

# Unemployment Reduction or Labor Force Expansion?

## How Partisanship Matters for the Design of Active Labor Market Policy in Europe

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### **Abstract**

Comparative scholars fundamentally disagree about the impact of partisan politics in modern welfare states, particularly in certain ‘new’ policy areas such as active labor market policy (ALMP). Using new data on 900 ALMP programs across Europe, this study attempts to reconcile a longstanding dispute between the traditional ‘power resources’ approach and the ‘insider/outsider’ approach pioneered by Rueda (2005). The study argues that both left-wing and right-wing governments invest in ALMP but that politics still matter because parties’ preferences regarding unemployment differ. The left is more inclined to expand programs primarily designed to reduce unemployment, which exclusively target ‘core’ groups in, or at risk of, unemployment, and programs in which participants are no longer counted among the unemployed. In contrast, both sides are equally prone to expand programs that also target people who are not yet participating in the labor market, which thus also—or instead—serve to increase labor supply.

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• Provision and Effects of Welfare Programs, J68 Public Policy

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## 1. Introduction

It has been widely established that the last 15–20 years have seen an ‘activation turn’ of labor market policy across the OECD. Responding to the generally high unemployment and inactivity rates of the 1980s and early 1990s, governments have introduced a mix of demanding and enabling so-called ‘active labor market policy’ (ALMP) schemes aimed at the unemployed and some groups outside of the labor force (e.g. housewives and single parents) to facilitate their entry into employment. Although evaluations find mixed evidence regarding the effects of ALMPs on employment (Card *et al.*, 2010; Kluve, 2010; Martin, 2014), ALMPs are consistently listed high on international policy agendas—most recently in the Employment Guidelines of the Europe 2020 strategy from 2010 and in the Social Investment Package launched by the European Commission in 2013.

These developments have spurred a growing interest among comparative political scientists in the political and economic processes that determine the scale and orientation of ALMPs provided by governments across the EU and the OECD. Several books have been devoted to the policy area (e.g., Eichhorst *et al.*, 2008; Weishaupt, 2011; Bonoli, 2013), and it is placed at the center of attention in most recent volumes that investigate the overall development of modern welfare states (e.g., Morel *et al.*, 2012; Bonoli and Natali, 2012; Hemerijck, 2013; Thelen, 2014). Particular interest has been paid to the role of partisan politics for ALMP development; however, to date, scholars have not come anywhere close to a consensus regarding this matter. Over the past ten years, studies have alternately reported evidence supporting hypotheses about positive, non-existent, and negative relationships between left-wing strength and the level of ALMP ‘effort’ exerted by the government.

This lack of scholarly agreement was recently noted by Clasen *et al.* (2016, p. 13), who forcefully argued that most comparative research in the field has been fallen prey to conceptual under-specification of the dependent variable and that “[t]he process of uncovering the causal dynamics specific to this policy field is still in its infancy”. They suggest that scholars who search for variables to explain variations in ALMP development might want to look beyond the “usual suspects”, such as partisanship, and instead (or also) consider some rather different political institutional variables, for instance, those related to the nature of the national systems of public expenditure planning and control and the multi-actor delivery systems that characterize ALMPs.

Whereas I largely subscribe to the diagnosis of Clasen *et al.* (2016) regarding the state of the field, I seek to demonstrate in this paper that scholars run the risk of throwing the baby out with the bathwater if they fully adopt their proposed cure. I instead argue that if adequate attention is paid to the various purposes and target groups that ALMP programs potentially serve, our understanding of the impact of partisanship on ALMP design can be refined. Building on classic insights about variation in party preferences with regard to unemployment and labor shortages (Furåker, 1976; Hibbs, 1977), I outline a theory about how party preferences for ALMPs vary across programs that have different aims and thus different target groups and characteristics. On that basis, I derive two hypotheses, which are then tested on a new panel data set with unprecedented richness, covering almost 900 European ALMP programs over up to 15 years (European Commission, 2015).

The results of these tests support a twofold claim. First, whereas parties do not differ in their preferences for ALMP programs that, to some extent, serve to *increase labor supply*—and that thus also, or exclusively, target people who did not previously participate (at least not fully) in the labor market—the left is more likely than the right to also expand programs that primarily serve to *reduce unemployment*. These programs exclusively target people at the ‘core’ of the labor force: those who are unemployed and those who are employed but at risk of losing their jobs. Second, the left is more inclined to expand particular ALMP programs for which participation entails a formal change in the participant’s labor market status—from unemployed to either inactive or employed.

Together, these claims contradict a number of prevailing theories about the modern welfare state. First, they are at odds with the traditional ‘power resources’ school’s account of ALMPs (Esping-Andersen, 1990; Janoski, 1990; Rothstein, 1996; Huo *et al.*, 2008) because, for many ALMP programs, right-wing governments are just as expansionary as left-wing governments. Second, they conflict with the ‘insider/outsider’ perspective that Rueda (2005, 2006, 2007) introduced as a critique of the ‘power resources’ approach, as right-wing governments match—but do not exceed—the commitment of left-wing governments for these types of programs. Third, on a more general note, the results suggest that it is too early to conclude that factors related to the ‘new politics’ of the welfare state approach—such as new, strong interest groups (Pierson, 1994), policy diffusion from international organizations (Armingeon, 2007), and the convergence of party preferences (Lindvall, 2010; Nelson, 2013; Tepe and Vanhuyse, 2013)—have rendered the traditional class-based political explanations of social and labor market policy obsolete.

The following section highlights the inconclusiveness of previous research, outlines the theoretical argument and derives two hypotheses to be tested. Then, the new data set is introduced, and all

variables are presented. The fourth section reports the results from a set of models, which lend support to both hypotheses. A fifth section concludes; Appendix I provides supplementary data; and Appendix II presents additional robustness checks and extensions.

## **2. Party politics and active labor market policy: a review**

As previously noted by multiple scholars, the cumulative evidence from the studies conducted over the past ten years about the effect of partisan politics on ALMP ‘effort’ has been surprisingly inconclusive, especially given the similarity in the research questions and data applied (Bonoli, 2013; Tepe and Vanhuysse, 2013; Clasen *et al.*, 2016). Based on the results these studies report, most of them can be divided into three groups<sup>1</sup>.

Those in the first group have found that left-wing influence is positively related to ALMP ‘effort’ (Huo *et al.*, 2008; Iversen and Stephens, 2008; van Vliet and Koster, 2011). These results are consistent with the ‘power resources’ school’s account of ALMP development, in which social democratic governments are considered more inclined to expand ALMP in order to strengthen labor as an organized social force by contributing to lower levels of unemployment. This understanding of ALMP was long the dominant one among welfare state scholars (Esping-Andersen, 1990; Janoski, 1990, 1994; Rothstein, 1996; Boix, 1998).

A second group of studies have reported that the government’s ideological underpinnings have no impact on ALMP ‘effort’ (Rueda, 2005; Franzese and Hays, 2006; Armingeon, 2007; Gaston and Rajaguru, 2008; Bonoli, 2013). Multiple explanations have been proposed for why ideology is not expected to have an impact on such efforts. Mucciaroni (1990), Swenson (2002), and Farnsworth (2012, 2013) have argued that ALMPs—particularly *training programs* and *labor market services*—are often in the interest of workers and employers alike. As such, they are less likely to be a subject of partisan dispute. Another explanation is that policy diffusion—spurred by mutual learning experiences, a broad consensus among policy experts, and the influence of employment strategies adopted by the EU and the OECD—has caused party preferences for labor market policy to converge (Franzese and Hays, 2006; Armingeon, 2007; Lindvall, 2010; Nelson, 2013). This “deep shift in thinking” (Nelson, 2013, p. 272) since around 1998 is sometimes referred to as the “activation turn” (Bonoli, 2010, p. 435).

Lastly, a few studies have found a negative relationship between left-wing influence and spending on (at least some categories of) ALMP. Drawing on insider–outsider theories of unemployment in

economics, Rueda (2005, 2006, 2007) has made the influential claim that because unions and—for electoral reasons—social democratic parties tend to favor the interests of labor market insiders, they are unlikely to support, and might even oppose, ALMPs. According to this account, ALMPs do not favor insiders because they promote the employment entry of outsiders who can underbid insiders' wage demands, while at the same time they increase the tax burden (Rueda, 2005). In accordance with this theory, Rueda (2007) found that increased left-wing strength resulted in a decreased ALMP spending. Building on Rueda's work, Tepe and Vanhuyse (2013) recently introduced the 'left party disinvestment thesis'. Supporting a weak version of that thesis, they found that increased left-wing influence does not typically increase overall ALMP expenditure; in addition, in line with a strong version of that thesis, they found that increased left-wing influence decreases spending on the one category of ALMPs—*direct job creation* programs—which they suggest will most likely benefit outsiders.

Reporting separate analyses for different categories<sup>2</sup> of ALMP programs—such as *training programs*, *employment incentives*, and *direct job creation programs*—Tepe and Vanhuyse's (2013) study, together with those by Bonoli (2010), Nelson (2013) and Vlandas (2013), mark a new wave of ALMP research that does not fit nicely into any of the three previous bodies of research. However, while they indeed represent a sophisticated advance within the field, the joint results from these studies on the effect of left-wing strength on ALMP 'effort' are as inconclusive as those in previous literature<sup>3</sup>. These inconclusive results partly stem from the difficulties involved in deriving hypotheses about party preferences for particular categories of ALMP programs because, as aptly demonstrated by Clasen *et al.* (2016, p. 10), programs that fall in the same administrative category may have "very distinctive aims and presumably very different political support coalitions".

### ***2.1 The role of ALMP: to reduce unemployment or to expand labor supply?***

In this paper, I argue that the differences in ALMP programs' objectives are key for understanding partisan differences in ALMP preferences. Possibly the first scholar to provide this insight was Furåker (1976), who classified the traditional categories of labor market policy interventions based on whether they were meant to serve either one or both of two possible purposes: reducing (or preventing) unemployment and/or reducing (or preventing) labor shortages<sup>4</sup>. In Furåker's model, as in those of some other contemporary scholars (e.g. Hibb's (1977)), sellers (i.e., workers) and buyers (i.e., employers) on the labor market vary in their preferences regarding unemployment. Accordingly, he suggested that the ways in which governments prioritize labor market measures depend on the extent to which each group has been able to influence government policy. Thus, left-wing governments, which tend to favor workers' interests, are expected to prioritize measures that

aim to reduce unemployment, whereas right-wing governments, which have closer ties to the business community, are expected to be more concerned about labor shortages.

Research from the past two decades has provided an additional reason for why left-wing governments might tend to be more concerned about unemployment: electoral motivations stemming from issue ownership. At the ballot box, left-wing governments are often found to be penalized particularly harshly for unemployment (Powell and Whitten, 1993; Whitten and Palmer, 1999; van der Brug *et al.*, 2007).

Now, although I find Furåker's framework largely compelling, I contend that the most important determinant of whether a labor market program is meant to reduce unemployment or labor shortages is not the program's content but *its targeting of people who are already participating in the labor market or those who are not*. Indeed, contrary to Rueda's (2006, p. 388) influential claim that "ALMPs unambiguously benefit outsiders", I argue that whereas some categories of labor market programs—such as sheltered employment for the disabled—target people who are fairly homogeneous with respect to their 'outsiderness', most categories accommodate programs for which the primary target group includes those at the 'core' of the labor force *and* programs that target people who are on the fringes or even outside the labor market. For instance, Clasen *et al.* (2016, p. 10) show that the *direct job creation* category accommodates both types of programs. In addition, labor market *training* programs are known to accommodate many programs that target particularly disadvantaged groups<sup>5</sup>; however, the education schemes and the accompanying work time reduction subsidies included in the so-called short-time work (STW) programs, which many European governments rolled out during the recent financial crisis, primarily targeted workers who were already employed but who ran the risk of becoming unemployed<sup>6</sup> (Hijzen and Venn, 2011). These examples illustrate why the attention that Furåker pays to program categories might be misguided, and they might also partly explain why the results from the most recent wave of ALMP research are so inconclusive.

To summarize, I propose shifting the focus away from program categories and argue that a program's overarching aim—unemployment reduction or labor force expansion—is more likely to be the primary source of partisan conflict. Two hypotheses can be derived to test this claim. First, I expect that left-wing governments are more prone than right-wing governments to expand labor market programs that exclusively target people at the 'core' of the labor force who are unemployed or at risk of becoming unemployed. By contrast, in line with Boix's (1998, p.4) remark that "[i]n the first place, all parties prefer to develop policies that maximize growth", I expect less of a

partisan effect for programs that also, or exclusively, target ‘non-core’ groups. These programs do not necessarily primarily aim to reduce unemployment, but they might serve to increase the size of the labor force by making people who would otherwise be inactive—such as housewives, discouraged youth and people in early retirement—begin searching for a job<sup>7</sup>. If such programs succeed, growth might increase both directly—through increased output—and indirectly—if their employment mitigates bottlenecks caused by labor shortages. Moreover, these programs might have side effects, such as increased tax revenue and lower caseloads in other more expensive social security programs, that are attractive to all governments, irrespective of their ideologies or allegiances.

Second, I expect that governments with different ideological makeups prefer different ALMP programs depending on what participation entails for an individual’s labor market status. For some types of programs (e.g., full-time training programs), enrollment typically implies that the participant is no longer immediately available for work and, in turn, that his or her unemployment spell is either broken (whereby the unemployment duration counter is reset to zero) or suspended (whereby the duration counter is paused until the participant leaves the program). In other programs, participation does not change one’s labor market status. Therefore, I hypothesize that left-wing governments are more inclined to expand ALMP programs that cause a break or suspension of the unemployment spell, whereas right-wing governments are more interested in supporting ALMP programs that keep participants in the labor supply.

Table 1 summarizes the hypotheses presented above.

[Insert table 1 here]

[Table 1: Hypotheses: Program feature × partisanship interactions]

Table 1: Hypotheses: Program Feature × Partisanship Interactions

	<i>H<sub>1</sub>: Core target group</i>		<i>H<sub>2</sub>: Broken unemployment</i>	
	Core	Non-core	Broken	Continuous
Impact of <i>Left-wing government strength</i> on ALMP ‘effort’	+	0	+	–

### 3. Data and Operationalization

#### 3.1 *The EU Labor Market Policy database*

The comparative research on ALMP has invariably used the OECD Labor Market Policy (LMP) database, which contains country-year observations on expenditures on a number of program categories, starting in 1985 for a subset of countries (Grubb and Puymoyen, 2008). However, this database lacks data on program characteristics, which are required to test the hypotheses introduced above. Fortunately, the European Commission (2015) collects data on labor market programs in the EU member states and Norway that meet all the requirements. Importantly, in this database, the unit of observation is *program-year* rather than country-year. Therefore, information about a large set of qualitative program characteristics as well as annual summaries of expenditures and participants are reported annually for each program operating in each country, which makes individually analyzing each one of these hundreds of programs possible rather than simply obtaining country-level aggregates.

Because, to the best of my knowledge, these data have not previously been applied in this field of research, a few limitations of the EU LMP database should be noted here. First, no data are available from before 1998. However, for the present purposes, this limitation only makes for a tougher test of my hypotheses because, as noted above, previous studies have found the effects of partisan politics to be smaller since the ‘activation turn’ around the turn of the century.

Second, all data are reported via a questionnaire that is completed by national authorities, and approximately 10 percent of the reported quantitative data are based on estimations. Therefore, systematic cross-country differences in reporting and estimation practices might distort cross-country data comparisons. However, in the present study, this problem is mitigated by the fact that all regression models include program-fixed effects, which ensure that no between-country variation is used to estimate the parameters.

Third, whereas the data are based in principle, on a full count of labor market programs as defined by Eurostat (2013), the database is only supposed to cover interventions at the national and regional levels. As argued by Clasen *et al.* (2016), the omission of local ALMPs might distort comparative analyses, yet I argue that the present study is spared from such problems because the unit of analysis is an individual program, not a country-level aggregate. Finally, whereas most program categories in the database contain only labor market interventions that “aim to benefit identifiable individuals” (Eurostat, 2013, p. 7) and that are thus suitable for inclusion in this study, the *labor*

*market services* category also covers functions that are not directly linked to individual participants, such as services for employers, administrative functions and general overhead. Therefore, this program category is excluded from the study, along with the two categories that are typically not considered ‘active’ labor market policies: *out-of-work income maintenance and support* and *early retirement*. Despite these issues, the data in the EU LMP database seem to be of high quality and satisfactorily comparable across interventions and years, particularly if only within-country or within-program variation is used in estimations.

### **3.2 Dependent variable: ALMP ‘effort’**

Most large-*N* comparative researchers base their indicators of governments’ ALMP ‘efforts’ on how much public spending (relative to GDP) is devoted to the policy area. In an effort to disentangle the effects of deliberate policy decisions from the effects of economic conditions, many scholars control for the ‘problem pressure’ by adjusting the rate of unemployment on either side of the regression equation. However, as discussed by Clasen *et al.* (2016), unemployment rates are “notoriously problematic in comparative analysis as they are expressed as a ratio of the labour force”. Because unemployment, inactivity and employment are communicating vessels, expansion in policy areas such as early retirement, higher education, or part-time work that lead to a decline in unemployment rate might generate “a largely artificial image of increasing ALMP ‘effort’”. (Clasen *et al.*, 2016, p. 7). Moreover, as noted above, many ALMP programs mechanically alter the labor market status of their participants from unemployed to inactive or employed, which means that indicators of ‘effort’ that are adjusted according to unemployment may “be endogenously ratcheted upwards or downwards by increases or decreases in expenditure on measures that have a direct impact on the unemployment rate” (Clasen *et al.*, 2016, p. 8).

Another problem with routinely adjusting spending for the unemployment rate is that being unemployed does not necessarily imply that one takes part in the programs provided by the government. An analysis of an indicator reported by Eurostat (2015a), which measures the share of the registered unemployed who participate in an ALMP program, reveals that the ‘activation rate’ varies considerably—between countries and within countries. For the 214 observed country-years, nested in 24 countries, the overall mean activation rate is 21.6 percent of the registered unemployed. The between-country standard deviation is 11.4 percentage points, and the within-country standard deviation is 6.1 percentage points. This variation indicates that simply adjusting ALMP spending for unemployment does not get us very far if we want to reliably assess how the treatment that an unemployed individual can expect to receive from the government varies between countries or over time. The literature devoted to the traditional social insurance systems (e.g., Esping-Andersen,

1990; Korpi and Palme, 1998; Scruggs and Allan, 2006) recognizes the coverage rates and eligibility criteria of these policies as important dimensions. Similarly, I argue that who and how many individuals participate in ALMP programs warrants further attention.

Whereas the problems discussed above should not necessarily lead us to dismiss ALMP spending altogether when conceptualizing ALMP ‘effort’, I argue that Esping-Andersen (1990, p. 20) was right to remark that if our aim as welfare state scholars “is to test causal theories that involve actors, we should begin with the demands that were actually promoted by those actors” and that “it is difficult to imagine that anyone struggled for expenditure *per se*”. Because the total expenditure for any ALMP program (or a complete program portfolio) is constituted by two components—the number of participants and the average expenditure per participant—I argue that, for a given ALMP program, the number of participants is a more valid indicator of the government’s inclination to use the program than is total expenditure. Changes in the total expenditure per participant might also reflect, for instance, changes in the efficiency of operations, economies of scale, and other factors that might not reflect government’s preferences as clearly as the number of people enrolled in the program. Therefore, I use the data on the average annual participant stock—henceforth denoted the *Scope* of the ALMP program—to construct the main dependent variable, whereas corresponding models for the program’s total annual *Expenditure*, measured in million Euros at constant 2005 prices, are reported as robustness checks in Appendix II.

Admittedly, the *Scope* indicator is not free of problems. First, it is impossible to tell if a given participant stock in an ALMP program accommodates a large number of short-term transient participants—soon to enter employment or transfer to another program, or a small group of participants who have been enrolled for a long time because they are part of a lengthy training scheme or because they are simply ‘trapped’ in the program. However, although this implies that the average participant stock is not a suitable indicator for assessing program content or efficiency, I maintain that *Scope* is a better proxy than *Expenditure* for the extent to which a government seeks to intervene in the labor market in a discretionary manner to achieve some particular objective, which, fortunately, is of interest in the present study. Second, whereas the expenditure data in the EU LMP database are considered relatively complete, more gaps can be found in the participant data (European Commission, 2015), which is another reason to use *Expenditure* as a robustness check.

Because the relationships between the programs' *Scope* (as well as *Expenditure*) and the independent variables of interest are not expected to be linear (for good reason), the dependent variable is log-transformed<sup>8</sup>.

### **3.3 Dependent variable: "ALMP effort"**

The analyses include two program-level independent variables of particular interest: *Core target group* and *Broken unemployment*. Both are program-year dummy variables that are extracted from the qualitative data reports of the EU LMP database.

*Core target group* is assigned a 0 if the program is available for one or both of the two target groups 'not registered' and 'other registered jobseekers', and a 1 if it exclusively targets those who are 'registered unemployed' or 'employed at risk of involuntary job loss'. According to Eurostat (2013, p. 45), 'not registered' "indicates where interventions are targeted at groups who are not in employment or where registration with the PES [Public Employment Service] is not a prerequisite for participation"<sup>9</sup>. In practice, 'other registered jobseekers' "refers to persons who are unemployed (but do not qualify as registered unemployed), underemployed or inactive". While the definitions of these two target groups cover a rather heterogeneous set of individuals, none of these individuals is unemployed according to the national definition—nor employed and at risk of unemployment. Therefore, programs that target—partly or exclusively—one of these two groups serve, at least to some extent, to increase labor force participation. Conversely, programs that only target 'registered unemployed' or 'employed at risk' primarily seek to reduce (or prevent) unemployment.

To test hypothesis  $H_1$ , I include an interaction term between *Core target group* and *Left-wing government strength*. The latter variable is defined, according to a well-established practice, as the number of cabinet posts held by social democrats and members of other leftist parties as a share of the total number of cabinet posts, weighted by the number of days in office in a given year. Data are retrieved from Armingeon *et al.* (2015).

The second dummy variable, *Broken unemployment*, is assigned a 1 if participation in the program breaks or suspends the unemployment spell and a 0 if unemployment is continuous. Programs for which this variable is coded as 'not relevant'—for instance, because they do not target the unemployed—are assigned a 0. To test hypothesis  $H_2$ , I include the interaction term *Broken unemployment*  $\times$  *Left-wing government strength*.

To control for the potential confounding interactions between *Left-wing government strength* and the program category, I include interaction terms between *Left-wing government strength* and each of the main ALMP program categories: *Training*, *Employment incentives*, *Sheltered and supported employment and rehabilitation*, *Direct job creation*, and *Start-up incentives* (with the interaction term that includes *Training* omitted and used as a reference category).

I include program-fixed effects in all models to control for unobserved between-program heterogeneity, including any differences stemming from potential systematic cross-country differences in the way that participant and expenditure data are reported to the EU LMP database. I thereby also control for a number of largely time-invariant, country-level factors that have been found to affect ALMP ‘effort’ in previous studies, including welfare regime differences, trade openness, the degree of employer coordination and the involvement of social partners in policymaking<sup>10</sup>. To control for within-country variation in ‘problem pressure’, I include an item for the logged number of *Unemployed and inactive* individuals from ages 15–64. I also include controls for *Real GDP* at constant 2005 prices, *Real GDP growth*, *Government deficit* and *Government debt*. The indicator of GDP is retrieved from Eurostat (2015b); data on unemployment and inactivity come from the EU Labor Force Survey (Eurostat, 2015c); and the other variables are provided by Armingeon *et al.* (2015). I also control for the *Number of programs* that are operating in the country during a particular year because—all other things being equal—the more ALMP programs in place at the same time, the smaller each individual program is likely to be. Lastly, I add year dummies to control for possible common temporal shocks.

To assure full comparability between models with and without a lagged dependent variable, I also leave out the first observation of each panel in the models without a lagged dependent variable to attain an identical sample for both types of models. After excluding the few programs for which one or more interruptions exist in the time series, I end up with a main sample of approximately 5,600 program-years nested in nearly 900 programs, which are nested in 28 countries<sup>11</sup>. Descriptive statistics for all included variables are reported in Appendix I, Table 4. Table 5 in Appendix I documents how the observations are distributed across countries and years, and Table 6 shows how the data are structured by presenting a detailed description of two observations from two different programs in different countries.

#### 4. Estimation strategy and results

This section reports the results from a set of models that can all be represented—with various restrictions—with the same general equation:

$$Y_{pct} = \gamma Y_{pct-1} + \alpha_p + \beta L_{ct} + \lambda' P_{pct} + \theta'(L_{ct} \times P_{pct}) + \rho' C_{ct} + \varepsilon_{pct} \quad (1)$$

Here,  $Y_{pct}$  is the *Scope* of program  $p$  in country  $c$  in year  $t$ ;  $Y_{pct-1}$  is its first lag; and  $\alpha_p$  is a program-specific intercept.  $L_{ct}$  is *Left-wing government strength* in country  $c$  in year  $t$ ;  $P_{pct}$  is a vector of program-level variables;  $\lambda$  is a vector of the main effects of these variables; and  $\theta$  is a vector of the effects of the interaction between  $L_{ct}$  and each of the variables in  $P_{pct}$ .  $C_{ct}$  is a vector of time-varying, country-level controls;  $\rho$  is a vector of the effects of those controls; and  $\varepsilon_{pct}$  is the error term.

Because the program-fixed effects included in these models do not necessarily completely control for within-cluster correlation (Cameron and Miller, 2015), I use cluster-robust standard errors whenever possible. As the more conservative option for nested data involves clustering on a higher level, I cluster on the 28 countries included rather than on the program level.

A Breusch-Pagan LM test confirms that considerable between-program heterogeneity exists in the data and that a random effects or fixed effects model is thus preferable to pooled OLS regression. Hausman tests performed on various model specifications consistently reject one of the key assumptions underpinning the random effects model, i.e., that all independent variables are uncorrelated with the residuals. Therefore, I opt for the consistent—although less efficient—fixed effects model, which only makes use of within-program variation.

Model 1 in Table 2 reports that, on average, *Left-wing government strength* has a positive and statistically significant effect on the *Scope* of ALMP programs when the country- and program-level factors discussed above are controlled for and all potential interactions are restricted to zero. However, the positive coefficients for the two interaction terms included in Model 2 seemingly indicate that the effect of left-wing power varies between programs in line with the hypotheses. To rule out any suspicion that these results are driven by confounding interactions between *Left-wing government strength* and program category, Model 3 controls for that risk by adding four additional interaction terms<sup>12</sup>. Including them does not drastically alter the results<sup>13</sup>.

[Insert table 2 here]

[Table 2: Regression results]

Table 2: Regression Results

	(1)	(2)	(3)	(4)	(5)
Lagged dependent variable				0.60*** (0.04)	0.71*** (0.02)
Left-wing government strength	0.48*** (0.16)	-0.43** (0.20)	-0.36* (0.19)	-0.30** (0.12)	-0.27** (0.12)
Core target group × Left-wing gov.		0.51*** (0.13)	0.47*** (0.17)	0.34*** (0.10)	0.34*** (0.09)
Broken unemployment × Left-wing gov.		0.74*** (0.18)	0.80*** (0.20)	0.49*** (0.16)	0.42*** (0.11)
<i>Country-level controls</i>					
Real GDP	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00** (0.00)	-0.00*** (0.00)
Real GDP growth	0.06*** (0.02)	0.06*** (0.02)	0.06*** (0.02)	0.03*** (0.01)	0.03*** (0.01)
Unemployed & inactive (log)	1.25** (0.51)	1.37** (0.50)	1.35*** (0.48)	1.25*** (0.35)	1.20*** (0.26)
Government deficit	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.00 (0.00)	-0.00 (0.01)
Government debt	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00** (0.00)	-0.00** (0.00)
Number of running programs	-0.00 (0.01)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
<i>Program-level controls</i>					
Core target group	-0.31* (0.15)	-0.50*** (0.14)	-0.47*** (0.15)	-0.30*** (0.10)	-0.30*** (0.09)
Broken unemployment	-0.07 (0.17)	-0.21 (0.16)	-0.22 (0.16)	-0.07 (0.11)	-0.06 (0.10)
Employment incentives × Left-wing gov.			-0.13 (0.19)	-0.05 (0.11)	-0.02 (0.11)
Sheltered empl. & rehab. × Left-wing gov.			-0.55** (0.27)	-0.33* (0.19)	-0.27* (0.14)
Direct job creation × Left-wing gov.			0.48 (0.53)	0.32 (0.30)	0.29** (0.15)
Start-up incentives × Left-wing gov.			-0.12 (0.37)	-0.07 (0.37)	-0.01 (0.20)
Constant	-10.23 (7.68)	-11.62 (7.51)	-11.40 (7.27)	-14.48** (5.24)	
Program-fixed effects	Yes	Yes	Yes	Yes	Yes
Year-fixed effects	Yes	Yes	Yes	Yes	Yes
<i>N</i>	5652	5652	5652	5652	5652
Programs	888	888	888	888	888

Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Model 1–4: Cluster-robust standard errors (clustered at the country level).

Model 5: Bootstrapped standard errors. Bias correction initialized by Arellano and Bond estimator (Bruno 2005).

The coefficients estimated in a panel-data fixed effects model without a lagged dependent variable, such as Model 3—for which the identifying assumption is that all potential confounders are time-invariant—tend to be too large if time-varying confounders are also present (Angrist and Pischke, 2009, ch. 5.4). Because inflated coefficients cannot be ruled out in the present case, Model 4 includes a lagged dependent variable. Consequently, all the coefficients of interest are reduced substantially. Now, as first noted by Nickell (1981), OLS estimates from models with both fixed effects and a lagged dependent variable tend to be biased due to the correlation between the lagged dependent variable and the error term. Therefore, the main model, Model 5, applies a version of the bias-corrected LSDV estimator (LSDVc) (Kiviet, 1995), which has been found to be reasonably accurate when evaluated on unbalanced, short panels, such as those in the data used here (Flannery and Hankins, 2013). The coefficients of interest in Model 5 are slightly smaller than those in Model 4, and, because the LSDVc estimator developed by Bruno (2005) only reports bootstrapped standard errors, these standard errors are markedly smaller for some coefficients than the cluster-robust standard errors used in the other models. However, even if standard errors of a similar size to those in Model 4 were applied to the corresponding coefficients in Model 5, the statistical significance of the coefficients of interest would remain.

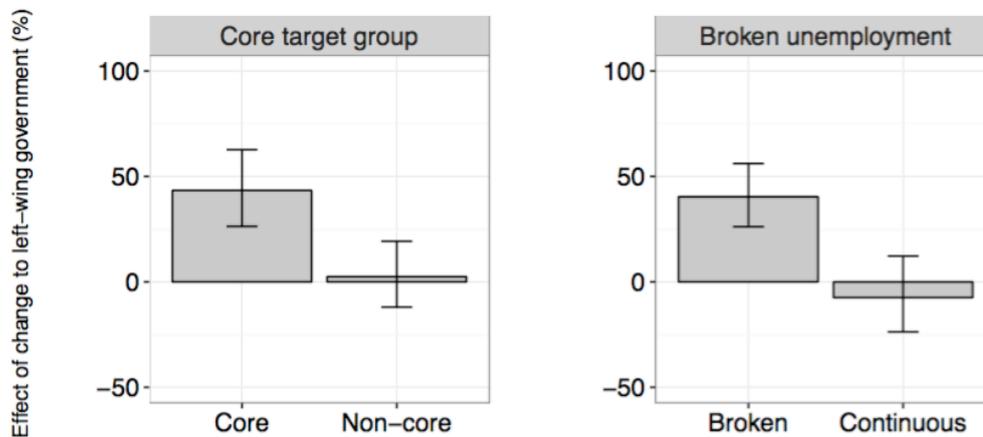
Although the positive and strongly significant interaction effects reported from all models in Table 2 lend preliminary support to both hypotheses, a closer examination of how *Left-wing government strength*'s estimated effect on program *Scope* varies between programs with different characteristics is needed before any conclusions can be drawn. The results of such an examination, based on the estimates from Model 5, are presented graphically in Figure 1.

Whereas the coefficients for all the independent variables reported in Table 2 represent effects on the exponent of the natural logarithm of *Scope*, Figure 1 plots exponentiated effects that allow a more straightforward interpretation. Each bar represents an estimate of the average percentage change in the *Scope*—i.e., the average change in the participant stock—of an ALMP program that results from a ‘full’ cabinet change from a cabinet in which left-wing parties hold no seats to one in which they hold all seats—conditional on the particular program characteristic of interest and with all other variables set at their means.

[Insert figure 1 here]

[Figure 1: Partial conditional effects of left-wing government on ALMP ‘effort’]

Figure 1: Partial, Conditional Effects of Left-Wing Government on ALMP ‘Effort’



Note: Partial effects of a full change to *Left-wing government* on *Scope* conditional on a program characteristic, with all other variables held at their means. Error bars denote a 95 percent confidence interval. All effects are estimated from Model 5. Raw effect estimates, standard deviations and p-values are reported in Appendix I, Table 7.

First, consider the bar on the left in the panel on the left. It indicates that, for a program that targets only ‘core’ groups, the estimated average effect of a change of government is a 43-percent increase in *Scope*<sup>14</sup>. In contrast to this rather substantial effect, the bar on the right in the panel on the left shows that the estimated effect of *Left-wing government strength* on *Scope* for programs that target ‘non-core’ groups is only 2 percent and far from being statistically significant. These results strongly corroborate hypothesis  $H_1$ .

As shown in the panel on the right, a full shift to a left-wing government is estimated to have a considerable effect on programs that entail a broken unemployment spell. For an average program with this feature, the estimated effect is a 40-percent increase in *Scope*. For programs that do not break the unemployment spell, the effect is –8 percent, which is in the hypothesized direction but not large enough to be statistically significant. Taken together, these results lend fairly strong support to hypothesis  $H_2$ .

In sum, the overall results provide evidence of substantial heterogeneous partisan effects on the governments’ ALMP ‘effort’ in programs with varying characteristics, which is in line with the theoretical argument outlined above. An identical set of models applied to the logged annual program *Expenditure*, reported in Appendix II, Table 8, produce coefficients that are only slightly smaller than those for *Scope* in Table 2 and that are all significant to the same extent. Additional models of *Scope* reported in Appendix II, Tables 9–12 suggest that the results are robust to a

number of sample adjustments and to other measures of left-wing power. Moreover, as reported in Appendix II, Table, 13, with one interesting exception<sup>15</sup>, the estimates also are found to be in the same direction and of a similar or larger value when the sample is split into five country clusters: Scandinavian, Continental, Anglo-Saxon, Southern, and Central and Eastern European. Although the coefficients in these models are not significant in most cases, they provide a preliminary indication that no particular welfare regime drives the results.

## 5. Concluding discussion

The argument advanced in this study differs from those in all three dominant strands of the large-*N* comparative ALMP literature reviewed above. Whereas the historically dominant ‘power resources’ account holds that ALMPs are primarily promoted by the left (Esping-Andersen, 1990; Janoski, 1990; Janoski, 1994; Rothstein, 1996; Boix, 1998; Huo *et al.*, 2008), the results presented here show that, for programs that target groups outside the ‘core’ of the labor force—which accounted for up to 40 percent of the observations—right-wing governments are just as expansionary as left-wing governments.

In addition, the results are also at odds with the understanding of ALMP advanced in ‘insider/outsider’ perspective that Rueda (2005, 2006, 2007) introduced as a critique of the ‘power resources’ approach. At first glance, the positive interaction effect found between left-wing strength and ALMP ‘effort’ in programs that target people at the ‘core’ of the labor force seems to corroborate Rueda’s (2005, 2006, 2007) ‘insider/outsider’ hypothesis and the ‘left party disinvestment thesis’ introduced by Tepe and Vanhuysse (2013). However, the size of the interaction effect reported in Figure 1 indicates that right-wing governments match—but do not exceed—left-wing governments’ commitment to programs that also target ‘non-core’ groups. This study thus provides no evidence that left-wing governments cater less to the interests of ‘outsiders’ than right-wing governments.

My understanding of why the ‘power resources’ approach and the ‘insider/outsider’ approach ascribe different ALMP preferences to parties with different ideologies is that these approaches make different implicit assumptions about the overall objective of such policies. On the one hand, in the ‘power resources’ account, ALMPs aim to reduce and/or prevent open unemployment—whereby they are expected to strengthen the position of organized labor; on the other hand, in the ‘insider/outsider’ account, ALMPs seek to bring outsiders into the labor market—whereby they are expected to challenge the status of the generally better-organized workers at the ‘core’ of the labor

force. The present study reconciles these perspectives by stressing that ALMPs can serve either purpose.

In line with the ‘power resources’ account, left-wing governments are more inclined to expand two types of programs: those that seek to reduce or prevent unemployment among people at the ‘core’ of the labor force and those for which enrollment implies a temporary exit from open unemployment. In addition, in line with the ‘insider/outsider’ approach, left-wing parties do indeed cater to the interests of ‘core’ groups (by targeting them with ALMPs). However, this study finds that left-wing and right-wing governments are equally inclined to expand programs that also aim to increase the labor market participation of ‘non-core’ groups, which is at odds with the ‘insider/outsider’ approach. As increased labor supply is conducive to growth, the results are in line with Boix’s (1998, p. 11) basic argument that all parties have a preference for growth-enhancing policies, although the results do not support his assertion that right-wing governments “reject any sort of public capital formation policies” (to which Boix counts human capital-enhancing ALMPs).

Insofar as these results indicate that right-wing governments in the present days are more inclined to channel public resources toward training, employment subsidies, and other human capital-enhancing policies for marginal groups as a means of increasing their labor supply (instead of relying on traditional tax-reducing strategies alone), they perhaps corroborate the third strand of the literature, which argues that policy convergence has occurred in recent decades (Lindvall, 2010; Bonoli, 2013; Tepe and Vanhuyse, 2013; Nelson, 2013). However, the results clearly suggest that it is too soon to conclude, as some do, that partisan politics have lost their relevance in the ‘post-activation turn’ welfare state. Instead, the results illustrate how a traditional ideological conflict extends into the realm of ALMP programs and finds new expressions in their detailed policy settings. As such, comparative scholars need to move beyond measures of aggregate spending and more closely examine the ways in which a government that is elected to administer a modern welfare state can re-calibrate (rather than revoke) the large policy portfolios that it inherits to serve its own particular objectives.

Notably, the design of the present study—which, to achieve a reliable identification strategy, only exploits within-country variation—is limited because it produces effect estimates that are averaged across countries. As recent studies have reported cross-country variation in the effect of partisanship on ALMP (e.g., Vlandas, 2013), a more comprehensive exploration of how the party preferences theorized in the present study might vary across institutional environments seems like a promising endeavor for future research. The EU’s possible influence on the ALMP portfolios of its member

states—particularly those in Central and Eastern Europe and those affected by the new stricter fiscal rules of the EMU—also deserves further investigation. Lastly, more research into the political determinants of the composition of the ALMP program portfolios is needed. Under what circumstances are programs with different characteristics established, recast, and eventually shut down? The ample and still largely unused data in the EU LMP database might very well hold the answers to those and similar questions.

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## Endnotes

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<sup>1</sup> For a more detailed review of most of these studies, see Tepe and Vanhuyse (2013).

<sup>2</sup> A description of the traditional categories of ALMP programs is provided in Appendix I, Table 3.

<sup>3</sup> For *training* programs, Nelson (2013) finds a positive effect, whereas Tepe and Vanhuyse (2013) and Vlandas (2013) find none. For *direct job creation* programs, Tepe and Vanhuyse (2013) find a negative effect; Vlandas (2013) finds none; and Nelson (2013) finds a positive effect prior to the ‘activation turn’. For *employment incentives*, Nelson (2013) finds a positive effect; Tepe and Vanhuyse (2013) find none; and Vlandas (2013) finds a negative effect.

<sup>4</sup> In Furåker’s (1976, p. 106) classification scheme, direct job creation, start-up incentives and early retirement measures serve to reduce unemployment but not labor shortages, whereas measures to increase the labor market participation of people who are not currently in the labor force and to expand labor immigration serve to reduce labor shortages but not unemployment. Moving grants and certain types of labor market training, as well as most placement services, serve to reduce both unemployment and labor shortages by improving matching. Some labor market policy measures, including unemployment benefits and general placement services for people who are already employed, serve none of the purposes.

<sup>5</sup> One example is the Italian ‘work-entry contract’, *Contratto di inserimento lavorativo*, through which employers can provide apprenticeships to youth and certain categories of disadvantaged workers, such as the long-term unemployed, the disabled, and women who live in problem areas (European Commission, 2015).

<sup>6</sup> In some analyses (for instance Thelen, 2014, ch. 4), STW schemes are explicitly distinguished from ALMP schemes, based precisely on their distinct target groups. This approach is unfortunate for two reasons: First, it relies on the unverified assumption that all other ALMPs target ‘outsiders’. Second, it does not fit well with the way that these policies are reported and aggregated in the widely used labor-market policy databases, which also include programs that target the ‘employed at risk of unemployment’, such as STW programs (Grubb and Puymoyen, 2008; Eurostat, 2013).

<sup>7</sup> Thus, programs that target people who are not already participating in the labor force might even *increase* the unemployment rate, to the extent that people begin to supply their labor but fail to find employment.

<sup>8</sup> Residual analyses presented in Appendix II, Figure 2 confirm that this operation is essential: the residuals from the regressions approximately follow a normal distribution only if the dependent variable is log-transformed.

<sup>9</sup> One example is the recruitment subsidy *nystartsjobb*, established in Sweden in 2007. Eligible participants include not only the registered unemployed but also anyone who has been absent from the labor market for a long time (typically for more than one year) or who is a newly arrived immigrant (European Commission, 2015).

<sup>10</sup> The program-level fixed effects also mitigate the plausible concern that not all parties classified as left-wing parties across the 28 countries are necessarily positioned farther to the left on the left–right continuum than all right-wing parties. Because only within-country information is used in all models, only the relative position of left-wing and right-wing parties within each country is important for this indicator of left-wing strength to spare this study from such concerns.

<sup>11</sup> To be precise, a few dozen programs are divided into two or more components because a single program might comprise expenditure and participant data that need to be divided between more than one program category. Here, each of these component is treated as a separate unit of observation.

<sup>12</sup> The main effects of *Core target group* and *Broken unemployment*, unlike those of the four program categories, are not fully absorbed by the program-fixed effects because considerable within-program variation exists in these policy settings over time.

<sup>13</sup> For the sake of parsimony, no model includes the interactions between the program category and *Core target group* or between the program category and *Broken unemployment*, as all eight are insignificant.

<sup>14</sup> The exponentiated effect of coefficient  $\beta$  is calculated by taking the base of natural logarithm,  $e$ , to the power of  $\beta$ . As the estimated marginal effects of a change to a *Left-wing government* on *Scope* for a program with a *Core target group* is 0.360 in Model 5, the exponentiated effect is  $e^{0.360} = 1.434$ .

<sup>15</sup> In continental countries, *Broken unemployment*  $\times$  *Left-wing government strength* is markedly smaller.

## Appendix I: Supplementary Data

Table 3 provides descriptions of the six traditional ALMP program categories and statistics on the share of observations in each category that has *Core target group* and *Broken unemployment* characteristics respectively. Table 4 presents summary statistics for all the baseline variables included in the models. Table 5 reports how the observations are distributed across countries and years. Table 6 illustrates the structure of the data set by presenting all the utilized program-year level data for two observations of two different programs—one in Sweden and one in Germany. Table 7 reports in more detail the partial conditional effects of *Left-wing government strength* on *Scope* that are presented in Figure 1.

Table 3: Distribution of Program Characteristics across ALMP Program Categories

Category	Description	Obs.	Characteristics (%)	
			Core target group	Broken unemployment
<i>Training</i>	Covers measures that aim to improve the employability of participants through training. The measures should include some evidence of classroom teaching or supervision, specifically for the purpose of instruction. Short courses that only develop a person's ability to get a job are considered <i>labor market services</i> and fall outside this category.	1,979	48	63
<i>Employment incentives</i>	Covers measures that facilitate the recruitment of unemployed persons and other target groups or help ensure the continued employment of persons at risk of involuntary job loss. It refers to subsidies for open market jobs that might exist or be created without the public subsidy and that will hopefully be sustainable after the end of the subsidy period.	1,888	72	84
<i>Sheltered and supported employment and rehabilitation</i>	Covers measures that aim to promote the labor market integration of persons with reduced working capacity through sheltered or supported employment or through rehabilitation.	702	45	64
<i>Direct job creation</i>	Covers measures that create additional jobs, usually of community benefit or social use, to find employment for the long-term unemployed or persons otherwise difficult to place. It refers to subsidies for temporary, non-market jobs that would not exist or be created without public intervention.	708	75	70
<i>Start-up incentives</i>	Covers measures that promote entrepreneurship by encouraging the unemployed and other target groups to start their own business or to become self-employed. Assistance may take the form of direct cash benefits or indirect support including loans, provision of facilities, and business advice.	375	61	91
<i>Labor market services</i>	Services refers to labor market interventions where the main activity of participants is job-search related and where participation usually does not result in a change of labor market status. Services also cover functions of the Public Employment Service that are not directly linked to participants, such as services for employers, administrative functions and general overheads.	-	-	-
Sum		5,652	60	73

Source: Eurostat (2013), European Commission (2015). The EU LMP database also includes the two other categories *Out-of-work income maintenance and support* and *Early retirement*. These LMP categories are usually referred to as 'support' schemes or 'passive' schemes.

Table 4: Summary statistics

Variable	Mean	Std. Dev.	Min.	Max	N
<i>Dependent variables</i>					
Scope	7.84	2.46	0	14.84	5652
Expenditure	2.40	2.69	-4.77	8.81	6984
<i>Country-level variables</i>					
Left-wing government strength	0.35	0.34	0	1	5652
Real GDP	6.6E+7	8.0E+7	6.1E+5	3.1E+8	5652
Real GDP growth	1.72	3.1	-14.81	11.62	5652
Unemployed & inactive (log)	14.84	1.29	11.58	16.78	5652
Government deficit	-1.99	4.73	-32.55	18.7	5652
Government debt	68.94	32.7	7.23	143.97	5652
Number of running programs	32.52	15.61	3	64	5652
<i>Program-level variables</i>					
Core target group	0.60	0.49	0	1	5652
Broken unemployment	0.73	0.45	0	1	5652
Training	0.35	0.48	0	1	5652
Employment incentives	0.33	0.47	0	1	5652
Sheltered employment & rehabilitation	0.12	0.33	0	1	5652
Direct job creation	0.13	0.33	0	1	5652
Start-up incentives	0.07	0.25	0	1	5652

Table 5: Distribution of Program-year Observations across Countries and Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total	Count of Programs	
Austria	16	18	20	20	19	18	19	19	19	19	19	20	20	20	20	286	26	
Belgium	23	27	31	28	31	30	31	33	46	50	56	57	54	54	53	604	72	
Bulgaria								22	26	26	26	29	24	30	29	30	242	49
Cyprus									5	11	6	8	14				44	21
Czech Republic					6	7	8	10	10	11	11	9	9	9	9		99	13
Denmark	14	15	14	13	14	12	12	12	11	11	12	10	11	11			172	22
Estonia					2	1	2	4	4	4	4	6	7	9	9		48	9
Finland	17	17	17	18	18	18	17	15	18	17	17	17	17	17	17		257	19
France	26	27	26	28	28	29	30	32	28	32	31	31	27	26			401	61
Germany	18	19	19	23	27	28	35	38	40	43	40	43	39	32	35		479	73
Greece	4	8	5	1					20	37	5	11					91	59
Hungary						10	10	11	11	11	12	15	11	11			102	20
Ireland	18	17	18	15	16	16	15	15	15	15	15	17	17	18	18		245	29
Italy	16	18	29	32	33	33	33	33	28	26	23	19	19	22	19		383	43
Latvia						9	6	10	7	7	5	8	10	8	7		77	28
Lithuania						6	6	7	7	7	7	7	7	7	7		68	12
Luxembourg		8	8	9	11	12	12	12	12	14	14	14	15	14			155	17
Malta									4	5	6	5	9	11			40	16
Netherlands	12	13	13	14	17	16	12	13	8	9	8	7	9	9	7		167	21
Norway	17	17	16	15	15	16	15	15	15	14	9	10	11	11	11		207	24
Poland								19	21	20	23	25	25	24			157	27
Portugal	15	20	24	26	24	22	20	28	29	27	28	35	33	32	32		395	61
Romania						10	12	12	14	14	13	14	14	13			116	15
Slovakia							6	8	9	8	15	16	17	15	17		111	22
Slovenia								13	16	11	16	18	22	18	19		133	45
Spain	9	9	16	14	14	14	10	10	13	13	14	14	14	14			178	24
Sweden	21	23	21	22	19	19	19	18	23	25	24	25	26	25	27		337	51
United Kingdom	1	5	5	5	6	6	6	5	6	5	6	2					58	9
Total	227	261	282	283	298	333	357	416	465	492	468	487	487	459	337	5652	888	

Table 6: Comparison of Two Program-year Observations from Two ALMP Programs

Observation ID	SE84 2008	DE16 2008
Name in English	New start jobs	Recruitment subsidy for new businesses
Name in national language	Nystartsjobb	Einstellungszuschuss für Arbeitslose bei Neugründungen
Intervention ID (panel ID)	SE84	DE16
Year	2008	2008
Country	Sweden	Germany
Program category	4. Employment incentives	4. Employment incentives
Year started	2007	1998
Year ended	– (ongoing as of 2013)	2010
Target groups		
<i>Registered unemployed</i>	All; LTU; Disabled; Immigrants/Ethnic min.	All; Public priorities and other
<i>Other registered jobseekers</i>	All; Disabled; Immigrants/Ethnic min.	–
<i>Not registered</i>	All; Disabled; Immigrants/Ethnic min.	–
<i>Employed</i>	–	–
Core target group	Non-core	Core
Treatment of unemployment spell	Broken	Broken
Scope (Participant-years)	15,921	4,655
Expenditure (M €, 2005 prices)	77.6	50.1
ln(Scope)	ln(15,921) = 9.68	ln(4,655) = 8.45
ln(Expenditure)	ln(77.6) = 4.35	ln(50.1) = 3.91

Source: European Commission (2015).

Table 7: Partial Conditional Effects of Left-Wing Government on ALMP ‘Effort’

Program Characteristic	$\Delta y/\Delta x$	Std. Dev.	$p$ -value	Exp( $\Delta y/\Delta x$ )
Core	0.360	0.064	0.000	1.434
Non-core	0.024	0.078	0.753	1.025
Broken	0.339	0.054	0.000	1.403
Continuous	-0.077	0.098	0.432	0.926

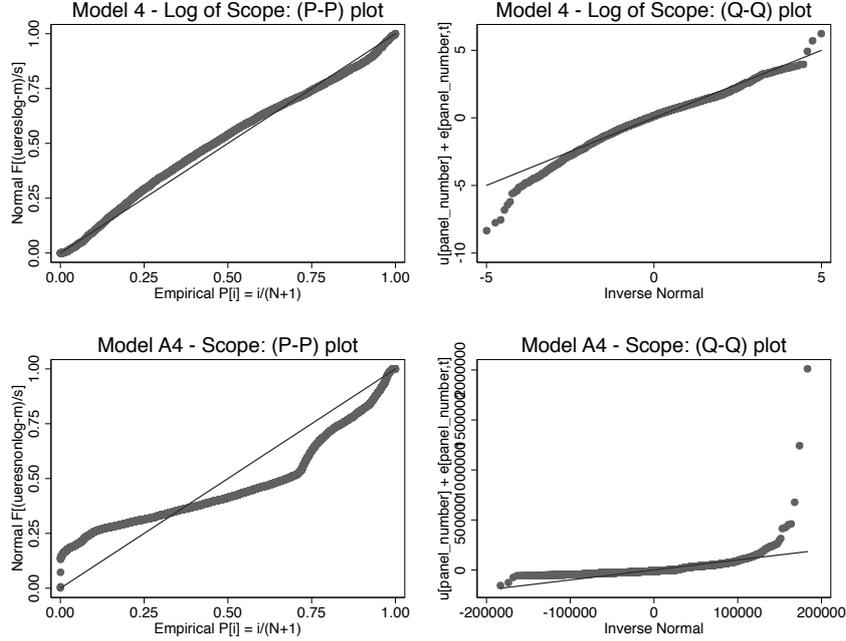
Effects of a change from 0 to 100 % left-wing cabinet seats, with all other variables at their means. Estimations produced from Model 5.

## Appendix II: Robustness Checks and Extensions

Tables 8–13 below report a set of alternative model specifications that – unless otherwise noted – are versions of Model 4, Table 2 (chosen for this exercise over Model 5 due to its slightly more conservative standard errors). Brief comments are provided here:

1. Models E1–E5, Table 8, are identical to those in Table 2 but are applied to the logged annual program *Expenditure* instead of *Scope*. The model with lagged dependent variable (E4) and the LSDV(c) model (E5) both produce coefficients of interest that are only slightly smaller than those for *Scope* and still statistically significant.
2. In model A1, Table 9, the sample is extended also to labor market programs that are not typically classified as ALMP measures: *labor market services*, *out-of-work income maintenance and support*, and *early retirement*. The coefficients of interest are slightly reduced but still significant to the same extent.
3. Model A2 excludes all programs that have an average cost per participant-year that is less than the median cost per participant-year among all observations in the country. This is to address the possible validity concern that low-cost programs might not be of much value to the participants, and that therefore they should not be considered beneficial to its target group. The coefficients of interest are slightly changed and precision is somewhat reduced, but overall the pattern holds.
4. In model A3 the observation for the year following the year in which the program was started is dropped for those programs that were established during the observed period (the start year for these program was already dropped due to the inclusion of a lagged dependent variable) to control for systematically lower *Scope* due simply to the fact that the program is new). All results are intact.
5. Model A4 is identical to Model 4, but is applied to the non-transformed dependent variable, i.e. the average participant stock. All coefficients of interest have the same sign as in Model 4, but most t-tests are insignificant. However, from Figure 2 which compares the residuals from Model 4 (upper panels) to those from Model A4 (lower panels) we learn that the residuals from the latter are strongly violating the Normal distribution assumption; thus this model’s t-statistics cannot be trusted.
6. In model A5, Table 10, the measurement of *left-wing government strength* used above is substituted for a dichotomous variable indicating whether or not the government is dominated by left-wing parties (at least 66.6 left-wing cabinet seats) (Armingeon et al. 2015). Coefficients are slightly reduced but the results hold.
7. in model A6, Table 11, the measurement of *Left-wing government strength* used above is substituted for an indicator on the parliamentary seat share of social democratic and other left parties in government, weighted by the number of days in office

Figure 2: Comparison of Normality of Residuals in Model 4 and Model A4



in a given year. The results are robust to this change: the interaction effects of interest are even substantially increased.

8. In model A7, Table 12, *Left-wing government strength* is replaced by an analogous indicator of right-wing strength (Armingeon et al. 2015). Whereas the coefficient for the *Broken unemployment*  $\times$  *Right-wing government* interaction is unaffected, *Core target group*  $\times$  *Right-wing government* drops below significance. One interpretation of this finding is that center parties tend to behave more like right-wing parties with respect to *Core target group* than with respect to *Broken unemployment*.
9. Models A8–A12, Table 13, split the sample into five country clusters to assess whether any particular welfare regime drives the results. Precision is reduced in most models, but with few exceptions – notably that *Broken unemployment*  $\times$  *Left-wing government strength* is smaller for the Continental countries – the estimates are in the same direction and of a similar or larger size.
10. In Table 14, lastly, I opt for an approach similar to that of most studies in the field, by providing four models where the total expenditure for programs with varying characteristics is aggregated to the country-year level and expressed as % of (one ppm of) GDP. For the sake of familiarity, I follow Vlandas (2013) by applying OLS regression with panel-corrected standard errors and Prais–Winstone transformation. Though precision is low due to the low  $N$  of 324, there is clear indication of left-wing effects in line with the hypotheses.

Table 8: Regression Results for Dependent Variable: *Expenditure*

	(E1)	(E2)	(E3)	(E4)	(E5)
Lagged dependent variable				0.59*** (0.03)	0.69*** (0.01)
Left-wing government strength	0.56*** (0.10)	-0.02 (0.23)	0.07 (0.22)	-0.08 (0.17)	-0.11 (0.12)
Core target group × Left-wing gov.		0.20 (0.19)	0.18 (0.22)	0.30** (0.11)	0.30*** (0.08)
Broken unemployment × Left-wing gov.		0.58** (0.21)	0.63*** (0.20)	0.37** (0.16)	0.35*** (0.10)
<i>Country-level controls</i>					
Real GDP	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00* (0.00)	-0.00*** (0.00)
Real GDP growth	0.02 (0.02)	0.02 (0.01)	0.02 (0.01)	0.02 (0.01)	0.02*** (0.01)
Unemployed and inactive (log)	1.39** (0.63)	1.44** (0.63)	1.39** (0.63)	1.50*** (0.36)	1.56*** (0.21)
Government deficit	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.01 (0.01)	-0.01 (0.01)
Government debt	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)	-0.01*** (0.00)
Number of programs in operation	-0.01 (0.00)	-0.01 (0.00)	-0.01 (0.00)	-0.00* (0.00)	-0.00* (0.00)
<i>Program-level controls</i>					
Core target group	-0.23* (0.13)	-0.31** (0.13)	-0.28** (0.13)	-0.25*** (0.07)	-0.25*** (0.08)
Broken unemployment	0.03 (0.13)	-0.08 (0.12)	-0.10 (0.12)	-0.05 (0.08)	-0.04 (0.11)
Employment incentives × Left-wing gov.			-0.18 (0.14)	-0.09 (0.12)	-0.06 (0.11)
Sheltered empl. and rehab. × Left-wing gov.			-0.48** (0.17)	-0.33*** (0.11)	-0.30** (0.14)
Direct job creation × Left-wing gov.			0.42 (0.47)	0.32 (0.30)	0.31** (0.13)
Start-up incentives × Left-wing gov.			-0.30 (0.41)	-0.16 (0.27)	-0.15 (0.14)
Constant	-17.58* (9.36)	-18.10* (9.36)	-17.44* (9.42)	-20.26*** (5.47)	
Program-fixed effects	Yes	Yes	Yes	Yes	Yes
Year-fixed effects	Yes	Yes	Yes	Yes	Yes
<i>N</i>	6984	6984	6984	6984	6984
Programs	1060	1060	1060	1060	1060

Standard errors in parentheses. \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Model 1–4: Cluster-robust standard errors (clustered at the country level).

Model 5: Bootstrapped standard errors. Bias correction initialized by Arellano and Bond estimator (Bruno 2005).

Table 9: Alternative Model Specifications of *Scope* (1/4)

	(A1)	(A2)	(A3)	(A4)
Lagged dependent variable	0.62*** (0.04)	0.58*** (0.05)	0.72*** (0.06)	0.69*** (0.01)
Left-wing government strength	-0.22* (0.11)	-0.14 (0.22)	-0.28** (0.11)	-8986.24** (3278.47)
Core target group $\times$ Left-wing gov.	0.26*** (0.08)	0.31* (0.17)	0.29*** (0.09)	6903.62 (4739.66)
Broken unemployment $\times$ Left-wing gov.	0.47*** (0.13)	0.48** (0.19)	0.46*** (0.14)	10546.83** (4205.56)
<i>Country-level controls</i>				
Real GDP	-0.00** (0.00)	-0.00*** (0.00)	-0.00** (0.00)	-0.00*** (0.00)
Real GDP growth	0.02* (0.01)	0.03** (0.01)	0.03** (0.01)	-100.92 (245.15)
Unemployed and inactive (log)	1.11*** (0.30)	1.16*** (0.41)	1.05*** (0.31)	-7394.48 (16255.73)
Government deficit	-0.00 (0.00)	-0.00 (0.01)	-0.00 (0.00)	398.86 (452.71)
Government debt	-0.00** (0.00)	-0.01*** (0.00)	-0.00*** (0.00)	-113.81 (71.06)
Number of programs in operation	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-56.69 (91.95)
<i>Program-level controls</i>				
Core target group	-0.22** (0.09)	-0.39*** (0.10)	-0.19** (0.09)	-3486.72 (2756.43)
Broken unemployment	-0.04 (0.11)	-0.10 (0.17)	-0.06 (0.10)	-190.69 (1771.03)
Labor market services $\times$ Left-wing gov.	0.28 (0.31)			
Employment incentives $\times$ Left-wing gov.	-0.04 (0.11)	-0.50* (0.27)	-0.10 (0.10)	10949.13 (9083.18)
Sheltered empl. and rehab. $\times$ Left-wing gov.	-0.32* (0.17)	-0.48** (0.20)	-0.34** (0.16)	-2113.29 (2681.74)
Direct job creation $\times$ Left-wing gov.	0.36 (0.30)	0.38 (0.47)	0.30 (0.25)	9545.56 (7187.76)
Start-up incentives $\times$ Left-wing gov.	-0.07 (0.36)	0.20 (0.37)	-0.17 (0.28)	3692.60 (10144.09)
Out-of-work income maint. $\times$ Left-wing gov.	0.07 (0.14)			
Early retirement $\times$ Left-wing gov.	0.08 (0.24)			
Constant	-12.77*** (4.46)	-12.90** (6.18)	-12.73*** (4.53)	135469.32 (242479.06)
Program-fixed effects	Yes	Yes	Yes	Yes
Year-fixed effects	Yes	Yes	Yes	Yes
<i>N</i>	7512	2712	5259	5652
Programs	1118	417	800	888

Cluster-robust standard errors in parentheses (clustered at the country level).

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 10: Alternative Model Specifications of *Scope* (2/4)

	(A5)
Lagged dependent variable	0.61*** (0.03)
Left-wing dummy	-0.18 (0.17)
Core target group $\times$ Left-wing dummy	0.25*** (0.08)
Broken unemployment $\times$ Left-wing dummy	0.41*** (0.09)
<i>Country-level controls</i>	
Real GDP	-0.00** (0.00)
Real GDP growth	0.04** (0.01)
Unemployed and inactive (log)	1.24*** (0.42)
Government deficit	-0.00 (0.00)
Government debt	-0.00 (0.00)
Number of programs in operation	-0.01** (0.00)
<i>Program-level controls</i>	
Core target group	-0.23* (0.12)
Broken unemployment	-0.05 (0.12)
Training $\times$ Left-wing dummy	-0.13 (0.27)
Employment incentives $\times$ Left-wing dummy	-0.20 (0.22)
Sheltered empl. and rehab. $\times$ Left-wing dummy	-0.29 (0.23)
Start-up incentives $\times$ Left-wing dummy	-0.11 (0.25)
Constant	-14.40** (6.16)
<i>N</i>	5630
Programs	886

Note that the *Direct job creation*  $\times$  *Left-wing dummy* is the reference category. Cluster-robust standard errors in parentheses (clustered at the country level).

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 11: Alternative Model Specifications of *Scope* (3/4)

	(A6)
Lagged dependent variable	0.60*** (0.04)
Left-wing parliamentary strength	-0.39 (0.23)
Core target group $\times$ Left-wing parl.	0.54*** (0.16)
Broken unemployment $\times$ Left-wing parl.	0.76*** (0.27)
<i>Country-level controls</i>	
Real GDP	-0.00** (0.00)
Real GDP growth	0.03*** (0.01)
Unemployed and inactive (log)	1.22*** (0.36)
Government deficit	-0.00 (0.00)
Government debt	-0.00* (0.00)
Number of programs in operation	-0.00* (0.00)
<i>Program-level controls</i>	
Core target group	-0.29*** (0.10)
Broken unemployment	-0.06 (0.11)
Employment incentives $\times$ Left-wing parl.	-0.08 (0.20)
Sheltered empl. and rehab. $\times$ Left-wing parl.	-0.52 (0.31)
Direct job creation $\times$ Left-wing parl.	0.44 (0.48)
Start-up incentives $\times$ Left-wing parl.	-0.21 (0.57)
Constant	-14.20** (5.27)
Program-fixed effects	Yes
Year-fixed effects	Yes
<i>N</i>	5652
Programs	888

Cluster-robust standard errors in parentheses  
(clustered at the country level)

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 12: Alternative Model Specifications of *Scope* (4/4)

	(A7)
Lagged dependent variable	0.61*** (0.04)
Right-wing government strength	0.16 (0.12)
Core target group $\times$ Right-wing gov.	-0.15 (0.10)
Broken unemployment $\times$ Right-wing gov.	-0.45*** (0.12)
<i>Country-level controls</i>	
Real GDP	-0.00* (0.00)
Real GDP growth	0.03** (0.01)
Unemployed and inactive (log)	1.31*** (0.43)
Government deficit	-0.00 (0.00)
Government debt	-0.00* (0.00)
Number of programs in operation	-0.01** (0.00)
<i>Program-level controls</i>	
Core target group	-0.09 (0.12)
Broken unemployment	0.31** (0.13)
Employment incentives $\times$ Right-wing gov.	0.06 (0.13)
Sheltered empl. and rehab. $\times$ Right-wing gov.	0.31* (0.16)
Direct job creation $\times$ Right-wing gov.	-0.25 (0.22)
Start-up incentives $\times$ Right-wing gov.	0.40 (0.28)
Constant	-15.65** (6.33)
Program-fixed effects	Yes
Year-fixed effects	Yes
<i>N</i>	5652
Programs	888

Cluster-robust standard errors in parentheses  
(clustered at the country level)

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Table 13: Sample Split into Five Country Clusters

	(A8)	(A9)	(A10)	(A11)	(A12)
Lagged dependent variable	0.71*** (0.07)	0.64*** (0.08)	0.64*** (0.12)	0.65*** (0.09)	0.36*** (0.04)
Left-wing government strength	-0.57 (0.39)	-0.03 (0.26)	-0.85 (1.93)	-0.63** (0.28)	-0.82** (0.39)
Core target group $\times$ Left-wing gov.	0.28 (0.23)	0.33 (0.22)	0.53 (1.13)	0.84*** (0.25)	0.27 (0.28)
Broken unemployment $\times$ Left-wing gov.	0.60* (0.32)	0.05 (0.25)	1.94 (1.51)	0.34 (0.27)	1.00*** (0.28)
<i>Country-level controls</i>					
Real GDP	0.00 (0.00)	-0.00*** (0.00)	-0.00 (0.00)	-0.00 (0.00)	0.00** (0.00)
Real GDP growth	0.03** (0.02)	-0.01 (0.02)	-0.06 (0.06)	0.09*** (0.03)	0.06*** (0.01)
Unemployed and inactive (log)	-1.10 (0.74)	0.04 (0.76)	2.77 (4.55)	0.59 (1.57)	0.74 (0.95)
Government deficit	-0.00 (0.02)	-0.03** (0.02)	0.05 (0.06)	-0.01 (0.02)	0.01 (0.02)
Government debt	0.01* (0.00)	-0.00 (0.00)	0.10 (0.08)	-0.00 (0.01)	0.02*** (0.01)
Number of programs in operation	-0.03 (0.02)	-0.00 (0.01)	0.02 (0.06)	-0.01 (0.01)	-0.00 (0.01)
<i>Program-level controls</i>					
Core target group	-0.52** (0.22)	-0.16 (0.18)	0.59 (0.73)	-0.41** (0.19)	-1.08*** (0.31)
Broken unemployment	-0.14 (0.12)	0.69** (0.34)	-0.05 (0.17)	-0.85*** (0.18)	-0.45 (0.38)
Employment incentives $\times$ Left-wing gov.	0.20 (0.34)	0.00 (0.23)	0.85 (0.96)	-0.19 (0.25)	-0.46 (0.39)
Sheltered empl. and rehab. $\times$ Left-wing gov.	-0.15 (0.24)	-0.64** (0.31)	-0.03 (0.97)	-0.13 (0.21)	-0.46 (0.38)
Direct job creation $\times$ Left-wing gov.	0.09 (0.34)	0.76** (0.32)	-0.13 (0.73)	-0.39 (0.29)	-0.13 (0.45)
Start-up incentives	-0.05 (0.25)	0.23 (0.63)	0.00 (.)	-0.05 (0.35)	-0.29 (0.42)
Constant	18.27* (10.20)	3.43 (11.60)	-40.81 (64.77)	-4.95 (23.94)	-5.73 (13.76)
Program-fixed effects	Yes	Yes	Yes	Yes	Yes
Year-fixed effects	Yes	Yes	Yes	Yes	Yes
<i>N</i>	973	2092	303	1131	1153
Programs	116	270	38	224	240

Cluster-robust standard errors in parentheses (clustered at the program level).

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ 

Model A10: Scandinavian (DK, FI, NO, SE)

Model A11: Continental (AT, BE, DE, FR, NL, LU)

Model A12: Anglo-Saxon (IE, UK)

Model A13: Southern (CY, EL, ES, IT, MT, PT)

Model A14: Central and Eastern European (BG, CZ, EE, HU, LT, LV, PL, RO, SI, SK)

Table 14: Country-year Level Models of Expenditure as % of GDP by Program Type

	(Core)	(Non-core)	(Broken)	(Continuous)
Left-wing government strength	4.40** (1.96)	-0.26 (2.29)	3.64 (2.28)	-0.02 (0.77)
Real GDP per capita	1.75 (31.86)	166.11** (74.15)	251.12*** (61.13)	13.86 (29.70)
Real GDP growth	341.56 (356.63)	11.65 (375.98)	183.09 (525.17)	-3.30 (367.54)
Unemployed & inactive (log)	247.96*** (95.24)	47.84 (149.08)	298.53** (136.91)	16.79 (61.65)
Government debt	11.92*** (3.83)	8.70* (4.73)	17.45*** (4.55)	3.90* (2.24)
Government deficit	-16.76 (15.13)	-50.26*** (15.05)	-35.73* (18.35)	-27.05*** (7.47)
Constant	-2090.81 (1387.54)	348.68 (2189.13)	-2614.40 (1917.02)	221.30 (1079.27)
<i>N</i>	324	324	324	324

Panel-corrected standard errors in parentheses.

Country-fixed effects excluded as advised by Hausman tests.

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$