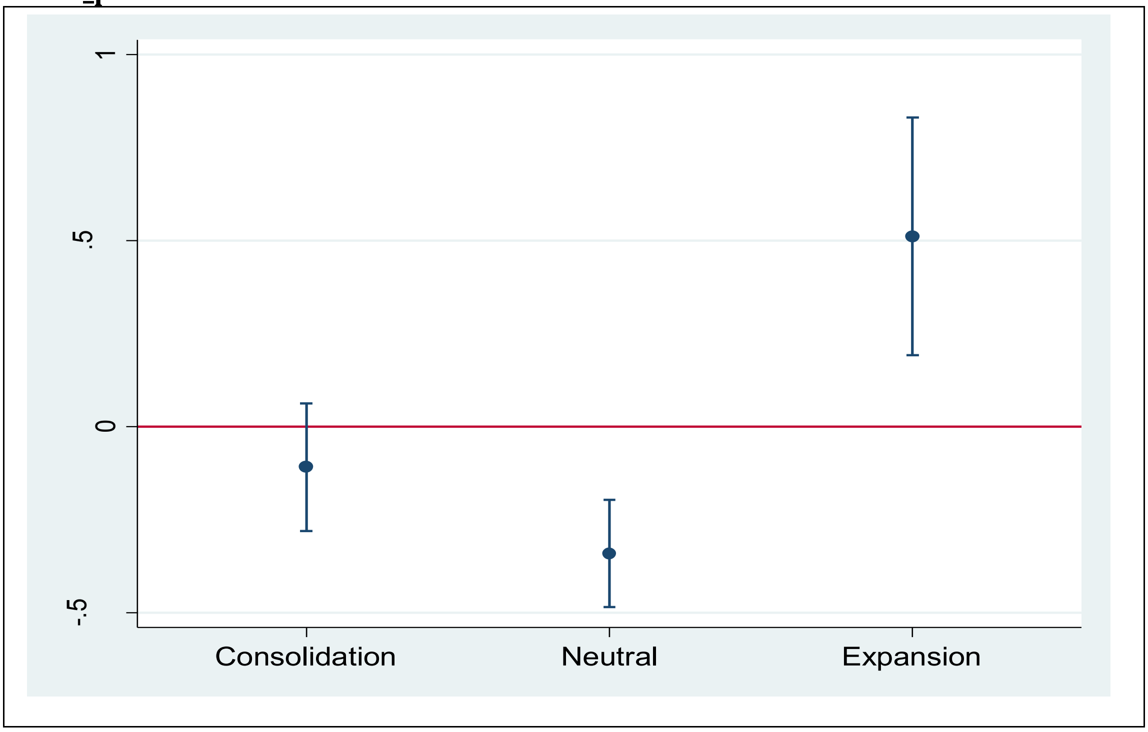
† The coefficients are random-effects estimates with a set of time dummies and panel-corrected standard errors(t-statistics in parenthesis).

The main variable of interest, pensioner-specific RSP is highly significant in the expected (negative) direction. Looking at the extended model with party family controls, the only noteworthy finding is the non-significance of most party family variables[18]. Only the "other" category (comprising very few cases where the leading party did not belong to any of the four major party families) displays significant differences compared to the benchmark, social-democratic category. Introducing the interactive models, the estimates

[18] Social democratic parties were omitted as the reference category in all models.

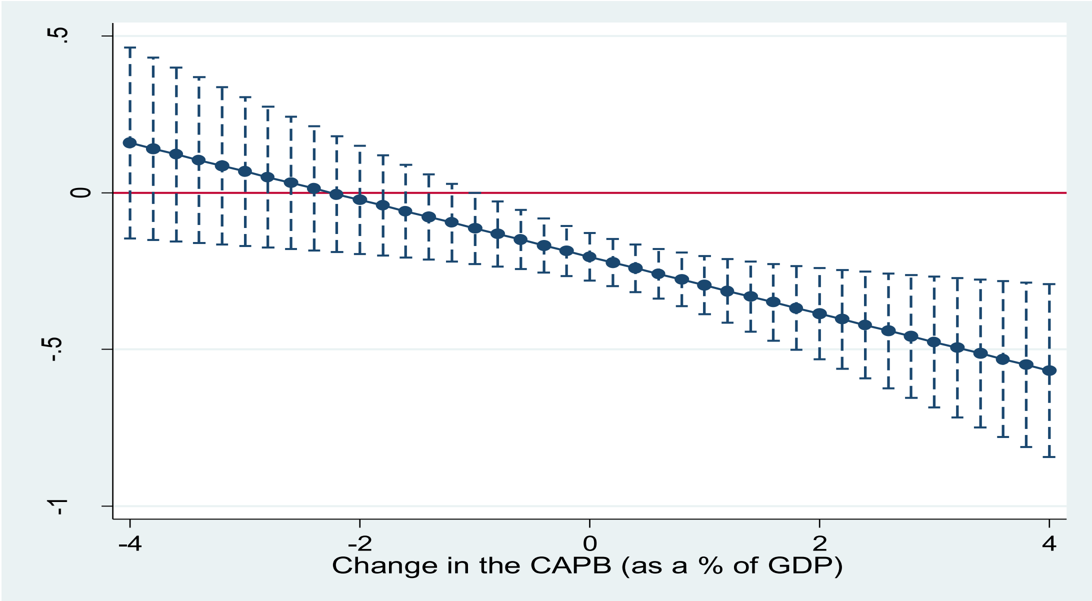
largely lend support to the second hypothesis. Regarding Alesina and Ardagna's (2009) approach, the RSP variable's marginal effect in different time periods are depicted on Figure 4. The point estimates of the RSP variable are negative in both neutral and consolidation periods, consistent with the conditional hypothesis, but turn positive in times of fiscal expansion. In other words, only in times of relative prosperity do incumbents reward their own constituencies while in more austere periods, the Nixon-goes-to-China effect holds.

Figure 4. Marginal effects with point estimates and 95% confidence interval for the RSP_pensioner variable under different fiscal stances from Interactive model I



The same pattern emerges from the second interactive model where the capb variable is interacted with the RSP measure in a continuous form. Point estimates and confidence intervals for different annual changes in the capb are shown on Figure 5. Once the annual change in the capb is greater than -1 of potential GDP, incumbents with higher relative support among pensioners cut old-age spending more (expand it less) than incumbents with lower relative support among pensioners.

Figure 5. Marginal effects with point estimates and 95% confidence interval for the RSP pensioner variable under different fiscal stances from Interactive model II



Proceeding to unemployment benefits programmes, Table 2 presents the main findings. Since we are including the lagged dependent variable among the set of regressors to take into account autocorrelation and dynamics, the coefficient estimates now have a slightly different reading. The estimates for the exogenous variables only provide the instantaneous effect; to understand the long-run cumulative effect, one has to take into account the effect of the regressors on the partial adjustment process in the dependent variable via the autoregressive term (Kittel and Winner, 2005). The long-run relationship between X and Y will be given by: $\frac{\beta 2}{1-\beta 1}$ where β_2 and β_1 are the estimated coefficients on the exogenous and the autoregressive term, respectively (Beck and Katz, 2011).

Table 2. Models explaining unemployment-benefit spending in OECD countries†

	Baseline	Extended	Interactive I	Interactive II
L.Δunemploymentbenefits	0.303	0.337	0.292	0.295
	(7.43)***	(11.09)***	(9.79)***	(9.59)***
RSP_workers	-0.046	-0.062	-0.127	-0.063
	(1.79)*	(6.02)***	(8.03)***	(4.41)***
growth	-0.008	-0.002	-0.005	-0.005
	(2.07)**	(0.60)	(1.11)	(0.99)
Δunemployment	0.055	0.054	0.057	0.058
	(6.41)***	(9.91)***	(9.41)***	(9.32)***
conservative		0.037	0.032	0.033
		(3.73)***	(3.32)***	(3.21)***
christdem		0.029	0.033	0.031
		(2.82)***	(3.45)***	(3.01)***
liberal		0.064	0.065	0.064
		(4.66)***	(4.64)***	(4.56)***
other		-0.044	0.037	0.032
		(1.46)	(1.14)	(0.88)
Consolidation			-0.011	
			(0.80)	
Expansion			0.041	
			(2.26)**	
RSP_workers*Consolidation			0.124	
			(2.66)***	
RSP_workers*Expansion			0.281	
			(3.05)***	
Δcapb				-0.003
				(0.68)
RSP_workers* Δcapb				-0.007
				(0.44)
R^2	0.47	0.48	0.54	0.53
N	472	397	375	375

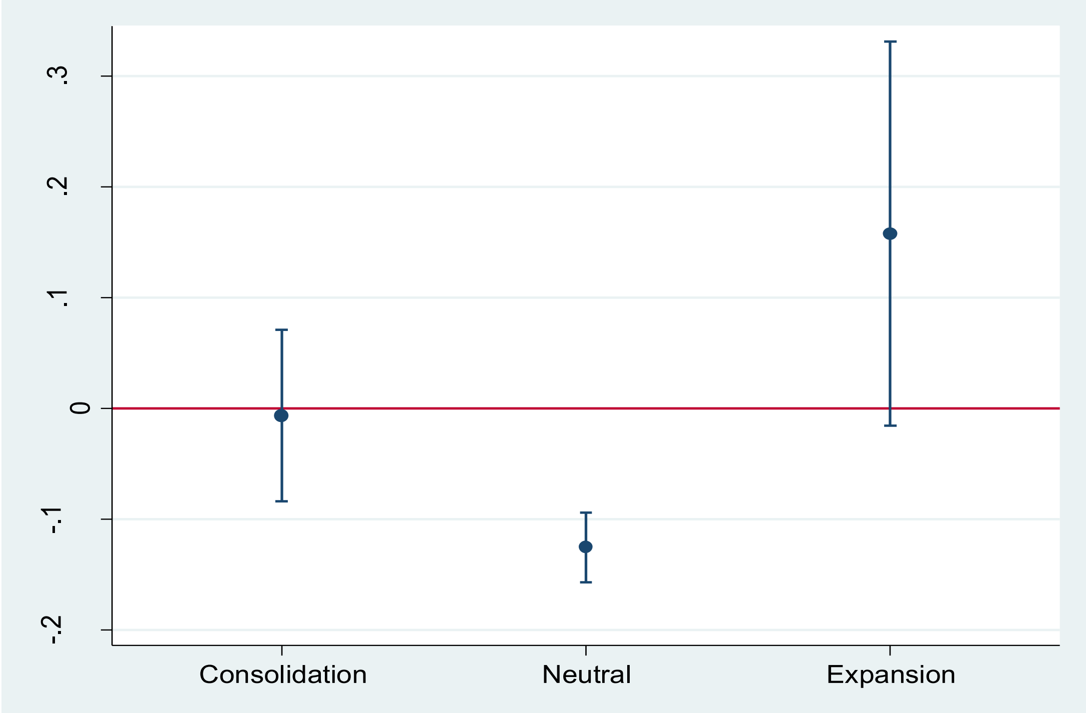
$p<0.1$* $p<0.05$; ** $p<0.01$***

† The coefficients are random -effects estimates with a set of time dummies and panel-corrected standard errors(t-statistics in parenthesis).

As it can be seen from table 2, in all three models the effect of worker-specific RSP is statistically significant in the expected direction (albeit only marginally so in the baseline model). The long-run relationship between RSP and the dependent variable, however is considerably greater than the point estimates. Calculating from the extended model, for instance, $\frac{\beta 2}{1-\beta 1}$ implies a long-run effect of -0.09% of GDP, augmenting the short-run (instant) effect by a factor of 1/3. In other words, while moving from an incumbent with -0.5 RSP among workers to one with 0.5 among them implies an instantaneous cut in unemployment benefits amounting to 0.06% GDP, the full effect felt over the years (assuming unchanged incumbency and values of other variables in the model) increases to 0.09%. In contrast to the pension models, the party family variables are significant at the 1% level with the surprising finding that christian-democrats, liberals and conservatives all cut the program less (or expand it more) than their social-democratic rivals. That said, the Nixon-goes-to-China phenomenon holds even after controlling for these party families: the RSP coefficient, if anything, increases in size and significance when party families are taken into account. Similar to the pensioner models, while structural variables – growth and the change in unemployment rates – are highly significant in the expected direction, the political constraints index as a proxy for the political opportunity space to enact retrenchment is non-significant and therefore I omitted it from the final specifications.

Turning to the interactive models, a qualitatively similar pattern emerges to the pensioner models. Figure 6 shows the point estimates and 95% confidence interval for the RSP_worker variable under different fiscal stances. Again, the point estimates suggest that only during times of fiscal expansion do incumbents reward their low-skilled working age constituency when they enjoy high relative support among them. That said, the estimate marginally falls short of significance at the 5% level. The point estimate is slightly below 0 during times of consolidation and is both substantially and statistically highly significant in neutral times. On the other hand, no interactive effect is found in the second interactive specification: while the interaction between the capb and the RSP variable is signed in the expected (negative) direction, the point estimate is very close to 0 and non-significant.

Figure 6. Marginal effects with point estimates and 95 % confidence interval for the RSP_worker variable under different fiscal stances from Interactive model I



To sum up our findings thus far, plenty of evidence for the baseline Nixon-goes-to-China hypothesis (H_b) has been found. Most importantly, in all our models on the two core welfare programmes, high relative support among the main beneficiaries is associated with deeper cuts (smaller expansions) in the respective programmes. As far as the conditional version of the Nixon goes-to-China hypothesis (H_c) is concerned, the evidence holds, albeit in varying degrees for the two groups.

Do these findings extend to a broader understanding of group-specific interests? As a first robustness check of our prior results, the same models have been re-estimated for the broader welfare categories for pensioners and workers, respectively. For welfare programmes representing a broader set of pensioners' interest – including health and survivor benefits – the results (shown in the Appendix)[19] are not qualitatively different from the core

[19] Marginal effects plot for models on the broader spending items are available upon request

models[20]. The size of the estimated coefficients is larger (probably reflecting the larger size of this broader set of programmes) and they are significant at the 5% level in all the models. Moreover, both interactive models indicate an almost identical pattern on the conditioning impact of the fiscal stance to the core models. Turning to workers-related programmes, the baseline model provides similarly strong evidence for the first hypothesis as the core models did. In the extended model, when party family labels are included, the estimated coefficient for workers' RSP now falls short of significance at the 5% level (however it is still significant at the 10% level). The interactive models, on the other hand lend little support to the conditional hypothesis: the point estimates are below 0 in all three types of fiscal episodes. Similarly, in the second interactive model, while the point estimate of the interaction turn is in the expected (negative) direction, it fails to achieve statistical significance.

Returning to our core models, a further round of robustness check examined the stability of the estimated coefficients after fixed-effect estimations. As the tables in the Appendix show, the substantive results hold after restricting the analysis to within-country variation under the fixed-effect estimates. The estimated size of the RSP coefficient is halved in the pension models but still achieves significance at the 5% level in the extended model. The worker-specific RSP is practically the same in size and significance terms compared to the random-effects estimates for unemployment benefits. As far as the interactive specifications are concerned, the general patterns and the strength of the statistical evidence are broadly similar to the random effects models. It seems, therefore, that our main results obtained earlier are

[20] Contrary to the core models, I was now unable to reject no first-order serial correlation with this new dependent variable ($p<0.05$). I thus included a lagged dependent variable which, however, did not substantively change the coefficients of interest.

unlikely to be driven by omitted country-specific characteristics that the random-effects models failed to capture.

Conclusion

How partisanship shapes welfare preferences of different incumbent governments has long been one of the primary interests of welfare state scholars. Electoral considerations in most of these accounts have been implicit at best with highly pessimistic expectations: welfare state retrenchment should be inherently unpopular so even conservative governments with a clear electoral mandate often shy away from it. This article has offered an alternative view which attempts to bridge the gap between these expectations and contrary findings of the fiscal adjustment literature. Building on the qualitatively different nature of retrenchment politics inspired by the New Politics literature, I argued that once partisan biases behind different governments are taken into account, one can make sense of high re-election probabilities of retrenching governments. Specifically, I set out to test the hypothesis that high relative support propensity among certain social groups leads to deeper cuts (more limited expansions) of welfare programmes that primarily serve the interests of these groups.

The findings from a set of 25 OECD countries provided strong support for the baseline hypothesis (H_b) on the Nixon-in-China effect in the context of "permanent austerity". Over recent decades, high relative support among pensioners have, on average, been associated with deeper cuts (more limited expansions) in public pension programmes on the one hand and in a broader set of welfare entitlements – health care and survivor benefits – on the other. A similar pattern has been found for welfare programmes that primarily benefit low-status working age individuals. A high relative support propensity among them has been associated, on average, with deeper cuts (more limited expansions) in unemployment programmes on the one hand, and in a broader set of welfare programmes – family benefits, incapacity benefits and active labour market policies – on the other.

A second hypothesis (H_c) investigated whether this effect is uniform over time or whether it holds only in periods when retrenchment pressure is perceived particularly acute. On the balance, the evidence have been mixed in this regard: for our core welfare measures – unemployment benefits, and old age pension expenditure - during fiscal expansions incumbents appear to compensate their core constituencies for painful policies they inflict on them in hard times. The conditional hypothesis, however, has received weaker support once we employed our broader measure of group-specific welfare policies.

In addition to these main findings, one important contribution to the welfare state debate that this paper had to offer was a reconsideration of partisanship. In the models that controlled for party family labels, the estimated impact of group-specific support propensity has been at least as strong as in the baseline models. Taken together with the descriptive patterns offered in an earlier section of this paper, we can confidently state that traditional party family labels lump together a highly diverse set of parties as far as their underlying electoral constituencies are concerned. It would be thus fruitful for future empirical investigations of partisanship to take into account this electoral heterogeneity both across and within party families.

A second conclusion – in the footsteps of Schelkle (2012), among others - that follows from this is the need for a more disaggregated view of the welfare state than has been often the case in many empirical works. Highly aggregate variables, such as social spending or general government expenditures give us little guidance for times of severe budgetary trade-offs when the expansion/maintenance of a given social program may inevitably entail cuts in another one. The evolution of program-specific spending (or the institutional parameters – eligibility criteria, replacement rates etc. – that define the functioning of the program) is therefore more conducive to gaining a fine-grained understanding of welfare state politics.

Finally, the obvious next step that my argument calls for is the investigation of the micro-level dynamics of welfare programmes. Specifically, the individual-level determinants of vote-switching between elections during retrenchment would offer valuable insights into the understanding of partisan biases among the electorate.

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Appendix

Construction of RSP series

As indicated in the text, RSP for the three social groups for a given party for a given year was defined by $RSP_{gp}= \frac{Vgp\text{-}Vtp}{Vtp}$. The categorization of respondents into the two social groups of interest were based on the survey questions on respondents' occupation/and or job status. From the Eurobarometer series I classified respondents into pensioners (answering "retired" to the survey questions) and workers (answering "manual skilled worker", "manual unskilled worker" and "other unskilled worker"). The ISSP series allowed a more systematic classification of respondents relying on ILO-ISCO (4 digit) categories where higher categories indicate lower "status". This was cross-validated by comparing self-reported family income across the major occupational groups.

Accordingly, workers comprised the last 3 of the 9 main categories.

7) Craft and related trades workers,
8) Plant and machine operators,
9) Elementary occupations.

Pensioners, similarly to the Eurobarometer series, were classified by another survey question on occupation status.

The general rule I followed to ensure as much consistency as possible is to use the Eurobarometer trend file from its beginning until its end in 2002 (vote intention questions were interrupted in that year and subsequent

Eurobarometer surveys did not include that question). Following 2002 I switched to the ISSP files. For countries that had little or no Eurobarometer coverage I extended the ISSP series further back in time until the earliest observation (generally in the early 90s).

Table 3. Models explaining a broader measure of spending representing pensioners' interest in OECD countries†

	Extended	Interactive I	Interactive II
L.Δ.pensionerrisk	0.114	0.115	0.103
	(1.31)	(1.27)	(1.21)
RSP_pensioners	-0.299	-0.482	-0.242
	(2.28)**	(3.15)***	(2.48)**
Growth	-0.054	-0.064	-0.060
	(3.32)***	(3.77)***	(3.51)***
Δoldageratio	17.989	17.876	17.554
	(0.88)	(0.89)	(0.94)
Liberal	0.020	0.009	0.010
	(0.30)	(0.15)	(0.20)
Christdem	0.083	0.089	0.073
	(1.77)*	(1.75)*	(1.45)
Conservative	-0.013	-0.031	-0.033
	(0.20)	(0.45)	(0.54)
Other	-0.250	-0.222	-0.197
	(1.77)*	(1.62)	(1.36)
Consolidation		-0.192	
		(2.50)**	
RSP_pensioners*Consolidation		0.423	
		(1.98)**	
Expansion		-0.118	
		(1.24)	
RSP_pensioners*Expansion		1.437	
		(3.08)***	
Δcapb			-0.028
			(1.49)
RSP_pensioners* Δcapb			-0.158
			(1.83)*
R^2	0.26	0.30	0.30
N	403	382	382

p<0.1* *p*<0.05; ** *p*<0.01***
† The coefficients are random -effects estimates with a set of time dummies and panel-corrected standard errors(t-statistics in parenthesis).

Table 4. Models explaining a broader measure of spending representing workers' interest in OECD countries†

	Extended	Interactive I	Interactive II
L.Δworkerrisk	0.216	0.245	0.235
	(2.02)**	(2.00)**	(2.04)**
RSP_workers	-0.215	-0.223	-0.171
	(1.73)*	(1.69)*	(1.58)
growth	-0.014	-0.026	-0.025
	(0.90)	(1.53)	(1.51)
Δunemployment	0.042	0.011	0.012
	(0.69)	(0.17)	(0.17)
liberal	0.086	0.077	0.071
	(1.10)	(0.92)	(0.84)
christdem	0.049	0.025	0.025
	(0.75)	(0.36)	(0.37)
conservative	0.087	0.057	0.062
	(1.47)	(0.89)	(1.00)
other	-0.153	-0.163	-0.150
	(1.13)	(1.10)	(1.03)
Consolidation		-0.063	
		(1.22)	
Expansion		0.139	
		(1.80)*	
RSP_workers*Consolidation		0.086	
		(0.51)	
RSP_workers*Expansion		0.152	
		(0.64)	
Δcapb			-0.040
			(3.68)***
RSP_workers* Δcapb			-0.025
			(0.69)
R^2	0.39	0.43	0.43
N	360	343	343

p<0.1* *p*<0.05; ** *p*<0.01***
† The coefficients are random -effects estimates with a set of time dummies and panel-corrected standard errors (t-statistics in parenthesis).

Table 5. Models explaining old-age spending in OECD countries under fixed-effects estimation†

	Baseline	Extended	Interactive I	Interactive II
RSP_pensioners	-0.100	-0.116	-0.173	-0.042
	(1.36)	(2.24)**	(2.79)***	(0.78)
growth	-0.053	-0.052	-0.055	-0.051
	(3.78)**	(7.25)***	(7.12)***	(6.39)***
Δoldageratio	42.272	44.959	35.027	34.168
	(4.29)**	(3.11)***	(2.55)**	(2.84)***
liberals		-0.014	-0.008	-0.012
		(0.26)	(0.19)	(0.33)
conservatives		-0.063	-0.041	-0.040
		(1.57)	(1.02)	(1.11)
christiandemocrats		0.052	0.066	0.058
		(1.84)*	(2.14)**	(1.99)**
others		-0.107	-0.083	-0.083
		(2.19)**	(2.07)**	(1.96)**
Consolidation			-0.074	
			(2.22)**	
Expansion			-0.046	
			(1.34)	
RSP_pensioners*Consolidation			0.264	
			(2.97)***	
RSP_pensioners*Expansion			1.011	
			(6.90)***	
Δcapb				-0.017
				(2.13)**
RSP_pensioners* Δcapb				-0.100
				(2.77)***
R^2	0.25	0.28	0.33	0.32
N	489	415	392	392

p<0.1* *p*<0.05; ** *p*<0.01***

† The coefficients are fixed-effects estimates with a set of time dummies and panel-corrected standard errors (t-statistics in parenthesis).

Table 6. Models explaining unemployment-benefit spending in OECD countries under fixed-effects estimation†

	Baseline	Extended	Interactive I	Interactive II
L.Δunemploymentbenefits	0.281	0.324	0.283	0.283
	(6.78)**	(10.94)***	(9.24)***	(8.88)***
RSP_workers	-0.019	-0.043	-0.101	-0.043
	(0.78)	(2.57)**	(5.57)***	(2.68)***
Growth	-0.012	-0.007	-0.012	-0.012
	(2.54)**	(1.51)	(2.00)**	(1.86)*
Δunemployment	0.051	0.050	0.052	0.052
	(5.81)**	(9.95)***	(7.15)***	(7.76)***
Liberals		0.068	0.061	0.062
		(5.11)***	(4.39)***	(4.28)***
Conservatives		0.030	0.025	0.025
		(2.84)***	(2.36)**	(2.22)**
Christiandemocrats		0.029	0.034	0.031
		(2.71)***	(3.22)***	(2.75)***
Others		-0.037	0.035	0.031
		(1.10)	(1.04)	(0.80)
Expansion			0.038	
			(2.02)**	
Consolidation			-0.011	
			(0.86)	
RSP_workers*Expansion			0.300	
			(3.40)***	
RSP_workers*Consolidation			0.123	
			(2.65)***	
Δcapb				-0.003
				(0.66)
RSP_workers* Δcapb				-0.008
				(0.51)
R^2	0.49	0.51	0.56	0.55
N	472	397	375	375

p<0.1* *p*<0.05; ** *p*<0.01***
†The coefficients are fixed-effects estimates with a set of time dummies and panel-corrected standard errors (t-statistics in parenthesis).

Table 7. Data Sources

Variables	Source
Programme-Specific Spending	OECD Social Expenditure Database
RSP	Eurobarometer Trend-File, ISSP
Cyclically Adjusted Primary Balance of General Government	OECD Economic Outlook database no. 84, no. 92
Economic and Structural Control variables (growth, unemployment, old-age ratio)	OECD i.library, Eurostat
Party Family Labels	Comparative Political Dataset, University of Bern

Table 8. Diagnostic test-results*

Test	Dependent Variable	Test-statistic, p-value
F-test for unit-specific effects	Unemployment benefits Old-age spending	F-statistic=0.97 P-value= 0.5084 F-statistic=1.46 P-value=0.0767
F-test for time-specific effects	Unemployment benefits Old-age spending	F-statistic: 2.91 P-value<0.0001 F-statistic: 1.79 P-value=0.0109
Hausman-test	Unemployment benefits Old-age spending	F-statistic=8.05 P-value=0.3279 Chi-square statistic=4.8 P-value=0.6841
Modified Wald-test for group-wise heteroskedasticity	Unemployment benefits Old-age spending	Chi-square statistic=21435.48 P-value<0.0001 Chi-square statistic=1700.08 P-value<0.0001
Pesaran-test for cross-sectional dependence	Unemployment benefits Old-age spending	CD-statistic=2.671 P-value=0.0076 CD-statistic=1.199 P-value=0.2307
Wooldridge (Lagrange Multiplier) test for first-order serial correlation	Unemployment benefits Old-age spending	F-statistic=27.572 P-value<0.0001 F-statistic=0.656 P-value=0.426

*Diagnostic tests were conducted based on the extended models.

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