The Constrained Left and its Adverse Impact on Losers of Globalization

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1 Introduction

During the past decades, the challenges that mature welfare states are facing have increased significantly. Among these challenges are high economic interdependence, domestic structural change and, in most industrialized democracies, an aging society. These factors negatively affect existing social security programs, such as pensions, unemployment insurances and public health care systems and increase the pressure to reform these schemes. The growing pressure has raised concerns to what extent the room of party governments to implement their preferred policies has decreased or even vanished, but also whether specific coalition governments are better able to successfully reform social policies than others. Both questions are fundamental for democratic politics because it is a central idea of democratic political competition that political parties can offer diverging policy solutions to prevailing problems, and that voters can choose among these policies. It is essential that parties are able to translate their ideas into specific policies once they are in government.

Existing research yields ambiguous results with contradictory implications for the role of political parties in contemporary social policy-making. The ambiguity of the empirical results is influenced by shortcomings of the existing literature: First, research focusing on welfare state change generally focuses on expenditure and retrenchment and ignores the possibility of compensation and redistribution. Moreover, the two dimensions of social policy are not independent because greater changes on the spending dimension can be partially compensated by additional redistributive generosity towards specific societal groups to gain the support of pivotal actors in social policymaking, specifically labor unions. Second, the mediating impact of party government and political constraints is largely neglected in comparative welfare state research. The presence or absence of political constraints is likely to affect governments with varying party ideology differently. This paper on the one hand addresses these contradictory findings and examines - at the other hand - under which circumstances party governments matter for the reform of social policies, and whether particular government coalitions are more successful in implementing reforms beneficiary for
their assumed constituency than other.

While some (or most) authors acknowledge that the institutional design of a country interferes with party and welfare state politics, they rarely combine the literature on party politics with theories of institutional constraints and the reform of social policies systematically (exceptions are Bonoli, 2001 and Kitschelt, 2001). It is likely, however, that governments with different partisan ideologies vary in their abilities to build reform coalitions that include pivotal (extra)-parliamentarian actors across countries with differing institutional constraints. For instance, left-wing governments more easily gain the support of labor movements because a left-wing party is closer to the positions of a trade union than a right-wing party. Moreover, different party governments may try to gain political support from distinct societal groups to find a majority for a reform proposal. The combination of partisan preferences of governments and institutional design of a country thus should have an important effect on whether a reform occurs and how the final outcome looks like.

The joint effect of political constraints and party government implies that both left-wing and right-wing governments in countries with little institutional constraints cut social spending, but left-wing governments compensate ‘losers of globalization’ through greater redistribution. When institutional constraints are high, left-wing governments must cut spending more to accommodate the conservative opposition and gain its support. To simultaneously ensure the support from pivotal extraparliamentary actors, namely labor unions, the left has to further compensate the unions’ prime constituency, which is the well-integrated core workforce. Compensation of these ‘insiders’ through an increase of the redistributive generosity of social security schemes by left-wing governments therefore increases with greater institutional constraints, possibly at the expenses of the poor.

The theoretical argument is further developed in the subsequent section and applied in a focused comparison of labor market/social policy reforms in two countries with varying levels of political constraints and varying party governments over time. The countries included in this study are Ireland (low level of political constraints) and Germany (high level
of political constraints). Each country study covers two reform processes affecting labor market and unemployment policy in the mid 1990s and early 2000.

2 Theoretical Argument

It is generally accepted that all party governments face high reform pressure and thus have to cut social expenditures. Governments of both right-wing and left-wing partisanship are similarly affected by these economic and fiscal constraints. While the two differing party governments may vary with respect to their desired amount of spending, both governments must accept that actual expenditures need to be reduced because the external constraints do not leave room for alternative choices on this particular dimension. While party governments converge on the expenditures dimension, it is plausible, however, that they take different policy positions on how to spend available resources, i.e. how the remaining resources are distributed within the society or among particular societal groups. This allows governments to compensate ‘losers’ of retrenchment, generally the labor force and, in particular, so-called ‘outsiders’, by reforming social policies in a way that other, less affected groups carry a higher share of the reform. Generally, cuts in social welfare measures affect the labor force and poor people most. Especially the well-organized core workforce (the so-called ‘insiders’) will demand that the government offers protection from an increased loss in social security. The focus on a single dimension, which implicitly underlies most research on welfare state reforms, thus neglects important aspects about the content of a reform (i.e. the size of compensation/changes within the redistributive dimension), and, more

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1This paper is part of a project based on a nested-analysis design. The two countries were chosen on the basis of the preceding quantitative analysis, which examined the implications of the theoretical framework on the macro-level.

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

3An example would be to compensate the difference between a part-time and a previous full-time salary for a limited period of time for those workers who take a part-time job instead of being unemployed. Another example is that wealthier people have to contribute relatively more to social security systems after a reform than before. The concept of compensation thus includes redistributive measures, but also more broad attempts to accommodate the needs of the labor force.
importantly, fails to capture important ideological differences among political actors. Taking into account more dimensions than just expenditures therefore yields different predictions about the role of party politics on welfare state reforms than the widely used one-dimensional conceptualization.

This additional room that governments have on a second social policy dimension is also important when we analyze the role of parties across institutional settings. Although institutional analyses of social policy-making are very popular, they usually do not take into account how the role of parties differs across institutional settings.\footnote{Two exceptions are Green-Pedersen (2002; 2001) and Bonoli (2001) who both offer a partial framework of contingent effects of particular party governments and the institutional framework for the politics of retrenchment.} Whether or not a party government has a significant impact on the further development of welfare states is not only contingent on the state of the economy and societal factors, but also depends on the institutional setting of a country.\footnote{The importance of institutions for social policies is well established in comparative political economy (see e.g. Esping-Andersen, 1990; Steinmo and Tolbert, 1998; Ebbinghaus and Visser, 1998; Hall, 1997; Steinmo, 1989).} The presence or absence of institutional constraints in a country therefore enables or hinders parties in opposition and organized interests to pressure the incumbent to move closer towards their preferred policies. The constraining effect of institutions is likely to differ across parties in government. This means that institutions constrain left-wing governments differently from right-wing parties in power. The effect of government change and the policies implemented therefore differ in high- and low-constraints countries. The following paragraphs first discuss the mediating effects of political constraints for left-wing governments. In a second step the mechanism is applied to right-wing governments.

Since recent empirical evidence suggest that party governments in general but also party governments in combination with political constraints do not affect the dimension of expenditure in times of fiscal austerity, I particularly focus on how the joint impact of political constraints and party government affect the redistributive dimension (Hübscher, 2009). With regard to the cases analyzed in the empirical section of this paper, I expect that both, left- and right-wing governments implement retrenching elements in their reforms,
but that significant differences will be found with respect to the redistributive elements implemented. The theoretical argument presented in the following paragraphs is illustrated and summarized in Figure 1 (on page 7) and 2 (on page 8).

Left-wing governments in countries with little institutional constraints tend to implement welfare state reforms that stabilize overall spending, but at the same time compensate workers and people that are negatively affected by globalization and structural change by increasing transfers towards these groups. This is in line with recent empirical research, which shows that leftist governments aim at implementing more egalitarian policies and try to decrease inequality within society (see e.g. Brady and Leicht, 2008; Boix, 1998). For this reason, left-wing governments may be more successful than right-wing governments in implementing social policy reforms. When social democratic governments attempt to cut expenditures in times of fiscal constraints the affected segments of the electorate tend to ‘trust’ left-wing government more, i.e. workers assume that left-wing governments do not cut social spending more than necessary.\textsuperscript{6} By offering compensation for those who lose from retrenchment measures through greater redistribution, left-wing governments can also signal their concern for the interests of the core workforce and the main ‘losers’ of globalization, i.e. unskilled labor and people that are not part of the core work force. A left-wing government thus can gain politically even from a reform that includes retrenchment measures if it offers enough compensation through an increase of the redistributive generosity of the major social security schemes.

When institutional and political constraints are large, the logic of the policymaking process for left-wing incumbents changes. Left-wing governments still receive greater potential support when reforming social policies, but they also have to accommodate conservative forces and must design the social policy reforms accordingly. For instance, the government may have to offer greater retrenchment to the conservative opposition to reach an agreement. More retrenching measures are against the interests of the core workforce, and labor unions will oppose such a reform and may take actions against such a plan. Labor unions can pres-

\textsuperscript{6}This argumentation follows the so-called ‘Nixon goes to China’-logic.
sure the government through extra-parliamentary actions, such as demonstrations or strikes, or by activating union members that are also members of parliament.\textsuperscript{7} In addition to greater retrenchment, the government then has to offer more compensation to the constituencies of labor unions, which generally are skilled workers that are well-integrated into the working process, the so-called ‘insiders’ (Rueda, 2005, 2007, 2006). In other words, to achieve greater retrenchment, the left-wing government has to make sure that ‘insiders’, are not affected too much by the reform.

However, to increase the redistributive generosity for ‘insiders’, the government cannot increase the tax burden of the wealthy because this would provoke the resistance of the right-wing/conservative opposition. A possible solution is a disproportionate retrenchment on the side of ‘outsiders’, i.e. the unskilled without regular employment, to satisfy the needs of the well-integrated core workforce and, at the same time, achieve a sufficient reduction in social expenditures to accommodate the opposition.\textsuperscript{8} In contrast, in a political system with less constraints, a left-wing government does not need to accommodate conservative parties. Moreover, the government may face less pressure from lobbying groups representing ‘insiders’. This implies that in such a less constraining system left-wing party governments are able to propose and implement reforms that redistribute the available resources in a more egalitarian way. In such a system, the compensation measures are likely to be directed towards all segments of the labor force and not only towards the core social programs that mainly benefit the core workforce represented by powerful organized interest. An important implication of this argumentation is that institutional and political constraints mediate the effect of left-wing governments. In high constraints countries, we should see greater distribution towards ‘insiders’, while in low constraints countries, we should see less redistribution that

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

\textsuperscript{8}‘Outsiders’, to whom I count unskilled labor, long-term unemployed people relying on social assistance, people in public employment schemes, to some extent part-time workers and foreign workforce are often underrepresented by organized interests.
Adapting the same logic to right-wing governments, we should expect that right-wing governments that face few institutional constraints tend to decrease spending without compensating the losers of the reform. It is widely acknowledged that right-wing governments - during the times of welfare state expansion and development - preferred less expansive social policies than social democratic governments. Similarly, in times of fiscal constraints, conservative governments should prefer less expansive policies because they intend to lower the tax burden for firms and capital owners to increase economic growth. With regard to the second dimension, right-wing governments do not have much interest in compensating particular groups in society, but mainly focus on retrenching policies. In countries with little institutional constraints and few or no access points for extra-parliamentarian actors to the decision-making arena, right-wing governments can implement their preferred policy without the consideration of special interests.

The situation is different for a right-wing government in a country where institutional constraints are high. These governments tend to end up with social policy reforms that bring little change both in terms of retrenchment and redistributive generosity because of the pressure that interest groups - mainly labor unions and, for right-wing governments,
employers’ organizations - exert on the government. Again, the right-wing government will attempt to reduce social spending, however, in order to implement the necessary retrenching measures, the government would have to compensate special interest groups in society, mainly organized labor. Labor unions demand measures, which alleviate the effect of the retrenching measures of the reform on their constituencies. However, these measures are against the interest of employers’ organizations that are close to the conservative party in power. For a right-wing government, the compensation of the core workforce is not attractive because the political gains from such a strategy in electoral competition is small. Conservative/right-wing parties also want to take positions that are distinguishable from social democratic parties in electoral campaigns. Since social policy and welfare state issues are traditionally occupied by left-wing parties, conservative parties cannot credibly offer policy solutions that are similar to those of left-wing parties. The distributive effect of right-wing party governments in countries with high constraints therefore is low or at least remains unclear. In the following case studies, I analyze four reform processes and examine whether the effects of the reform are in line with the theoretical framework presented in this section.
3 Unemployment Policymaking in Germany and Ireland

The following section presents case studies of two countries - Germany and Ireland - with varying levels of institutional constraints and illustrates the theoretical argument. The analyses focus on unemployment policymaking under each a left-wing/social democratic and conservative/liberal government. The reform processes discussed took place in the mid-1990s and at the beginning of the new century. The empirical evidence of the studies is based on parliamentary minutes and legislative documents. For the legislative changes implemented in the Republic of Ireland I focus on the Financial and Social Welfare Bills proposed to and discussed in the Dáil Éirann (the Irish parliament). In Germany, I examine two reforms that exclusively address unemployment and labor market issues. In Ireland, I analyze the parliamentary discussions related to the Financial and the Social Welfare Bill presented each year. From these bills, I single out the relevant issues related to unemployment and labor market policymaking. In addition to the parliamentary minutes, I also add evidence from committee hearings (for Germany) and newspapers (Ireland) to include the policy positions of the relevant extra parliamentarian actors.

For each reform process, I analyze whether and how labor market ‘outsiders’ and ‘insiders’ are affected by the new legislation. The issues included in the reform proposal are assigned to either the redistributive dimension or the spending dimension. The following table illustrates how issues commonly found in labor market/unemployment scheme reforms are assigned to the two dimensions specified in the theoretical framework:

9This paper is based on a nested analysis design that combines a quantitative study with subsequent case studies substantiating the quantitative results. Since the period of analysis of the quantitative analysis ends in 2002, I choose reforms that were designed and implemented before 2002.
Table 1: Reform Issues

<table>
<thead>
<tr>
<th>Redistributive Issues</th>
<th>Description</th>
<th>Expenditure Issues</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Targeted Group:</strong></td>
<td>Reforms of unemployment insurance schemes can have specifically targeted groups, such as part-time workers, women, single-parents, workers from a specific industrial sector etc.</td>
<td><strong>Duration of Benefits</strong></td>
<td>Unemployed people are eligible for unemployment benefits during a certain period only. Shortening or extending the duration of benefits influences the expenditure dimension.</td>
</tr>
<tr>
<td><strong>Contributions Relative to Income:</strong></td>
<td>The contributory rates can be different for employees given a particular income. A related issue is how the contributions are split between employee and employer and whether there are different contributory rates for different income levels. Changes in the contributory schemes have important redistributive effects.</td>
<td><strong>Public funding</strong></td>
<td>Unemployment insurance schemes are mostly financed through contributions from employers and employees. However, a minor part of the insurance system is covered by the state and usually, the state also provides deficit guarantee. Higher/lower coverage by the state means more/less public expenditure.</td>
</tr>
<tr>
<td><strong>Eligibility:</strong></td>
<td>The inclusion of new groups into the unemployment insurance scheme leads to a broader coverage of employees. On the contrary, reforms can also exclude groups of employees (e.g. employees with salary above a certain threshold, part-time employees). Eligibility is also related to the length of the contribution period.</td>
<td><strong>Active Labor Market policies (ALMP):</strong></td>
<td>Most labor market/unemployment insurance reforms nowadays include some ALMP measures. Generally, these policies aim at re-integrating unemployed people in the labor market more efficiently. The aim is to unburden the insurance scheme and ultimately to cut down on expenditure.</td>
</tr>
<tr>
<td><strong>Benefits Compared to Previous Income:</strong></td>
<td>Often, unemployment insurance benefits depend on previous earnings. The level of benefits sets the rate to which extent the original income will be replaced by unemployment benefits in case of job loss. This is a matter of redistribution if low incomes get a higher percentage of their previous income than individuals with a high previous income.</td>
<td><strong>Efficiency of Enforcement</strong></td>
<td>Increasing the efficiency of enforcing the unemployment insurance legislation/labor market policies can have a variety of dimensions. The enforcement of the legislation can be delegated to sub-national (or regional) centers, with the aim of more closely monitoring the processes and lowering costs.</td>
</tr>
</tbody>
</table>
3.1 Germany

‘Beschäftigungsförderungsgesetz 1994’

The ‘Beschäftigungsförderungsgesetz’ (employment promotion legislation) was an early legislation focusing on active labor market policies. The Bill was presented by the conservative CDU/CSU/FDP government, which aimed at addressing the persistently high unemployment and the rigidity of the German labor market. The committee for work and social issues (‘Ausschuss für Arbeit und Soziales’), which was drafting the reform proposal, justified the reform with ‘the difficult economic transition period. [...] It is necessary to exploit the existing room to maneuver in order to improve the conditions for an effective adjustment of demand and supply on the labor market [...]’ (Bericht des Ausschusses für Arbeit und Sozialordnung (1994a, p. 1f).

In addition to adjustments specifically related to the labor market situation in the new ‘Bundesländer’, the reform consisted of several issues that are relevant for this study. First, part-time jobs should be promoted by compensating employees when changing from a full-time to a part-time job or accepting a part-time job after being unemployed. The compensation for eligible employees was paid through the unemployment insurance scheme. Second; to increase self-employment and create jobs, the government offered help for people who start their own business. The financial help was restricted to six months and was again financed through the regular unemployment insurance scheme. A third change was related to training and qualification measures. Instead of complying with a waiting period before being eligible to participate in training and qualification measures, people who lost their job are now entitled to participate immediately in such measures. Fourth, the maximum income of a person working in public employment scheme (so-called ‘Arbeitsbeschaffungsmassnahmen’) should not exceed 80 percent of the salary a person in a regular work relationship would.

10To focus on activation rather than passive support of unemployed people was a shift that occurred in other European countries as well. The shift addressed the increasing financial problems of unemployment insurance schemes.
earn, and fifth; private placement centers were established. Table 2, on page 12, summarizes these issues and indicates how labor market ‘insiders’ and ‘outsiders’ are affected by this law. According to the theoretical framework presented in the previous section, the analysis should result in the overall conclusion that the privileges of the core workforce will be largely preserved and that ‘outsiders’ did not significantly benefit from this reform.

Table 2: Reform Issues and Direction of Changes ‘Beschäftigungsförderungsgesetz’

<table>
<thead>
<tr>
<th>Reform issues</th>
<th>Effect on ‘insiders’</th>
<th>Effect on ‘outsiders’</th>
<th>Dimension affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promotion of part-time work (3 year top up if person takes a part-time job after being unemployed or changes from full-time to part-time employment)</td>
<td>+</td>
<td>-</td>
<td>×</td>
</tr>
<tr>
<td>Start up help (‘Überbrückungsgeld’), additional six months of unemployment benefits if person starts a business</td>
<td>+</td>
<td>-</td>
<td>×</td>
</tr>
<tr>
<td>Immediate eligibility to participate in qualification and training measures</td>
<td>+</td>
<td>-/+</td>
<td>×</td>
</tr>
<tr>
<td>Reducing the salaries for participants in public employment schemes</td>
<td>+</td>
<td>-</td>
<td>×</td>
</tr>
<tr>
<td>Private placement centers</td>
<td>+</td>
<td>+</td>
<td>×</td>
</tr>
</tbody>
</table>

As table 2 already indicates, most of the changes implemented by the conservative party government did not reduce the privileges of the core workforce. The redistributive generosity of the unemployment insurance scheme was hardly affected by the ‘Beschäftigungsförderungsgesetz’ implemented in 1994. However, due to the budgetary pressure, the legislative change as a whole had to be cost neutral, at least. This aim was mainly achieved by reducing the salaries for people working in public employment schemes, which compensated the additional costs caused by promoting part-time work and self-employment through
unemployment insurance scheme. Several measures, such as the promotion of part-time jobs and self-employment included in the ‘Beschäftigungsförderungsgesetz’ should yield in an increase in overall labor market participation. This aim was particularly emphasized by the FDP, who emphasized that we are convinced that there are enormous reserves [for part-time jobs]. We all agree that with more flexible allocation of labor we can include more people into the labor market, (Gisela Babel, parliamentary minutes, 14.04.1994b, p. 18932). The need for more part-time jobs and the involvement of larger segments of society in the labor market was widely acknowledged by the parties in opposition. Still, the way the government planned to increase labor market participation and part-time jobs was criticized. Members of the social democrats and the Green party stressed that the envisaged aim of increasing the number of part-time jobs would in the end be at the expenses of the core workforce, which would increasingly need to give up social rights, which were often tied to regular employment relationships. To minimize the effects the reform would have on the core workforce, the government offered to compensate employees changing from a full-time to a part-time job by assuring the further payment of unemployment insurance benefits to prevent a loss of income. This compensatory measure was limited to three year, a relatively long transition period, which leaves affected individuals enough time to adjust or to switch to full-time employment again.

The promotion of self-employment should also increase labor market participation, and in the long-run even create additional jobs. Similarly to the promotion of part-time jobs, unemployed people who decided to start their own business were offered compensation in the form of additional six months of unemployment insurance benefits. This capital should encourage entrepreneurial people and help them through the first months of their

\footnote{All translations by the author.}

\footnote{Gerd Andres (SPD): ‘I would like to share the view that several part-time jobs evolve out of one full-time job. However, the reality, which is unfortunately characterized by the fact that more and more protected full-time jobs are converted into unprotected part-time jobs, has to be taken into account’, (parliamentary minutes (p. 18943), 14.04.1994b).}

\footnote{Volker Kauder (CDU/CSU) stressed that ‘we need a huge self-employment-offensive. Our experience shows that self-employed create new jobs within very short periods. Unlike in the US and other European states, we have too few unemployed people who take the risk to start their own business’, (parliamentary minutes (p. 18942), 14.04.1994b).}
self-employment. The main beneficiaries from this legislative change were the well-educated and skilled people, who lost their job or decided to start something on their own. These people traditionally belong to the core workforce that is represented by powerful organized interests. Whereas German labor unions, together with the social democrats, asked for an extension of the planned six months assistance, the employer’s organizations opposed this part of the legislation because ‘the allocation of financial means for start-up firms and to encourage self-employment is not a core task of the unemployment benefit insurance and their contributors’, (written statement to the ‘Ausschuss für Arbeit und Soziales’). Overall, the efforts by the government to reduce costs and increase labor market participation hardly affected ‘insiders’ in a negative way. Their privileges and the redistributive generosity of the unemployment insurance scheme were preserved and some of the changes even improved their standing in the labor market, e.g. the immediate eligibility to participate in training and qualification measures after losing the job certainly helps unemployed people to improve and adapt their skills, which makes it more attractive to hire them.

To some extent, the changes negatively affected the long-term unemployed and other people outside of the labor market, which did not belong to the core workforce. The legislative proposal did not include measures, which were exclusively targeted labor market ‘outsiders’, such as long-term unemployed or other groups that were in a particularly difficult situation to find employment in a positive way. On the contrary, the decision to cut salaries paid to people working in public employment schemes in order to finance the measures, which should help to increase overall labor market participation by creating part-time jobs and businesses, negatively affected these groups of society. The government framed this issue as increasing the incentives for people working in the so-called ‘2nd labor market’ to re-integrate themselves in the competitive first labor market and stressed that in the end, a larger number of people will benefit from employment schemes despite the cuts in individual earnings. The parties in opposition strongly opposed this change and the social democrats accused the government to ‘suspend tariff autonomy and to establish low-wage jobs by law [...]’, (Renate Jäger, SPD, parliamentary minutes, 14.04.1994b, p. 18944). The 20 percent cuts in salary
finally established must be seen as a compromise. Since the employer’s organization pressured the government to cut salaries by 50 percent and criticized the governing coalition that it would not exploit its room to maneuver.

The newly established private placement centers should help to decrease public expenditure and pressure the public job agencies to work more efficiently. It was also expected that the private job agencies will be better able to establish close ties with business and therefore be more successful in placing unemployed people as fast as possible. Even though the service of private job centers should be open to all unemployed people at no costs, the main beneficiaries will be skilled and well-educated people who lost their job. This mainly has to do with the fact that the costs related to the placement are not subsidized by the state and have to be paid by the companies using this service. The opposition argued that private agencies will not spend money to fill positions for people with low skills and low wages and that this service will not help to reintegrate long-term unemployed into the labor market.\textsuperscript{14}

The establishment of private placement centers has been criticized by the parties in opposition, mainly by the PDS, who said that ‘... the government is trying to commercialize unemployment with negative effects for the unskilled labor force’, (Gregor Gysi, PDS/Linke Liste; parliamentary minutes, 14.04.1994\textsuperscript{b}, p. 18936).

The implementation of the ‘Beschäftigungsförderungsgesetz’ by the conservative government shows that a more retrenching reform at the expense of the core workforce was politically not possible. Mainly because the government was constrained by the ‘Bundesrat’, which was dominated by the social democrats. It is doubtful whether the reform helped to increase overall participation in the labor market, which was one of the main goals stated in the reform proposal. The main reason why the changes implemented did not significantly alter the German labor market is the strong focus of the reform on labor market ‘insiders’. Both issues affecting the expenditure dimension aimed at cutting expenditures for policies related to the labor market and increase the efficiency of the system. The cuts in expenditure

\textsuperscript{14}Gregor Gysi, PDS/Die Linke criticized that ‘unemployed people which are hard to place will be left behind, depending on the public placement centers, whereas unemployed with more options will be placed through private centers’, (parliamentary minutes, 14.04.1994\textsuperscript{b}, p. 18936).
that negatively affected labor market ‘outsiders’ had an indirect but positive effect on people fully covered by the unemployment insurance scheme.

The conflicting lines during the debates of this reform process were clear and correspond to the assumptions of the theoretical assumptions. The government was under great pressure to reform the labor market in order to stabilize the social insurance scheme and ameliorate the general conditions on the labor market. The main issues included in the ‘Beschäftigungsförderungsgesetz’ attempted at cutting expenditures for labor market policies and reducing the redistributive and encompassing effect of labor market policies. Most measures, however, indirectly affected unemployed people negatively and made it more difficult for people with little education and professional skills to find a new job and to live on their unemployment insurance benefits or unemployment assistance. The general intention of the reform was not per se contested by the opposition, but the way the government aimed at increasing labor market participation and promoting part-time jobs was heavily criticized. Moreover, the reform only offered superficial solutions to a more complex problem, which was the rigidity of the German labor market and the ongoing structural change of the German economy. However, due to the partisan constellation a more encompassing reform was not possible.

‘Gesetz zur Reform der Arbeitsmarktpolitischen Instrumente 2001’ (JobAQTIV)

Similar to the preceding conservative government, the coalition consisting of Social Democrats and the Green party also experienced significant reform pressure from high unemployment figures and a high budgetary deficit. The reform of the labor market and a significant decrease in unemployment thus were central issues of the social-democratic election campaign and also a cornerstone of the subsequent coalition treaty. Table 3, on page 17, summarizes the major reform issues associated with the ‘JobAQTIV’ legislation. The overarching goal

15 Gregor Gysi (PDS/Linke Liste): I do not criticize the fact that the government aims at cutting expenditure or to open up new sources of income, I criticize that this reform is mainly at the expenses of the weakest members of our society while the wealthy are always treated with care, (see parliamentary minutes, 219. Sitzung, 12. Wahlperiode, (14.04.1994b, p. 18935).
### Table 3: Reform Issues and Direction of Changes ‘JobAQTIV 2001’

<table>
<thead>
<tr>
<th>Reform issues</th>
<th>Effect on</th>
<th>Dimension affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secure work for specific groups (elderly/young people) by offering them the opportunity to participate in training measures</td>
<td>+</td>
<td>+/-</td>
</tr>
<tr>
<td>Job-rotation scheme (unemployed person - temporarily - takes the job of a person that participates in qualifying measures)</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>No more waiting bans for people who lost their job to participate in training/qualification measures, ‘profiling’ of newly unemployed through private agencies</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Subsidies for employers/firms if temporarily employing long-term unemployed person</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Increase of the duration temporary employment (‘Leiharbeit’) is allowed</td>
<td>+/-</td>
<td>+/-</td>
</tr>
</tbody>
</table>
of the ‘JobAQTIV’ reform was to lower the duration of unemployment by increasing labor market flexibility through greater vocational training and education measures for people in and out of employment. In addition, and similar to the previously discussed ‘Beschäftigungsförderungsgesetz’, the reform aimed at increasing the efficiency of the job placement centers by establishing improved reintegration procedures for unemployed people.

Overall, the ‘JobAQTIV’ legislation indicates the direction labor market policymaking will take under the leftist coalition government. The emphasis should be on reactivating unemployed people rather than insuring them. The slogan of the future series of reforms was ‘Fördern und Fordern’, which could be interpreted as ‘encouraging and challenging people’. The new policies were also meant to focus on integrating women and people with lower skills and little education, which contrasts traditional labor market policies in Germany, which were mainly directed towards the core work force, i.e. the unionized and skilled male population. However, the ‘JobAQTIV’ legislation did not address these issues very successfully. A fact that was criticized by the parties in opposition. According to the theoretical framework we should come to the conclusion that the reform will make a strong effort in cutting expenditure without significantly help labor market ‘outsiders’ and largely preserve the privileges of the core workforce.

The most important issue included in the ‘JobAQTIV’ legislation was the so-called ‘job-rotation’ scheme. This scheme should, on the one hand, help elderly and young people to acquire further skills, which should secure their employment and increase their competitiveness. On the other hand, long-term unemployed people should get the chance to participate in ‘on the job training’, while temporarily taking over the position of a regular employee who participates in training measures. Firms participating in the job-rotation scheme will be subsidized by the government. Another measure designed to increase overall labor market participation was to extend the period temporary employment is allowed. Rather than

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16 The name of the reform ‘AQTIV’ is an abbreviation that summarizes the main goals of the legislative proposal: A = Aktivierung (activation), Q = Qualifizierung (qualification), T = Trainieren (training), I = Investieren (investment), V = Vermitteln (brokerage/improved placement).

17 This shift was further pronounced in the subsequent series of the so-called ‘Hartz’-reforms’, which significantly altered some of the traditional principle the German social security system was based on.
financing and establishing public employment schemes. In addition, and similar to the ‘Beschäftigungsförderungsgesetz’ of 1994, private placement centers should increasingly engage in ‘profiling’ unemployed people and help them to find an adequate job.

The prime intention of the job-rotation scheme was to help both segments of the core workforce which are most exposed to the risk of losing their job and labor market ‘outsiders’, which should ideally be re-integrated into. Criticism evolved around the the government’s proposition how the additional vocational training should be financed. The intention of the government was to finance the qualifying measures through the unemployment insurance scheme. Even though the peak labor union (DGB) agreed that additional training was needed, they disapproved the idea to finance the measure through the unemployment insurance scheme. Labor unions would have preferred if costs related to the ‘job-rotation’ scheme would be paid by taxes (statement by Ursula Engelen-Kefer (DGB) to the ‘Ausschuss für Arbeit und Soziales’ 2001, p. 9). To pass on the costs associated with this legislative change to the general tax payer would again be beneficiary for labor market ‘insiders’ since financing training measures is not the key task of unemployment insurance schemes and additional costs imposed on the scheme increase the pressure to adjust benefits paid to people covered by the scheme. Similar to the labor unions, the employer’s organization also opposed the way the scheme should be financed. However, in line with their general policy preferences, the additional qualification measures should not be financed by employers and employees but be based on the principle of self-responsibility (minutes ‘Auschuss für Arbeit und Soziales’ 2001, p. 3).

The idea that the job-rotation scheme could function as a bridge between long-term unemployed people and the first labor market, was well received by the parties in opposition, however, the liberals (FDP) and the Christian democrats were not entirely convinced that the scheme will be a success. Mainly because small and medium size firms will fear the organizational costs to participate in the scheme.\footnote{According to my opinion, these instruments lead to an inflated bureaucracy in the job placement centers without really helping the unemployed; (parliamentary minutes, 2001b, p. 19515).} The peak-employer’s organization
(BDA) also opposed the idea that the unemployment insurance scheme and the employment agencies had to administer the ‘job-rotation scheme’. In addition, to combine the further education of targeted groups with the (re)-integration of ‘outsiders’ (long-term unemployed people, people working in public employment schemes) was also criticized. Job-rotation should only be an instrument to re-integrate people and not offering qualification measures for ‘insiders’. In the view of the employer’s representatives, the legislation as proposed by the government put too much emphasis on training measures. Rather than activating the labor market through the job-rotation scheme, the opposition would have preferred a more encompassing and drastic reform of the labor market, including severe cuts in unemployment benefits and contributions. Especially the liberal party argued that job security would increase with further deregulation of the labor market and lower costs associated with employment (Irmgard Schwaetzer (FDP): ‘Why doesn’t the government acknowledges that for most employees a decrease of their salary would be better than losing their job entirely?’, (parliamentary minutes 27.09.2001a, p. 18519). By implementing the job-rotation scheme, the government would ‘socialize’ advanced qualification measures while at the same time weakening the insurance scheme (parliamentary minutes, 27.09.2001a, p. 18519).

The extension of temporary employment (Leiharbeit), was controversially discussed as well. Extending temporary employment should again lead to higher labor market participation and help especially people employed in low-wage sectors keeping their job. The plan to include workers with temporary contracts (employed by a contractor/‘Leihrbeitsfirma’) in the job-rotation scheme was sharply criticized by labor unions and PDS/Die Linke. Both, the leftist political party and the labor unions were generally skeptical regarding temporary employment, mainly due to the fact that temporary contract would undermine wage bargaining autonomy. To include temporary employed people in the job-rotation scheme was seen as a subsidy for the contracting agencies and part of the labor unions (e.g. IG-Metall) feared that instead of securing employment for elderly workers, the inclusion of contractors would
in the end crowed out the elderly skilled labor (see ‘Ausschuss für Arbeit und Sozialordnung’, parliamentary minutes, 27.09.2001 a, p. 18520).

The ‘JobAQTIV’ legislation as it has been implemented in November 2001 included several attempts to re-integrate ‘outsiders’ of the labor market and help people with little skills and education to get ‘on the job-training’ and acquire further (professional) education. However, these positive attempts on the redistributive dimension directed at ‘outsiders’ were moderated by the rather huge concessions made towards the ‘insiders’. This happened mainly through the promotion of additional professional training for (elderly) employees in regular employment. The additional training should be financed through the unemployment insurance scheme. A fact that was criticized by the labor unions and the employers’ organization alike. Similar to the ‘Beschäftigungsförderungsgesetz’, retrenchment should not happen through cuts in benefits but through increased efficiency in the placement of the unemployed. Even though the parties in opposition called for a more encompassing reform with a more retrenching effect on the social insurance schemes (especially the combination of the unemployment assistance and social assistance scheme), the governing coalition did not include these suggestions. However, policy documents suggest that intra-parliamentary committees already discussed this issue.20

Still, the legislative change brought by the ‘JobAQTIV’ law, however, is an important landmark in German labor market policy-making and the way structural change and the challenges to the social security schemes, especially the unemployment insurance system, are approached. It is a first shift away from a passive system of guaranteeing income security and the maintenance of living standards towards a more active labor market policy which aimed at activating the unemployed. The direction of reform discussed above became more pronounced with the presentation of the ‘Hartz’- reforms. Due to a scandal within the placement agencies a new window of opportunity to reform the labor market opened up. The fact

20It can be argued that since the government was under pressure to cut expenditure it might would have tried to impose more financial burden to the subnational units, e.g. shortening the period of unemployment insurance benefits are paid often lead to an increase in social assistance payments. Social assistance however, is administrated through the ‘Länder’ and therefore a change would have needed the support of the ‘Länderkammer’.

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that the elections were coming closer and the social democratic party had to demonstrate
closeness further facilitated the drafting process of a more encompassing labor market reform
based on the principles established by the ‘JobAQTIV’ law and further developed by the
‘Hartz’-Commission.

Mediating Effect of Political Constraints

At the time when the ‘Beschäftigungsförderungsgesetz’ was debated in the two chambers,
the conservative government was constrained by the ‘Bundesrat’, which is the most impor-
tant veto player in the legislative process and consists of the representatives of the federal
states. The SPD-led opposition had the majority in the ‘Bundesrat’ (9 SPD vs 7 CDU/CSU
‘Länder’-representatives). The initial bill as proposed by the government was heavily criti-
cized by the SPD, the Green Party and the PDS/Linke Liste in the ‘Bundestag’ would not
have passed the SPD-dominated ‘Bundesrat’. However, there was disagreement whether the
law needed the approval by the ‘Bundesrat’ to pass. Whereas the parties in government
claimed that the reform proposal did not need the approval by the upper chamber, the ma-
majority in the ‘Bundesrat’ insisted that the legislative proposal included changes which touch
the competences of the states and thus requires the approval by both chambers.21 Oskar
Lafontaine (SPD), prime minister (‘Ministerpräsident’) of Saarland, sharply criticized the
reform proposal. Consequentially, the bill was rejected by the left-wing majority. After the
defeat of the law in the ‘Bundesrat’, the ‘Ausschuss für Arbeit und Soziales’ quickly redrafted
the reform and eliminated the paragraphs falling under the competence of the states. These
issues were integrated into a separate reform and postponed. The ‘new’ reform proposal
contained the same key measures related to the labor market, but did not need to be ap-
proved by the ‘Bundesrat’ anymore. This strategical move allowed the coalition government
to circumvent the ‘Bundesrat’ and prevented a blockade of the reform process. Although

21The part of the reform, on the basis of which the ‘Bundesrat’ claimed to have the right to ap-
prove/disapprove the bill is not examined in this study. It concerned a passage that aimed at fighting
illegal employment, which would have required the ‘Länder’ to collaborate with the border police. This
detail which has been overlooked by the drafting committee offered the ‘Bundesrat’ - at first sight - some
leverage to alter the content of the reform.
the SPD-led ‘Bundesländer’ and the opposition parties in the ‘Bundestag’ heavily criticized this strategic maneuver, their hands were tied and the reform was finally approved after the fourth reading of the bill. The reform as a whole did not dismantle the unemployment insurance scheme as such, e.g. it did not alter the contribution scheme or the entitlements for regularly unemployed people and therefore affected the core of the redistributive scheme in minor parts only. One reason why the government coalition between the CDU/CSU and the FPD was not able to draft and propose a reform with a more radical impact on the redistributive scheme might have been the fact that the government was not able to count on the support by the ‘Bundesrat’.

Even though none of the changes proposed in the ‘JobAQTIV’ reform proposal touched the competences of the Länder and therefore the legislation did not need the approval by the ‘Bundesrat’, the content the content as well as the timing of the ‘JobAQTIV’ legislation was influenced by several types of constraints. First, the government had to signal the electorate that the announcements made during the electoral campaign in 1998 to reform the labor market and significantly decrease the level of unemployment were not only empty promises. However, the reason why the government was reluctant to engage in reform activities earlier - and was especially reluctant still to propose reforms that significantly affected the redistributive generosity towards ‘insiders’ was caused by the fear that the labor unions would withdraw from the ‘Bündnis für Arbeit, Ausbildung und Wettbewerbsfähigkeit’ (Alliance for Jobs). Especially since the traditional left was hardly represented in the government anymore after the resignation of Oskar Lafontaine in March 1999. The government did not attempt to impair the relationship with the labor unions because their support was needed in the near future. The cautious design of the reform and the fact that the government was very considerate towards the needs of the labor unions led to criticism by the parties in opposition. Irmgard Schwaetzer (FDP), for example, told the government to ‘wake up’ and to ‘give up the flirtatious relationship with the labor unions, which had a catastrophic impact on the unemployed’, (parliamentary minutes, 27.09.2001a, p. 18519). This again indicates that the opposition was not convinced that the policy decisions by the government had the
promised effect of establishing a bridge for ‘outsiders’ to re-enter the first labor market.

3.2 Ireland

Financial and Social Welfare Act, 1996

In 1996, the Irish cabinet consisted of a three party coalition between Fine Gael, Labour and the Democratic Left. The Democratic Left was represented with one minister only, Proinsias De Rossa, who was the party leader and served as Minister for Social Welfare. The 1996 Bill was announced as one that will bring major changes to the existing welfare state legislation. The social policy reforms presented by the newly formed center-left government primarily aimed at addressing the needs of the very poor, or ‘outsiders’. De Rossa, on behalf of the cabinet, presented the social welfare bill as the ‘first integrated approach to address the most pressing social and economic problem, long-term unemployment’ (parliamentary minutes, 12.03.1996). Even though the Irish economy was booming, long-term unemployment was still a major problem of the Irish economy. The government thus proposed programs designed to reintegrate those people into the labor market who were excluded for many years. The minister for Social Welfare justified the measures proposed in the budget and the welfare act as ‘they are intended to give particular help to our unacceptably large number of people who are long-term unemployed because this group is not benefitting enough from the current dynamic growth in employment [...] That group needs positive help and support and this budget provides it.’ (parliamentary minutes, 23.01.1996).

Table 4 lists the most important issues implemented through the Financial and Social Welfare Act in 1996. The overview already shows that the majority of the issues

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22 The government thus de facto was more left-wing than its nominal allocation of jurisdictions would suggest.

23 Other members of the coalition also emphasized that the social needs of ‘outsiders’ should finally be addressed. Joe Costello (Labour Party), for instance, stated that ‘this is the first time the long-term unemployment problem has been the main focus of a budget. I am delighted to support the measures announced in the budget to tackle it’. Liz McManus (Democratic Left) explicitly highlights the failure of previous governments to design social policies that also help the very poor: ‘For decades, social and economic policy has failed to address the needs of two groups in society, those without work and those in low paid jobs’, (both quotes are from the parliamentary minutes, 31.01.1996e).
Table 4: Reform Issues and Direction of Changes for ‘Financial and Social Welfare Bill 1996’

<table>
<thead>
<tr>
<th>Reform issues</th>
<th>‘insiders’</th>
<th>‘outsiders’</th>
<th>Redistribution</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase of ceiling/contributory ceiling of core social security programs (PRSI)</td>
<td>+</td>
<td>-</td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Exemption of the first £80/week income from payments to core social security programs (PRSI)</td>
<td>+</td>
<td>-</td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>£80 recruitment subsidy for employers when hiring long-term unemployed</td>
<td>(-)</td>
<td>+</td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Back to work allowance for long-term unemployed</td>
<td>(-)</td>
<td>+</td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Implementation of community employment schemes</td>
<td>neutral</td>
<td>+</td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Compensation of long-term unemployed if they take low-wage or part-time jobs</td>
<td>-</td>
<td>+</td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Compensation for part-time jobs</td>
<td>+</td>
<td>+</td>
<td>×</td>
<td></td>
</tr>
<tr>
<td>Cut rate for employer’s contribution to the PRSI schemes</td>
<td>neutral</td>
<td>neutral</td>
<td>×</td>
<td></td>
</tr>
</tbody>
</table>
affected the expenditure dimension and were mostly targeted at labor market ‘outsiders’.\textsuperscript{24} In addition, both, ‘insiders’ and ‘outsiders’ benefitted from an overall increase in redistributive generosity. Several issues were related to the PRSI scheme (PRSI = payment related social insurance scheme). The changes related to the PRSI scheme should lead to an increase in the take home pay of employees belonging to the low-income bracket (by exempting the first £80 from the payments to the PRSI scheme) while simultaneously securing the funding of the scheme by increasing the contributory ceiling. Fianna Fáil, the main party in opposition, together with the neo-liberal Progressive Democrats criticized the exclusive focus on the very poor while ignoring the needs of middle-and high-income workers. The increase in the redistributive generosity of the core social welfare state programs was negatively evaluated as well. Michael Dowell from the Progressive Democrats criticized that ‘...the government has shifted the burden of PRSI from the lower paid to the top of the structure, (parliamentary minutes, 23.01.1996\textsuperscript{b}). The measures, which should promote part-time work (e.g. subsidies for employers) were less contested than the shifts affecting the redistributive dimension of the PRSI scheme.

The 1996 Social Welfare and Financial Bill also included considerable changes on the expenditure dimension. Other than in Germany, the changes implemented by the ‘rainbow coalition’ increased public expenditure and expanded spending on social welfare issues. This was possible because the Irish economy was booming and tax incomes increased during the 1990s. Even though all parties agreed that long-term unemployment was a serious problem of the Irish economy, which needed to be taken care of, many measures proposed by the ‘rainbow coalition’ were opposed by the conservative parties and even part of Labour, which was part of the coalition government, was concerned that the subsidies for employers who hire long-term unemployed people would harm employees with regular working relationships. Roising Shortall (Labour Party) basically echoed the objections of the peak labor union

\textsuperscript{24}In the words of De Rossa (Minister for Social Welfare):‘The special employment measures in this budget are of major significance. They are intended to give particular help to our unacceptably large number of people who are long-term unemployed because this group is not benefiting enough from the current dynamic growth in employment. Many new jobs are coming on stream but people who have been out of the jobs market for a year, two years, or even longer are not getting them.’ (parliamentary minutes, 23.01.1996\textsuperscript{b}).
(ICTU) by saying ‘we need to be extremely careful to ensure that proper guidelines are in place to safeguard against its [the implementation of the recruitment subsidy] resulting in the displacement of existing workers by long-term unemployed people - on the back of a subsidy such as this - with the potential of benefiting employers only’, (parliamentary minutes, 01.02.1996a).25

The Progressive Democrats did not support the strategy of the government to increase labor market participation and lower long-term unemployment. According to Mairin Quill ‘the key to ensuring competitiveness is a reduction in costs for industry. In particular we must seek to reduce the cost of employing people. That means substantial cuts in personal taxation and PRSI both for employees and employers’, (parliamentary minutes, 30.01.1996d). Overall, the conservative opposition would have preferred tax reduction and a substantial reform of the taxation system instead of the measures directed at the very poor. Both Fianna Fáil and the Progressive Democrats stressed their disappointment with the Budget and the Social Welfare Bill presented by the government. They expected that the government takes advantage of the booming economy, which would have allowed to implement tax cuts.26 Fianna Fáil and, more prominently, the Progressive Democrats proposed that major tax reductions could boost employment and thus also help the long-term unemployed.

**Financial Act and Social Welfare Act, 2001**

In 2001, Fianna Fáil was governing together with the Progressive Democrats. The change in government took place in 1997 and for the first time in the history of Fianna Fáil, the party formed a pre-election agreement with the Progressive Democrats. Nominally, the Progressive Democrats were fairly weak, but just as for the Democratic Left in the previous government, their influence on the policy agenda was rather strong. Mary Harney, the party

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25ICTU (Irish Congress of Trade Unions) is worried that the Budget and the Social Welfare Bill neglects the interests of PAYE workers, i.e. employees in a regular working relationship who contribute to the PRSI fund ('The Irish Times', January 24, 1996).

26Liam Aylward (Fianna Fáil): ‘there were great expectations about this budget. The economy was doing so well that substantive cuts for taxpayers were expected, but unfortunately, that did not happen. [...] the Minister for Finance made much of his concessions to the low paid and unemployed. [...] In reality he failed a large number of people.’ (parliamentary minutes, 08.02.1996f.)
leader, was appointed as deputy prime-minister (Tanáiste) and in charge of the important Ministry of Enterprise, Trade and Employment. Despite the strong rhetoric used by Dermot Ahern, the Minister for Social, Community and Family Affairs, the shifts in the Irish social welfare system were much less pronounced than in previous Bills proposed and implemented by the preceding left-wing government. When he announced the 1999 Social Welfare Bill, Ahern promised a ‘a radical shift in the way we look at social welfare. In the past, social welfare started out from an assumption that the State should try to prevent abject poverty and should try to alleviate grinding disadvantage. The State, it was felt, should not allow people to be pushed over the edge. However, in the past that was felt to be enough. Nobody felt that social welfare could be a positive force, could register that we value older people, we value what carers contribute’, (24.02.1999). In 2001, he opened the second reading of the Bill by claiming that ‘we have turned around our social welfare system from one that simply compensates people for economic failure to one that helps people to help themselves’ (Dermot Ahern, Fianna Fáil, parliamentary minutes 21.02.2001b). Table 5 gives an overview over the most important issues related to this study and which were addressed in the two relevant Bills.

As the overview already indicates and as we would expect based on the theoretical framework presented in the previous section, the focus of the Social Welfare Bills presented by the Fianna Fáil-Progressive Democrats government perfectly mirrors the different approach of the governments towards social policies and their reform. Budgets and Social Welfare Bills by Fianna Fáil-Progressive Democrats coalitions did not include specific measures to target unemployed people and particular problems on the labor market, and the government did not implement any encompassing new programs or policies. This was not only the case during the incumbency of the conservative government after 1997, but also during the period preceding the left-wing ‘rainbow coalition’ when unemployment was still high and the Irish economy was not performing well. The main focus of the Fianna Fáil-/Progressive Democrats government was a reform of the Irish tax system aiming at reducing the income tax. Mary Harney (Progressive Democrats) characterized the governments’ program as following: ‘this
Table 5: Reform Issues and Direction of Changes for ‘Financial and Social Welfare Bill 2001’

<table>
<thead>
<tr>
<th>Reform issues</th>
<th>Effect on</th>
<th>Dimension affected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>‘insiders’</td>
<td>‘outsiders’</td>
</tr>
<tr>
<td>Tax cuts for higher income brackets</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Increase of PRSI ceiling</td>
<td>+/-</td>
<td>neutral</td>
</tr>
<tr>
<td>Reduction of contribution rate (for regular employees)</td>
<td>+</td>
<td>neutral</td>
</tr>
<tr>
<td>Minimal increase of social welfare benefits (adjustment to annual inflation)</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Abolition of PRSI contributory ceiling for employers</td>
<td>neutral</td>
<td>neutral</td>
</tr>
<tr>
<td>Reduction of social insurance contributions for the self-employed</td>
<td>neutral</td>
<td>neutral</td>
</tr>
</tbody>
</table>
government is committed to cutting tax rates [...], if low tax works for corporations, it works for the workers who work in those corporations. If the profits generated by workers are to be taxed at 10 percent or 12.5 percent, it is not fair that the worker should have to pay tax at more than 40 percent or 20 percent,’ (parliamentary minutes, 07.12.2001a).

In general, the two bills reinforced the rather orthodox, neo-liberal economic policies of the Fianna Fáil/Progressive Democrats Government and - according to Joe Higgings (Socialist Party) - will ‘result in an increasing polarization between the super rich and the very highly paid on the one hand, and the poor and low middle income earners, on the other hand’, (parliamentary minutes, 28.02.2001c). Because the next general elections were soon to be held, the budget was considered as an ‘election budget with a Government that succumbed to the temptation to attempt to buy votes by large-scale tax cuts’ (‘The Irish Times’, November 28, 2000). The Bills, however, represent the overall policy priorities of the Fianna Fáil-Progressive Democrats government well. The set of policies that can be attributed to the redistributive dimension is dominated by changes affecting the taxation of income, with an emphasis on tax cuts privileging people in higher income brackets and business owners. Though tax cuts for business and companies were considerable, IBEC (Irish Business and Employers Confederation) opposed the abolishment of the PRSI contributory ceiling, mainly they feared a loss of overall economic competitiveness (‘The Irish Times’, December 7, 2001).

The changes that altered the redistributive characteristic of genuine social policies (such as the contributory and benefit schemes) were limited to the standard increase in the employees’ PRSI ceiling and a very limited decrease of the PRSI contributory rate for employees. Policy changes affecting the expenditure dimension included moderate increases of social insurance benefits and social welfare assistance. However, in most categories these increases were just enough to cover for the generally increasing costs of living and the persistently high inflation. The effect for the ‘outsiders’ were marginal. The raise in benefits

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27 The yearly adjustment of welfare benefits was predefined in the economic development programs negotiated between the social partners and the respective government. The 3-year programs usually defined a very general aim of how social security schemes should develop during the period the program was valid.
offered by the government hardly covered the increasing costs of living, a fact that has been widely criticized by the labor unions and even more so by the INOU (Irish National Organization of the Unemployed) and CORI (Conference of Religious Ireland). They made clear that the benefits offered to their clientele (mainly ‘insiders’) in this package were close to the minimum that they would accept. However, in a setting where institutional constraints are low, governments do not need to accommodate the ‘insiders’ and conservative government put little bis no emphasis on improving the situation of ‘outsiders’, mainly low-skilled and long-term unemployed people.

**Mediating Effect of Political Constraints**

Due to the exceptional economic performance during the 1990s and later, Ireland was not forced to cut spending. The reform pressure on the spending dimension, thus was not as pronounced as in other countries, such as Germany. Nonetheless, the examined reform processes illustrate the proposed mechanisms very well. Especially the 1996 Social Welfare Bill exemplifies the impact ideologically diverse party governments have on the design of social policy reforms and the reactions of the parties in opposition. Whereas the ‘rainbow-coalition’ government aimed at generating a more inclusive society by strengthening the redistributive effect of the welfare state system, the opposition called for tax cuts and/or a reduction of debts. However, the government did not care and did not had to care since the opposition did not have leverage or the possibility to block the governments’ plans. If the left-wing government had faced institutional constraints, it would have had to accommodate the conservative opposition and cut spending or at least could not have increased spending as much. The strong focus on the needs of the ‘outsiders’ (the long-term unemployed, mainly) would not have been possible within an institutional system where constraints are high.

Policy-making processes in Ireland are hardly restricted by institutional constraints. Even though Ireland also has a bicameral system, the Seanad has limited competences in the legislative processes. Because the Taoiseach has the right to appoint eleven senators, the

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The specific policy proposals and reforms, however, were defined by each incumbent.
governing coalition always has the majority in the Upper Chamber. Moreover, the Seanad cannot block bills, but only delay the final vote by a maximum of three months. The bills presented to the parliament usually undergo small changes only, which do not alter the core of the legislative proposal. The amendments proposed by the parties in opposition are usually discussed during consultations on the committee stage and are mostly rejected.

Irish governments - together with the peak labor and employers’ organizations - negotiated three-year macro-economic programs, which set the lines for broader macro-economic policies and, more importantly, laid the ground for the development of the industrial wages. The annual Social Welfare Bill presented to the parliament and the Financial Bill need to be in line with these broader principles and lines that have been defined within the program. However, the final design of the proposals and reforms is in the hands of the respective government. Interest organizations have only limited access to the policy-making process during the legislative process. Thus, there is only little direct influence of interest groups on the Financial Bill and the Social Welfare Bills, but the government largely can chose the policies that they prefer. In the Bill presented in 1996, we can clearly see the strong role of the Democratic Left in the government, especially for social policy. Even though the Democratic Left only had one government seat (De Rossa), De Rossa and the Democratic Left was - according to Mary Harney, Progressive Democrats - ‘running the show’ and considerably pulled the incumbent ‘rainbow coalition’ towards the left on the social policy dimension. John O’Donoghue (Fianna Fáil) even suggested that ‘in delivering the Budget Statement, the Minister for Finance, Deputy Quinn, showed all the sincerity of a hostage speaking at gun point. When the Minister for Social Welfare, Deputy De Rossa, demanded a political ransom from the Government, it decided to pay, and the Minister, Deputy Quinn, was sent out to read the terms of surrender. The Minister, Deputy De Rossa, is the real Taoiseach’, (parliamentary minutes, 25.01.1996c). Bertie Ahern (Fianna Fáil) also complained that ‘economic policy has been hijacked by Labour and the Democratic Left, a party with one percent of national support’, (parliamentary minutes, 23.01.1996b).

With little political and institutional constraints and a marginalized Fine Gael
within the ‘rainbow coalition’, the left-wing government was able to design the Social Welfare Bill such that it addressed the needs of those societal groups that are generally neglected, specifically the long-term unemployed people and other groups that are not represented by trade unions and other interest organizations. This focus on was not appreciated by the center-right parties who accused Labour that ‘it has deserted the trade union movement again. The PAYE workers, the trade union members and the small entrepreneurs have been let down by this government’, (Bertie Ahern, parliamentary minutes, 17.04.1996). These political processes and social policy outcomes of the 1996 Social Welfare Bill confirm that unconstrained left-wing party governments are able and willing to implement policies that are beneficiary for people within society who are generally underrepresented in political systems and left behind. After many years of center and center-right governments, the parliamentary discourses and media coverage also documents how unusual the government’s emphasis in social policymaking on the poorly organized ‘outsiders’ in Ireland was. Although long-term unemployment was among the most pressing problems at the time, the government’s disregard of well established social groups (such as employers’ interests) was heavily criticized and only possible because the left-wing government did not have to find a compromise with the center parties. The debate shows that employers expected more tax cuts and a significantly bigger relieve in PRSI contributions, while the middle class (most of them employees in standard working relations) expected a bigger increase in social welfare benefits. The government, however, continued its course to serve the needs of the least privileged, which led to substantial changes in redistribution, particularly towards long-term unemployed people, people depending on social assistance and unskilled (‘outsiders’).

In 2001, the situation was different. The governing coalition among Fianna Fáil and the Progressive Democrats faced good economic conditions, which significantly reduced pressure on social institutions. Whereas unemployment was high at the beginning of the Irish economic recovery, which also marks the beginning of the successful Irish social partnership, the labor market was characterized by near full employment in 2000/2001. At the same time, labor unions became more critical towards the tripartite partnership agreements.
After years of wage restraints in some (mostly the manufacturing) sector, the labor unions expected that their constituencies were rewarded and received finally generous benefits as a consequence of the economic boom. The government saved the partnership agreement by accommodating the unionized ‘insiders’ and the employer’s with a pay review and generous tax cuts. The so-called ‘outsiders’ were put off with a minimal increase in welfare benefits. Due to these frictions, the prospects for the negotiation of the subsequent agreement were not very positive.

Even though the institutional setting did not change between 1996 and 2001, the de facto constraints that the two governments faced changed. In particular, the government by Fianna Fáil and Progressive Democrats had to accommodate organized interests to save the social partnership agreement as ICTU and other volunteer organizations implicitly threatened to leave the ‘Programme for Prosperity and Fairness’. The threat was credible because the power balance between the actors negotiating the partnership programme has shifted. Whereas in the beginning of the partnership programmes, the three participating groups had similar interests and depended on each other, the power balance had shifted towards organized labor in 2001. Due to near full employment and even a possible shortage of labor supply, the unions had greater bargaining power than in 1996 when unemployment still was high. Therefore we are able to observe a similar mechanism as in Germany (1994). The government disproportionally rewarded the the ‘insiders’ while neglecting the needs of societal groups that were not as important for future tripartite agreements as peak-labor unions and employer organizations.

Despite these shifts in relative power and economic performance, the 2001 reform also documents how social policy preferences and actual welfare state reforms differ for a conservative government. The need of ‘outsiders’ was not an issue that the government tried to seriously address when designing the reform. The pattern of the redistributive generosity of the core welfare state programs thus did not change considerably and if mainly helped the well-organized insiders for reasons discussed in the previous paragraphs. The effect of the Social Welfare and Financial Bill 2001 on the spending dimension was negative. Despite
the fairly large economic room that the government enjoyed, social welfare spending has fallen year after year under the neo-liberal government, from 11.5 percent of GDP when the government took office, to around 7 percent in 2001 (see parliamentary minutes, \textit{07.12.2001a}).

4 Conclusion

This study has examined the mediating impact of party governments and political constraints. In particular, I assessed labor market policymaking in two countries, Ireland and Germany, with varying levels of institutional constraints under each, a left-wing and a conservative/liberal party government. Whereas in Germany, the social democratic government had to accommodate the opposition in the upper chamber of parliament on the one hand, and compensate organized interests (mainly labor unions) on the other hand, the conservative government ‘only’ had to consider the social democratic majority in the ‘\textit{Bundesrat’}. Both governments, however, were not able to draft and design encompassing labor market reforms and both governments in the end privileged labor market ‘insiders’ over ‘labor market’ outsiders despite the stated aim to re-integrate long-term unemployed and increase overall labor market participation.\textsuperscript{28}

In Ireland, on the contrary, the ‘rainbow coalition’ government managed to draft and implement a reform that predominantly focused on labor market ‘outsiders’ and aimed to improve their situation. Benefitting from a setting with low political constraints, the social welfare minister from the Democratic Left was able to implement encompassing social policy reforms that led to an increase in overall redistributive generosity and especially targeted at long-term unemployed people in society. Despite the fact that the liberal/conservative government in Ireland in 2001 was not under pressure to cut expenditure, overall welfare state efforts decreased and wage inequality significantly increased. Mainly due to the extensive

\textsuperscript{28}Whether the respective government restrained itself while drafting the reform proposal because it expected the ‘\textit{Bundesrat’} dominated by the opposition to block the reform or whether a reform was ‘de facto’ blocked and delayed in the end does not matter in this study (on the mechanisms of self-restraint of German governments see \textit{Manow and Burkhart (2007)}.}
low-wage sector that has been established during the booming years. People employed in the low-wage sector were only partly covered by the insurance based social security schemes and the coalition between Fianna Fáil and the Progressive Democrats did not significantly improve their situation. On the contrary, the government implemented large tax cuts for business and people in high-income brackets.

The results of the analysis therefore largely confirm the expectations, which have been formulated on the basis of the theoretical framework. This result is counter-intuitive in the sense that left-wing parties are expected to focus on the destinies of the poor in the public debates and also claim to help the disadvantaged in society. It is relatively safe to conclude that the joint impact of party governments and political constraints works in favor of the core workforce covered by insurance based social security schemes and at the expenses of labor market ‘outsiders’ in countries where institutional constraints are high. The results to some extent add to the ‘paradox of redistribution’ formulated by Korpi and Palme (1998) but imply that this paradox is stronger - or especially prominent - in countries where political constraints are high, such as Germany.

To further explore the mediating effect between party government and political constraints and whether the implications of this effect has changed over the recent decades, evidence from a wider range of countries would be helpful. However, series of in-depth case studies for a range of countries over a longer period of time are very work intensive. Most quantitative studies usually rely on highly aggregate measures of policy change, which also reflect developments and changes that are unrelated to partisan choices for social policy and only ‘indirectly’ measure social policy reforms. A more finely grained measure of social policy reforms/welfare state change would help to better explore how politics influences social policies in post-industrial democracies. For instance, a new data set examining legislative decisions and social policy reforms on various dimensions would improve the situation.
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