11. Globalization and Reform

11.1 Structural Reforms

- Economic Crisis and Structural Reforms
- Product Market Reforms
- Labor Market Reforms

11.2 Social Spending Adjustments

- Globalization and Social Spending
  - Expenditure Limits and Program Reorganization
- Inequality and Partisan Competition

11. Globalization and Reform

11.1 Structural Reforms

- Economic Crisis and Structural Reforms
  - Why Structural Reform?
    - Economic policy constraints during recessions
      - Competitiveness ⇔ industrial policy

- Structural Reforms
  - What Determines Structural Reform?
    - Diffusion (through competition?)
    - Monetary-exchange rate policy (Calmfors vs. TINA)
      ⇔ Monetary commitment promotes regulatory reforms
    - Small states during crisis/Democracies

- Labor Market Reforms
  - Monetary stability and the end of corporatism/full employment
  - From employment protection to active labor market policies
  - An employment-inequality trade off?

11. The Effects of Mobile Capital

11.2 Social Spending Adjustment

- Globalization and Social Spending
  - Fiscal restraints
    - Limits to program expansion
    - The revenue ceiling
  - Increased demand
    - Demographic shifts (= Aging society)

- Spending Adjustments
  - Benefit Cuts and Program Reorganization
    - Unemployment, injury, and sickness leave benefits

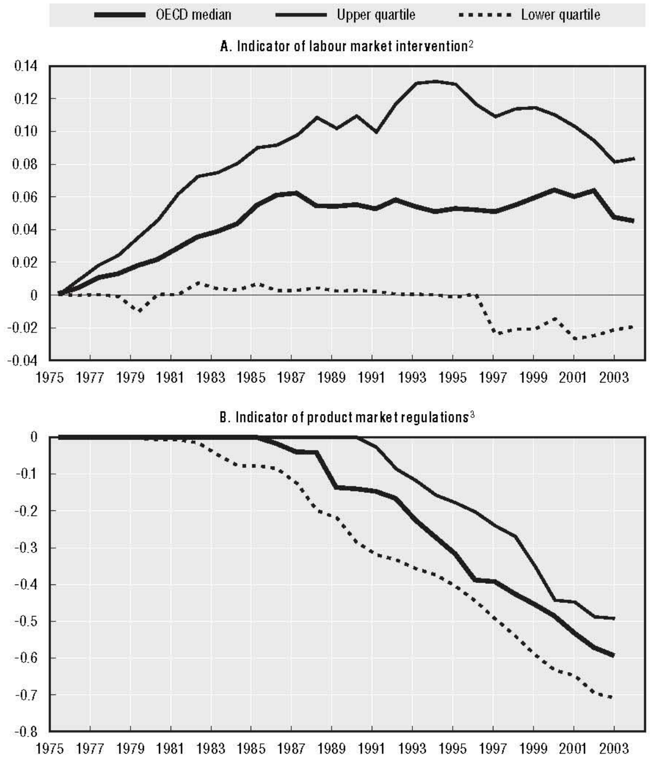
      ➔ Benefit cuts and inequality

- Inequality and Partisan Competition
  - Political theories of inequality and redistribution
  - Economic inequality and the left
    - Why left parties remain left
      - The changing inevitability of the left party-union nexus
      - Left party competition

11.1 Structural Reforms

Product and labor market regulation

Figure 1. **OECD-wide indicators of labour and product market policies**
Cumulative changes[1] from 1975 base year, distribution across countries



1. Negative changes reflect reductions in the degree of rigidities/regulations for both labour and product markets. Negative cumulative changes indicate the intensity of gradual policy reforms over time but do not take into account cross-country differences in initial conditions.
2. The indicator of labour market intervention is measured as a simple average of 4 labour market indicators: employment protection, unemployment benefit systems, implicit tax rates on continued work for older workers and the labour tax wedges. All indicators are normalised ranging from 0 to 1, expressed as per cent of maximum score across OECD countries and over time, where 1 indicates relatively most restrictive labour markets.
3. The product market indicator of regulations is measured as a simple average of regulation in 7 non-manufacturing sectors: Rail, road, airlines, gas, electricity, telecom and post. The indicators are normalised, ranging from 0 to 1, expressed as per cent of maximum score across OECD countries, where 1 reflects relatively most regulated product markets.

Diffusion of economic reform (Høj et al. *2006)*

11.1 Structural Reforms

Diffusion of economic reform

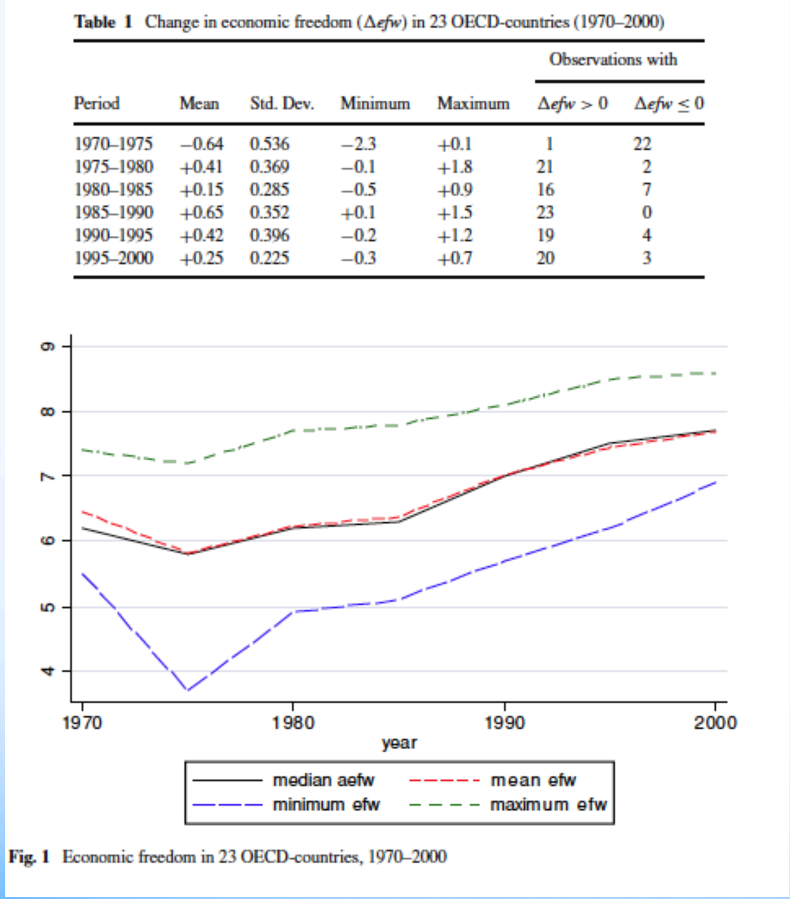


Table 1 Change in economic freedom (Δefw) in 23 OECD-countries (1970–2000)

					Observations with	
Period	Mean	Std. Dev.	Minimum	Maximum	$\Delta efw > 0$	$\Delta efw \leq 0$
1970–1975	−0.64	0.536	−2.3	+0.1	1	22
1975–1980	+0.41	0.369	−0.1	+1.8	21	2
1980–1985	+0.15	0.285	−0.5	+0.9	16	7
1985–1990	+0.65	0.352	+0.1	+1.5	23	0
1990–1995	+0.42	0.396	−0.2	+1.2	19	4
1995–2000	+0.25	0.225	−0.3	+0.7	20	3

Fig. 1 Economic freedom in 23 OECD-countries, 1970–2000

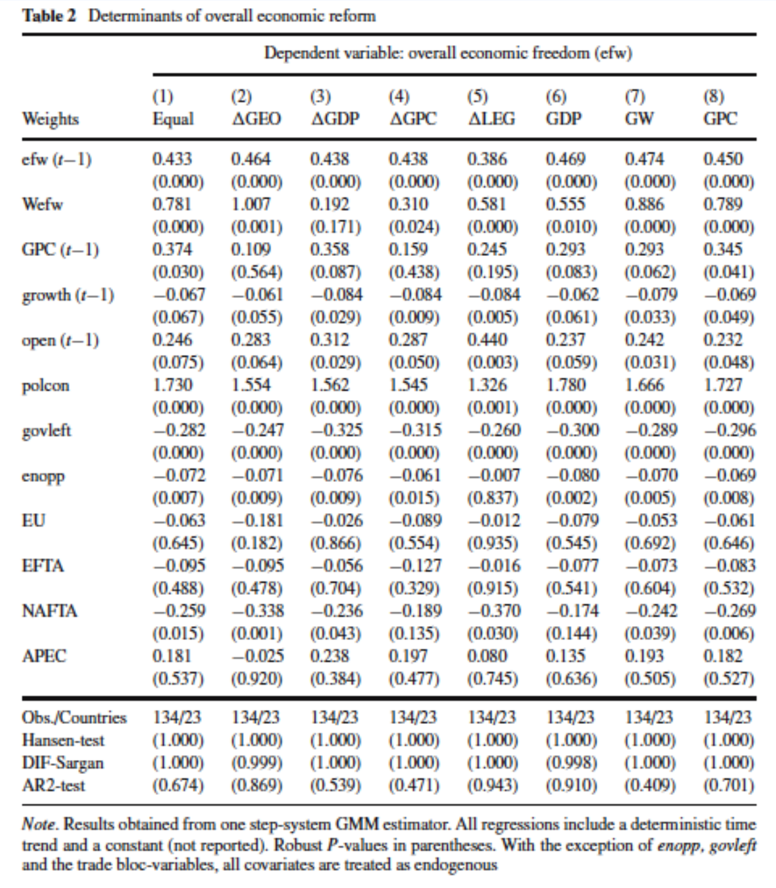


Table 2 Determinants of overall economic reform

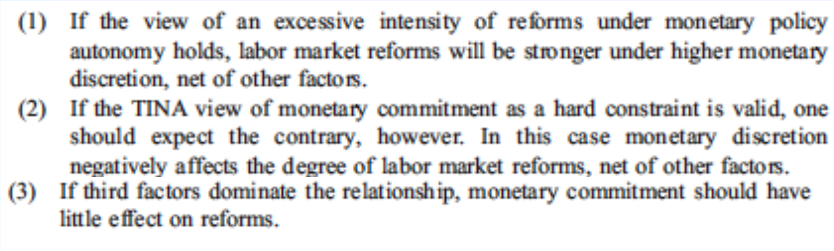
	Dependent variable: overall economic freedom (efw)							
Weights	(1) Equal	(2) ΔGEO	(3) ΔGDP	(4) ΔGPC	(5) ΔLEG	(6) GDP	(7) GW	(8) GPC
efw (t−1)	0.433	0.464	0.438	0.438	0.386	0.469	0.474	0.450
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Wefw	0.781	1.007	0.192	0.310	0.581	0.555	0.886	0.789
	(0.000)	(0.001)	(0.171)	(0.024)	(0.000)	(0.010)	(0.000)	(0.000)
GPC (t−1)	0.374	0.109	0.358	0.159	0.245	0.293	0.293	0.345
	(0.030)	(0.564)	(0.087)	(0.438)	(0.195)	(0.083)	(0.062)	(0.041)
growth (t−1)	−0.067	−0.061	−0.084	−0.084	−0.084	−0.062	−0.079	−0.069
	(0.067)	(0.055)	(0.029)	(0.009)	(0.005)	(0.061)	(0.033)	(0.049)
open (t−1)	0.246	0.283	0.312	0.287	0.440	0.237	0.242	0.232
	(0.075)	(0.064)	(0.029)	(0.050)	(0.003)	(0.059)	(0.031)	(0.048)
polcon	1.730	1.554	1.562	1.545	1.326	1.780	1.666	1.727
	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)
govleft	−0.282	−0.247	−0.325	−0.315	−0.260	−0.300	−0.289	−0.296
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
enopp	−0.072	−0.071	−0.076	−0.061	−0.007	−0.080	−0.070	−0.069
	(0.007)	(0.009)	(0.009)	(0.015)	(0.837)	(0.002)	(0.005)	(0.008)
EU	−0.063	−0.181	−0.026	−0.089	−0.012	−0.079	−0.053	−0.061
	(0.645)	(0.182)	(0.866)	(0.554)	(0.935)	(0.545)	(0.692)	(0.646)
EFTA	−0.095	−0.095	−0.056	−0.127	−0.016	−0.077	−0.073	−0.083
	(0.488)	(0.478)	(0.704)	(0.329)	(0.915)	(0.541)	(0.604)	(0.532)
NAFTA	−0.259	−0.338	−0.236	−0.189	−0.370	−0.174	−0.242	−0.269
	(0.015)	(0.001)	(0.043)	(0.135)	(0.030)	(0.144)	(0.039)	(0.006)
APEC	0.181	−0.025	0.238	0.197	0.080	0.135	0.193	0.182
	(0.537)	(0.920)	(0.384)	(0.477)	(0.745)	(0.636)	(0.505)	(0.527)
Obs./Countries	134/23	134/23	134/23	134/23	134/23	134/23	134/23	134/23
Hansen-test	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)	(1.000)
DIF-Sargan	(1.000)	(0.999)	(1.000)	(1.000)	(1.000)	(0.998)	(1.000)	(1.000)
AR2-test	(0.674)	(0.869)	(0.539)	(0.471)	(0.943)	(0.910)	(0.409)	(0.701)

Note. Results obtained from one step-system GMM estimator. All regressions include a deterministic time trend and a constant (not reported). Robust P-values in parentheses. With the exception of *enopp*, *govleft* and the trade bloc-variables, all covariates are treated as endogenous

Diffusion of economic reform (Pitlik 2007)

11.1 Structural Reforms

Monetary commitment



(1) If the view of an excessive intensity of reforms under monetary policy autonomy holds, labor market reforms will be stronger under higher monetary discretion, net of other factors.
(2) If the TINA view of monetary commitment as a hard constraint is valid, one should expect the contrary, however. In this case monetary discretion negatively affects the degree of labor market reforms, net of other factors.
(3) If third factors dominate the relationship, monetary commitment should have little effect on reforms.

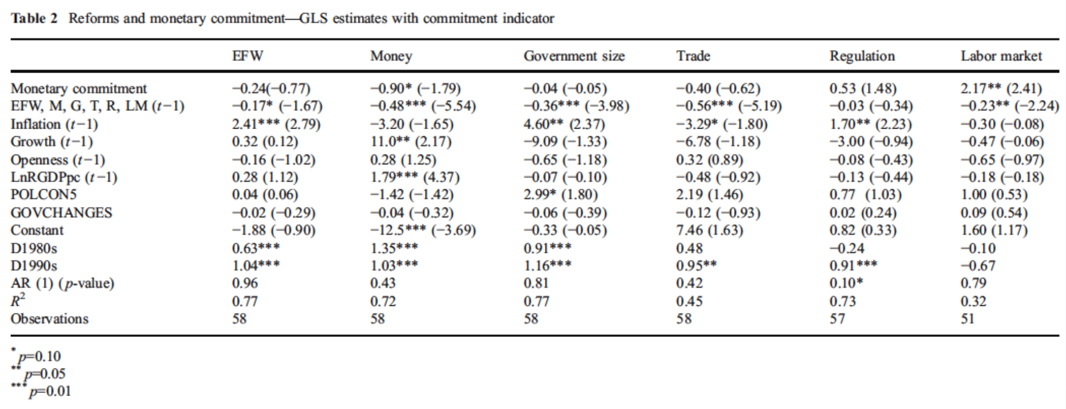


Table 2 Reforms and monetary commitment—GLS estimates with commitment indicator

	EFW	Money	Government size	Trade	Regulation	Labor market
Monetary commitment	−0.24(−0.77)	−0.90* (−1.79)	−0.04 (−0.05)	−0.40 (−0.62)	0.53 (1.48)	2.17** (2.41)
EFW, M, G, T, R, LM ($t-1$)	−0.17* (−1.67)	−0.48*** (−5.54)	−0.36*** (−3.98)	−0.56*** (−5.19)	−0.03 (−0.34)	−0.23** (−2.24)
Inflation ($t-1$)	2.41*** (2.79)	−3.20 (−1.65)	4.60** (2.37)	−3.29* (−1.80)	1.70** (2.23)	−0.30 (−0.08)
Growth ($t-1$)	0.32 (0.12)	11.0** (2.17)	−9.09 (−1.33)	−6.78 (−1.18)	−3.00 (−0.94)	−0.47 (−0.06)
Openness ($t-1$)	−0.16 (−1.02)	0.28 (1.25)	−0.65 (−1.18)	0.32 (0.89)	−0.08 (−0.43)	−0.65 (−0.97)
LnRGDPpc ($t-1$)	0.28 (1.12)	1.79*** (4.37)	−0.07 (−0.10)	−0.48 (−0.92)	−0.13 (−0.44)	−0.18 (−0.18)
POLCON5	0.04 (0.06)	−1.42 (−1.42)	2.99* (1.80)	2.19 (1.46)	0.77 (1.03)	1.00 (0.53)
GOVCHANGES	−0.02 (−0.29)	−0.04 (−0.32)	−0.06 (−0.39)	−0.12 (−0.93)	0.02 (0.24)	0.09 (0.54)
Constant	−1.88 (−0.90)	−12.5*** (−3.69)	−0.33 (−0.05)	7.46 (1.63)	0.82 (0.33)	1.60 (1.17)
D1980s	0.63***	1.35***	0.91***	0.48	−0.24	−0.10
D1990s	1.04***	1.03***	1.16***	0.95**	0.91***	−0.67
AR (1) (p-value)	0.96	0.43	0.81	0.42	0.10*	0.79
R^2	0.77	0.72	0.77	0.45	0.73	0.32
Observations	58	58	58	58	57	51

$^{*}p=0.10$
$^{**}p=0.05$
$^{***}p=0.01$

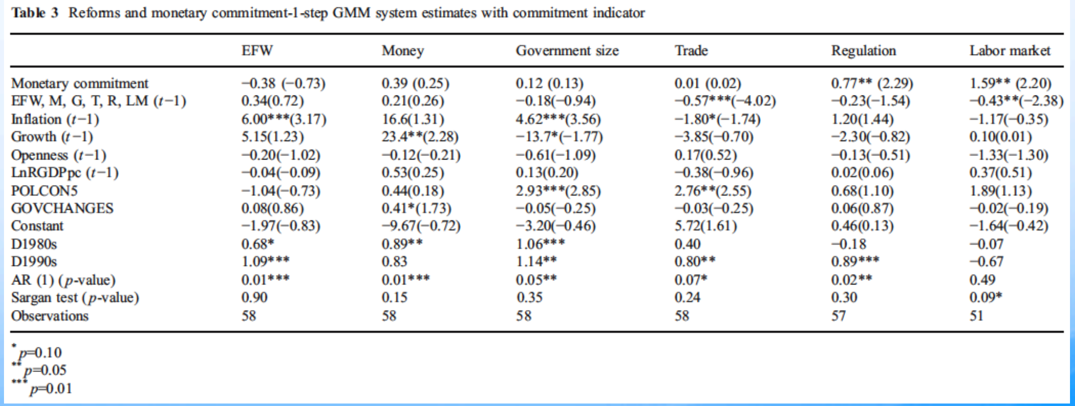


Table 3 Reforms and monetary commitment-1-step GMM system estimates with commitment indicator

	EFW	Money	Government size	Trade	Regulation	Labor market
Monetary commitment	−0.38 (−0.73)	0.39 (0.25)	0.12 (0.13)	0.01 (0.02)	0.77** (2.29)	1.59** (2.20)
EFW, M, G, T, R, LM ($t-1$)	0.34(0.72)	0.21(0.26)	−0.18(−0.94)	−0.57***(−4.02)	−0.23(−1.54)	−0.43**(−2.38)
Inflation ($t-1$)	6.00***(3.17)	16.6(1.31)	4.62***(3.56)	−1.80*(−1.74)	1.20(1.44)	−1.17(−0.35)
Growth ($t-1$)	5.15(1.23)	23.4**(2.28)	−13.7*(−1.77)	−3.85(−0.70)	−2.30(−0.82)	0.10(0.01)
Openness ($t-1$)	−0.20(−1.02)	−0.12(−0.21)	−0.61(−1.09)	0.17(0.52)	−0.13(−0.51)	−1.33(−1.30)
LnRGDPpc ($t-1$)	−0.04(−0.09)	0.53(0.25)	0.13(0.20)	−0.38(−0.96)	0.02(0.06)	0.37(0.51)
POLCON5	−1.04(−0.73)	0.44(0.18)	2.93***(2.85)	2.76**(2.55)	0.68(1.10)	1.89(1.13)
GOVCHANGES	0.08(0.86)	0.41*(1.73)	−0.05(−0.25)	−0.03(−0.25)	0.06(0.87)	−0.02(−0.19)
Constant	−1.97(−0.83)	−9.67(−0.72)	−3.20(−0.46)	5.72(1.61)	0.46(0.13)	−1.64(−0.42)
D1980s	0.68*	0.89**	1.06***	0.40	−0.18	−0.07
D1990s	1.09***	0.83	1.14**	0.80**	0.89***	−0.67
AR (1) (p-value)	0.01***	0.01***	0.05**	0.07*	0.02**	0.49
Sargan test (p-value)	0.90	0.15	0.35	0.24	0.30	0.09*
Observations	58	58	58	58	57	51

$^{*}p=0.10$
$^{**}p=0.05$
$^{***}p=0.01$

Currency Policy and Structural Reforms (Belke et al. 2007)

11.1 Structural Reforms
Euro membership

Figure 2: PRODUCT MARKET DEREGULATION

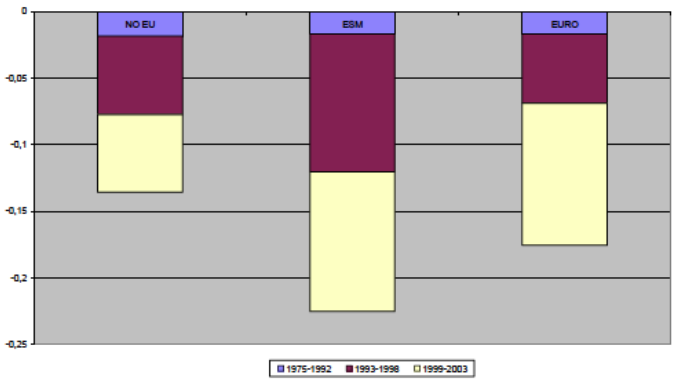
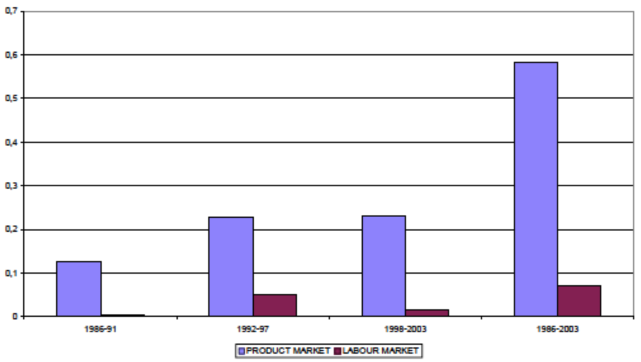


Figure 4: Deregulation in Product and Labour Markets



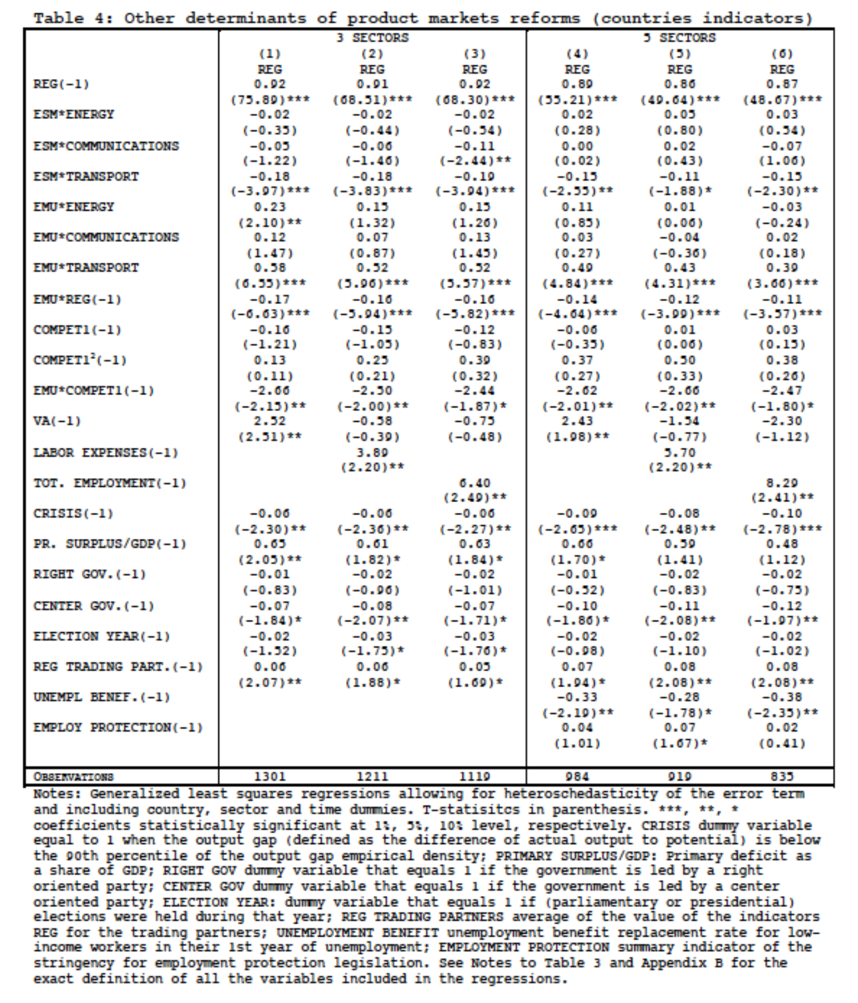


Table 4: Other determinants of product markets reforms (countries indicators)

	3 SECTORS			5 SECTORS		
	(1) REG	(2) REG	(3) REG	(4) REG	(5) REG	(6) REG
REG(-1)	0.92 (75.89)***	0.91 (68.51)***	0.92 (68.30)***	0.89 (55.21)***	0.86 (49.64)***	0.87 (48.67)***
ESM*ENERGY	-0.02 (-0.35)	-0.02 (-0.44)	-0.02 (-0.54)	0.02 (0.28)	0.05 (0.80)	0.03 (0.54)
ESM*COMMUNICATIONS	-0.05 (-1.22)	-0.06 (-1.46)	-0.11 (-2.44)**	0.00 (0.02)	0.02 (0.43)	-0.07 (1.06)
ESM*TRANSPORT	-0.18 (-3.97)***	-0.18 (-3.83)***	-0.19 (-3.94)***	-0.15 (-2.55)**	-0.11 (-1.88)*	-0.15 (-2.30)**
EMU*ENERGY	0.23 (2.10)**	0.15 (1.32)	0.15 (1.26)	0.11 (0.85)	0.01 (0.06)	-0.03 (-0.24)
EMU*COMMUNICATIONS	0.12 (1.47)	0.07 (0.87)	0.13 (1.45)	0.03 (0.27)	-0.04 (-0.36)	0.02 (0.18)
EMU*TRANSPORT	0.58 (6.55)***	0.52 (5.96)***	0.52 (5.57)***	0.49 (4.84)***	0.43 (4.31)***	0.39 (3.66)***
EMU*REG(-1)	-0.17 (-6.63)***	-0.16 (-5.94)***	-0.16 (-5.82)***	-0.14 (-4.64)***	-0.12 (-3.99)***	-0.11 (-3.57)***
COMPET1(-1)	-0.16 (-1.21)	-0.15 (-1.05)	-0.12 (-0.83)	-0.06 (-0.35)	0.01 (0.06)	0.03 (0.15)
COMPET1^2(-1)	0.13 (0.11)	0.25 (0.21)	0.39 (0.32)	0.37 (0.27)	0.50 (0.33)	0.38 (0.26)
EMU*COMPET1(-1)	-2.66 (-2.15)**	-2.50 (-2.00)**	-2.44 (-1.87)*	-2.62 (-2.01)**	-2.66 (-2.02)**	-2.47 (-1.80)*
VA(-1)	2.52 (2.51)**	-0.58 (-0.39)	-0.75 (-0.48)	2.43 (1.98)**	-1.54 (-0.77)	-2.30 (-1.12)
LABOR EXPENSES(-1)		3.89 (2.20)**			5.70 (2.20)**	
TOT. EMPLOYMENT(-1)			6.40 (2.49)**			8.29 (2.41)**
CRISIS(-1)	-0.06 (-2.30)**	-0.06 (-2.36)**	-0.06 (-2.27)**	-0.09 (-2.65)***	-0.08 (-2.48)**	-0.10 (-2.78)***
PR. SURPLUS/GDP(-1)	0.65 (2.05)**	0.61 (1.82)*	0.63 (1.84)*	0.66 (1.70)*	0.59 (1.41)	0.48 (1.12)
RIGHT GOV.(-1)	-0.01 (-0.83)	-0.02 (-0.96)	-0.02 (-1.01)	-0.01 (-0.52)	-0.02 (-0.83)	-0.02 (-0.75)
CENTER GOV.(-1)	-0.07 (-1.84)*	-0.08 (-2.07)**	-0.07 (-1.71)*	-0.10 (-1.86)*	-0.11 (-2.08)**	-0.12 (-1.97)**
ELECTION YEAR(-1)	-0.02 (-1.52)	-0.03 (-1.75)*	-0.03 (-1.76)*	-0.02 (-0.98)	-0.02 (-1.10)	-0.02 (-1.02)
REG TRADING PART.(-1)	0.06 (2.07)**	0.06 (1.88)*	0.05 (1.69)*	0.07 (1.94)*	0.08 (2.08)**	0.08 (2.08)**
UNEMPL BENEF.(-1)				-0.33 (-2.19)**	-0.28 (-1.78)*	-0.38 (-2.35)**
EMPLOY PROTECTION(-1)				0.04 (1.01)	0.07 (1.67)*	0.02 (0.41)
OBSERVATIONS	1301	1211	1119	984	919	835

Notes: Generalized least squares regressions allowing for heteroschedasticity of the error term and including country, sector and time dummies. T-statisitcs in parenthesis. ***, **, * coefficients statistically significant at 1%, 5%, 10% level, respectively. CRISIS dummy variable equal to 1 when the output gap (defined as the difference of actual output to potential) is below the 90th percentile of the output gap empirical density; PRIMARY SURPLUS/GDP: Primary deficit as a share of GDP; RIGHT GOV dummy variable that equals 1 if the government is led by a right oriented party; CENTER GOV dummy variable that equals 1 if the government is led by a center oriented party; ELECTION YEAR: dummy variable that equals 1 if (parliamentary or presidential) elections were held during that year; REG TRADING PARTNERS average of the value of the indicators REG for the trading partners; UNEMPLOYMENT BENEFIT unemployment benefit replacement rate for low-income workers in their 1st year of unemployment; EMPLOYMENT PROTECTION summary indicator of the stringency for employment protection legislation. See Notes to Table 3 and Appendix B for the exact definition of all the variables included in the regressions.

Euro and structural reforms (Alesina et al. 2008)

11.1 Structural Reforms

Economic policy

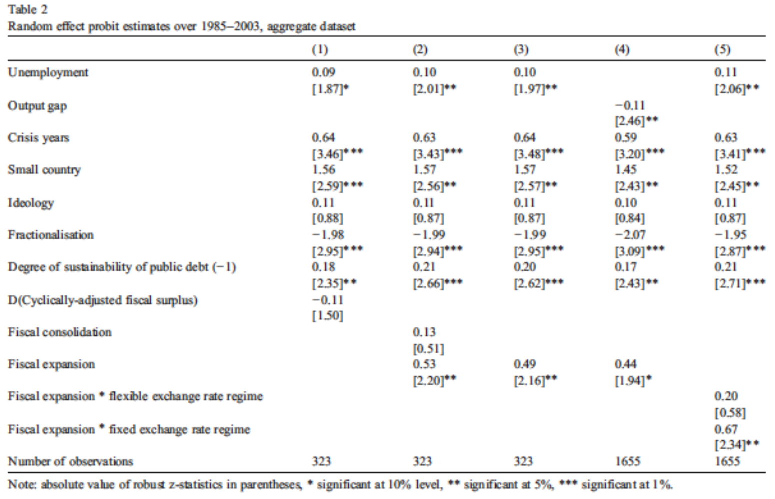


Table 2
Random effect probit estimates over 1985–2003, aggregate dataset

	(1)	(2)	(3)	(4)	(5)
Unemployment	0.09 [1.87]*	0.10 [2.01]**	0.10 [1.97]**		0.11 [2.06]**
Output gap				−0.11 [2.46]**	
Crisis years	0.64 [3.46]***	0.63 [3.43]***	0.64 [3.48]***	0.59 [3.20]***	0.63 [3.41]***
Small country	1.56 [2.59]***	1.57 [2.56]**	1.57 [2.57]**	1.45 [2.43]**	1.52 [2.45]**
Ideology	0.11 [0.88]	0.11 [0.87]	0.11 [0.87]	0.10 [0.84]	0.11 [0.87]
Fractionalisation	−1.98 [2.95]***	−1.99 [2.94]***	−1.99 [2.95]***	−2.07 [3.09]***	−1.95 [2.87]***
Degree of sustainability of public debt (−1)	0.18 [2.35]**	0.21 [2.66]***	0.20 [2.62]***	0.17 [2.43]**	0.21 [2.71]***
D(Cyclically-adjusted fiscal surplus)	−0.11 [1.50]				
Fiscal consolidation		0.13 [0.51]			
Fiscal expansion		0.53 [2.20]**	0.49 [2.16]**	0.44 [1.94]*	
Fiscal expansion * flexible exchange rate regime					0.20 [0.58]
Fiscal expansion * fixed exchange rate regime					0.67 [2.34]**
Number of observations	323	323	323	1655	1655

Note: absolute value of robust z-statistics in parentheses, * significant at 10% level, ** significant at 5%, *** significant at 1%.

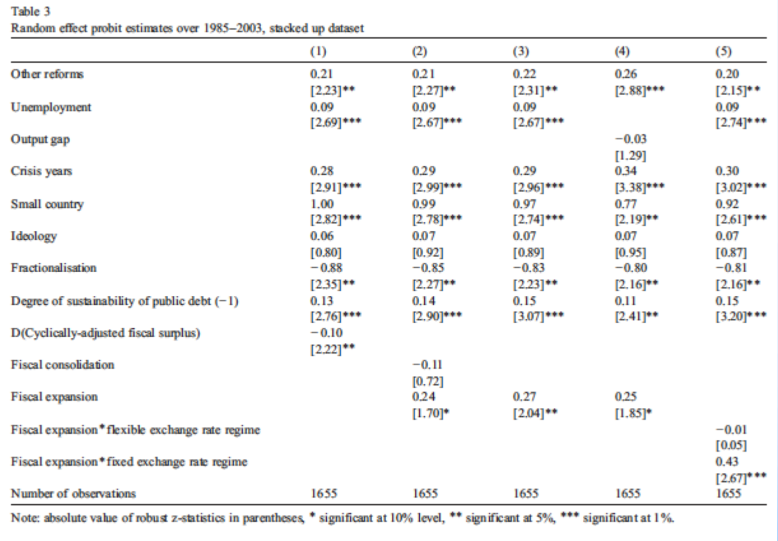


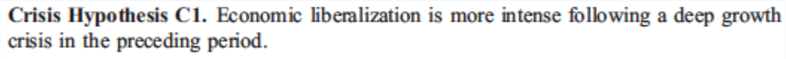
Table 3
Random effect probit estimates over 1985–2003, stacked up dataset

	(1)	(2)	(3)	(4)	(5)
Other reforms	0.21 [2.23]**	0.21 [2.27]**	0.22 [2.31]**	0.26 [2.88]***	0.20 [2.15]**
Unemployment	0.09 [2.69]***	0.09 [2.67]***	0.09 [2.67]***		0.09 [2.74]***
Output gap				−0.03 [1.29]	
Crisis years	0.28 [2.91]***	0.29 [2.99]***	0.29 [2.96]***	0.34 [3.38]***	0.30 [3.02]***
Small country	1.00 [2.82]***	0.99 [2.78]***	0.97 [2.74]***	0.77 [2.19]**	0.92 [2.61]***
Ideology	0.06 [0.80]	0.07 [0.92]	0.07 [0.89]	0.07 [0.95]	0.07 [0.87]
Fractionalisation	−0.88 [2.35]**	−0.85 [2.27]**	−0.83 [2.23]**	−0.80 [2.16]**	−0.81 [2.16]**
Degree of sustainability of public debt (−1)	0.13 [2.76]***	0.14 [2.90]***	0.15 [3.07]***	0.11 [2.41]**	0.15 [3.20]***
D(Cyclically-adjusted fiscal surplus)	−0.10 [2.22]**				
Fiscal consolidation		−0.11 [0.72]			
Fiscal expansion		0.24 [1.70]*	0.27 [2.04]**	0.25 [1.85]*	
Fiscal expansion * flexible exchange rate regime					−0.01 [0.05]
Fiscal expansion * fixed exchange rate regime					0.43 [2.67]***
Number of observations	1655	1655	1655	1655	1655

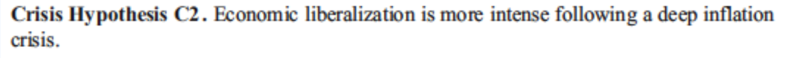
Note: absolute value of robust z-statistics in parentheses, * significant at 10% level, ** significant at 5%, *** significant at 1%.

11.1 Structural Reforms

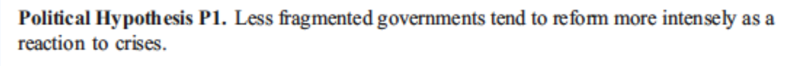
Crisis and Political Institutions



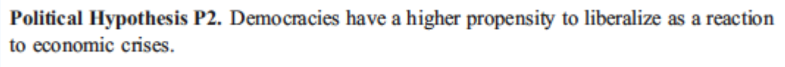
Crisis Hypothesis C1. Economic liberalization is more intense following a deep growth crisis in the preceding period.



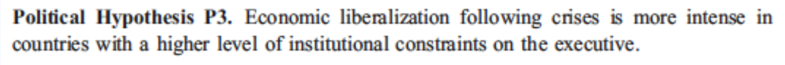
Crisis Hypothesis C2. Economic liberalization is more intense following a deep inflation crisis.



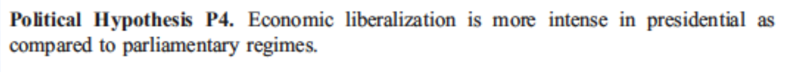
Political Hypothesis P1. Less fragmented governments tend to reform more intensely as a reaction to crises.



Political Hypothesis P2. Democracies have a higher propensity to liberalize as a reaction to economic crises.



Political Hypothesis P3. Economic liberalization following crises is more intense in countries with a higher level of institutional constraints on the executive.



Political Hypothesis P4. Economic liberalization is more intense in presidential as compared to parliamentary regimes.

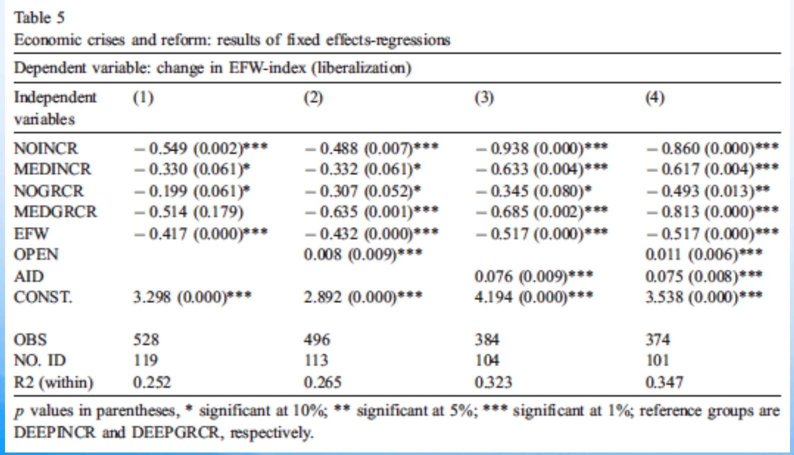


Table 5
Economic crises and reform: results of fixed effects-regressions

Dependent variable: change in EFW-index (liberalization)

Independent variables	(1)	(2)	(3)	(4)
NOINCR	– 0.549 (0.002)***	– 0.488 (0.007)***	– 0.938 (0.000)***	– 0.860 (0.000)***
MEDINCR	– 0.330 (0.061)*	– 0.332 (0.061)*	– 0.633 (0.004)***	– 0.617 (0.004)***
NOGRCR	– 0.199 (0.061)*	– 0.307 (0.052)*	– 0.345 (0.080)*	– 0.493 (0.013)**
MEDGRCR	– 0.514 (0.179)	– 0.635 (0.001)***	– 0.685 (0.002)***	– 0.813 (0.000)***
EFW	– 0.417 (0.000)***	– 0.432 (0.000)***	– 0.517 (0.000)***	– 0.517 (0.000)***
OPEN		0.008 (0.009)***		0.011 (0.006)***
AID			0.076 (0.009)***	0.075 (0.008)***
CONST.	3.298 (0.000)***	2.892 (0.000)***	4.194 (0.000)***	3.538 (0.000)***
OBS	528	496	384	374
NO. ID	119	113	104	101
R2 (within)	0.252	0.265	0.323	0.347

p values in parentheses, * significant at 10%; ** significant at 5%; *** significant at 1%; reference groups are DEEPINCR and DEEPGRCR, respectively.

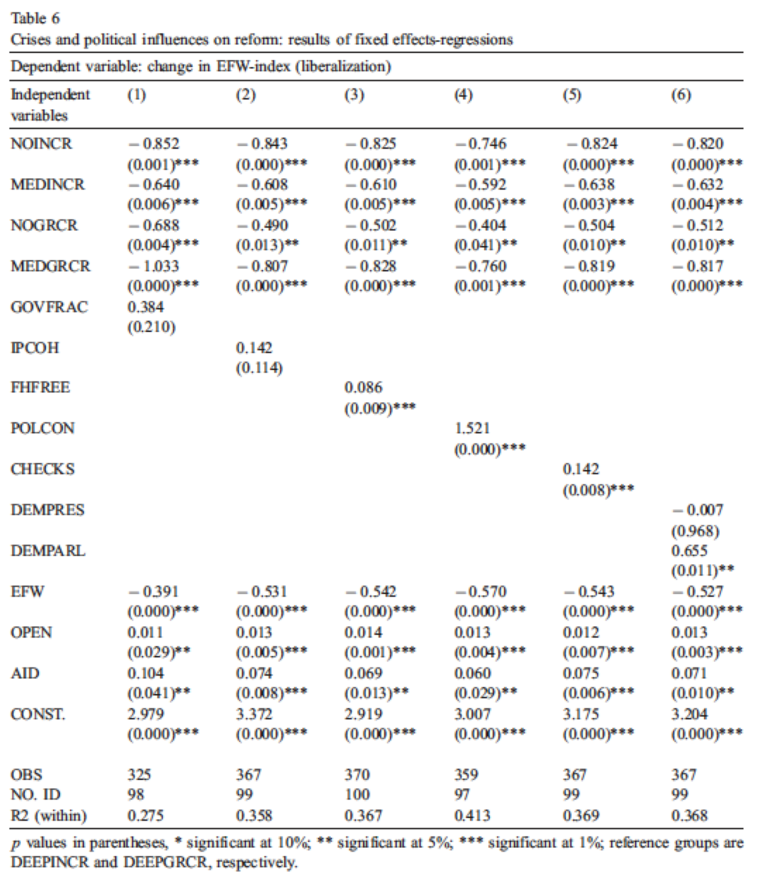


Table 6
Crises and political influences on reform: results of fixed effects-regressions

Dependent variable: change in EFW-index (liberalization)

Independent variables	(1)	(2)	(3)	(4)	(5)	(6)
NOINCR	– 0.852 (0.001)***	– 0.843 (0.000)***	– 0.825 (0.000)***	–0.746 (0.001)***	– 0.824 (0.000)***	– 0.820 (0.000)***
MEDINCR	– 0.640 (0.006)***	– 0.608 (0.005)***	– 0.610 (0.005)***	–0.592 (0.005)***	– 0.638 (0.003)***	– 0.632 (0.004)***
NOGRCR	– 0.688 (0.004)***	– 0.490 (0.013)**	– 0.502 (0.011)**	–0.404 (0.041)**	– 0.504 (0.010)**	– 0.512 (0.010)**
MEDGRCR	– 1.033 (0.000)***	– 0.807 (0.000)***	– 0.828 (0.000)***	–0.760 (0.001)***	– 0.819 (0.000)***	– 0.817 (0.000)***
GOVFRAC	0.384 (0.210)					
IPCOH		0.142 (0.114)				
FHFREE			0.086 (0.009)***			
POLCON				1.521 (0.000)***		
CHECKS					0.142 (0.008)***	
DEMPRES						– 0.007 (0.968)
DEMPARL						0.655 (0.011)**
EFW	– 0.391 (0.000)***	– 0.531 (0.000)***	– 0.542 (0.000)***	–0.570 (0.000)***	– 0.543 (0.000)***	– 0.527 (0.000)***
OPEN	0.011 (0.029)**	0.013 (0.005)***	0.014 (0.001)***	0.013 (0.004)***	0.012 (0.007)***	0.013 (0.003)***
AID	0.104 (0.041)**	0.074 (0.008)***	0.069 (0.013)**	0.060 (0.029)**	0.075 (0.006)***	0.071 (0.010)**
CONST.	2.979 (0.000)***	3.372 (0.000)***	2.919 (0.000)***	3.007 (0.000)***	3.175 (0.000)***	3.204 (0.000)***
OBS	325	367	370	359	367	367
NO. ID	98	99	100	97	99	99
R2 (within)	0.275	0.358	0.367	0.413	0.369	0.368

p values in parentheses, * significant at 10%; ** significant at 5%; *** significant at 1%; reference groups are DEEPINCR and DEEPGRCR, respectively.

Crisis, political institutions and structural reform (Pitlik and Wirth 2003)

11.1 Structural Reforms
Labor Market Reform

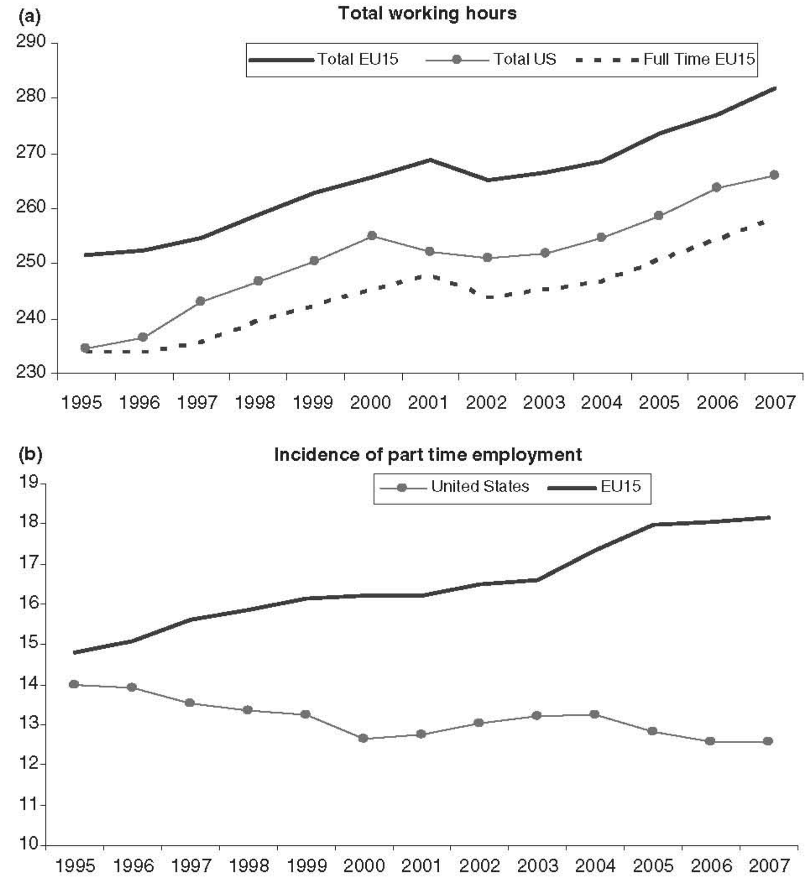


Figure 4. Total working hours and incidence of part-time employment

Source: Eurostat, http://epp.eurostat.ec.europa.eu; OECD, http://stats.oecd.org/wbos/index.aspx

11.1 Structural Reforms

Employment and Pay Equality

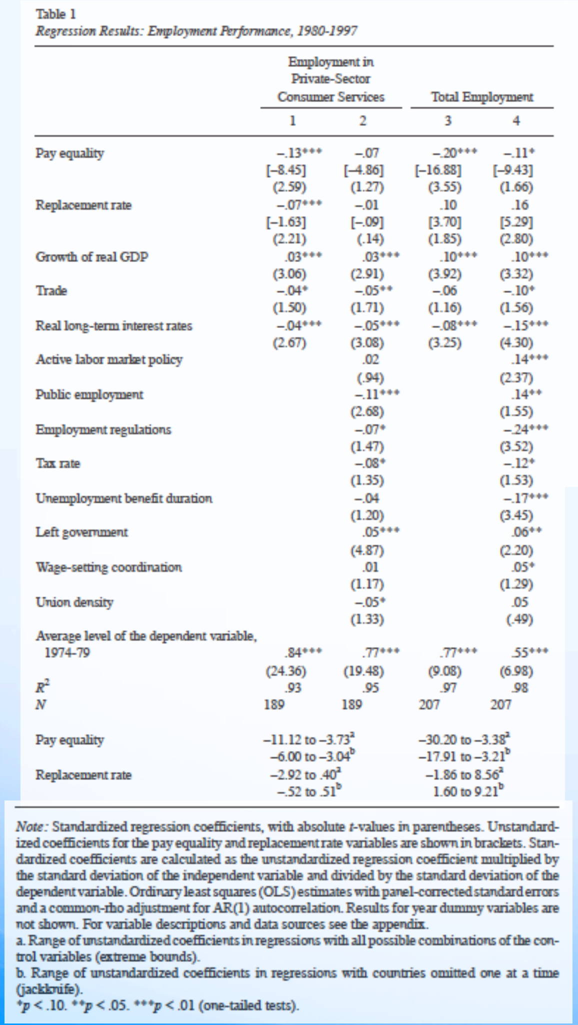


Table 1

Regression Results: Employment Performance, 1980-1997

	Employment in Private-Sector Consumer Services		Total Employment	
	1	2	3	4
Pay equality	–.13***	–.07	–.20***	–.11*
	[–8.45]	[–4.86]	[–16.88]	[–9.43]
	(2.59)	(1.27)	(3.55)	(1.66)
Replacement rate	–.07***	–.01	.10	.16
	[–1.63]	[–.09]	[3.70]	[5.29]
	(2.21)	(.14)	(1.85)	(2.80)
Growth of real GDP	.03***	.03***	.10***	.10***
	(3.06)	(2.91)	(3.92)	(3.32)
Trade	–.04*	–.05**	–.06	–.10*
	(1.50)	(1.71)	(1.16)	(1.56)
Real long-term interest rates	–.04***	–.05***	–.08***	–.15***
	(2.67)	(3.08)	(3.25)	(4.30)
Active labor market policy		.02		.14***
		(.94)		(2.37)
Public employment		–.11***		.14**
		(2.68)		(1.55)
Employment regulations		–.07*		–.24***
		(1.47)		(3.52)
Tax rate		–.08*		–.12*
		(1.35)		(1.53)
Unemployment benefit duration		–.04		–.17***
		(1.20)		(3.45)
Left government		.05***		.06**
		(4.87)		(2.20)
Wage-setting coordination		.01		.05*
		(1.17)		(1.29)
Union density		–.05*		.05
		(1.33)		(.49)
Average level of the dependent variable, 1974-79	.84***	.77***	.77***	.55***
	(24.36)	(19.48)	(9.08)	(6.98)
R^2	.93	.95	.97	.98
N	189	189	207	207
Pay equality	–11.12 to –3.73[a]		–30.20 to –3.38[a]	
	–6.00 to –3.04[b]		–17.91 to –3.21[b]	
Replacement rate	–2.92 to .40[a]		–1.86 to 8.56[a]	
	–.52 to .51[b]		1.60 to 9.21[b]	

Note: Standardized regression coefficients, with absolute *t*-values in parentheses. Unstandardized coefficients for the pay equality and replacement rate variables are shown in brackets. Standardized coefficients are calculated as the unstandardized regression coefficient multiplied by the standard deviation of the independent variable and divided by the standard deviation of the dependent variable. Ordinary least squares (OLS) estimates with panel-corrected standard errors and a common-rho adjustment for AR(1) autocorrelation. Results for year dummy variables are not shown. For variable descriptions and data sources see the appendix.

a. Range of unstandardized coefficients in regressions with all possible combinations of the control variables (extreme bounds).

b. Range of unstandardized coefficients in regressions with countries omitted one at a time (jackknife).

$^*p < .10$. $^{**}p < .05$. $^{***}p < .01$ (one-tailed tests).

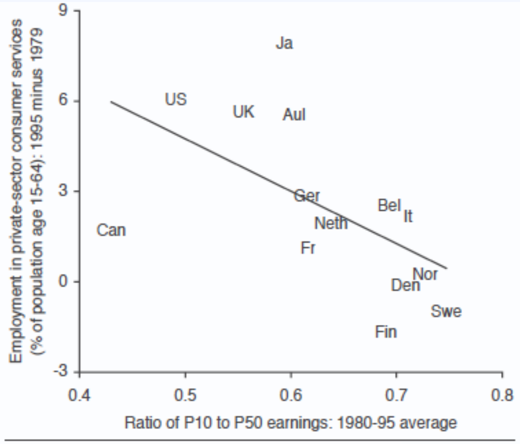


Figure 1a. **Pay Equality and Private Consumer Services Employment Growth.**

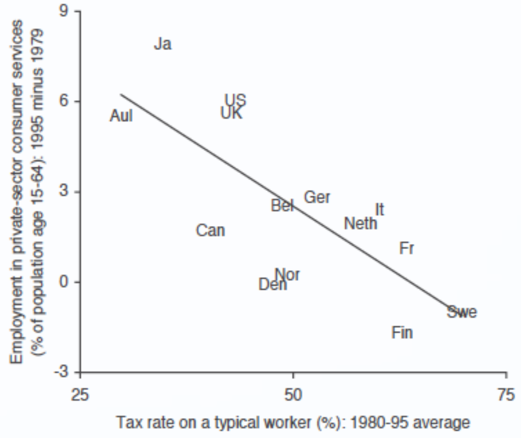


Figure 2. **The Tax Rate and Private Consumer Services Employment Growth.**

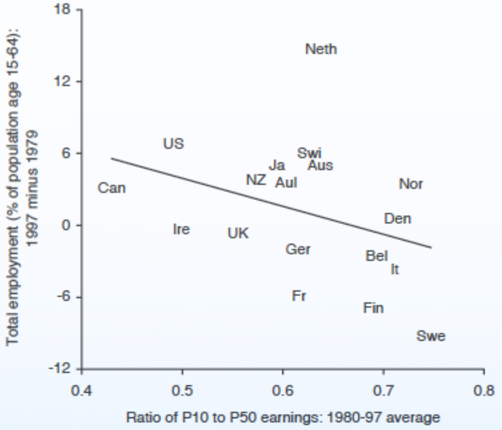


Figure 1c. **Pay Equality and Total Employment Growth.**

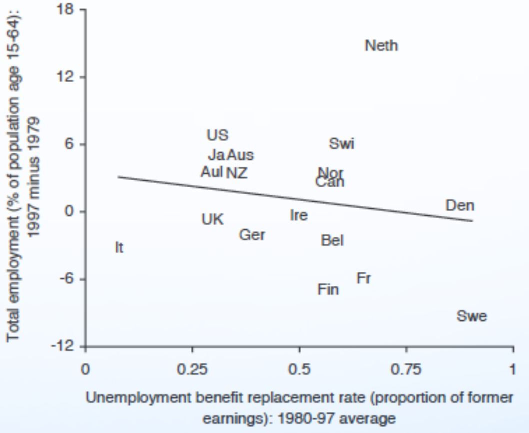


Figure 3. **The Replacement Rate and Total Employment Growth.**

Pay equality, tax rate, replacement rate and employment growth (Kenworthy 2003)

11.1 Structural Reforms

Equalization

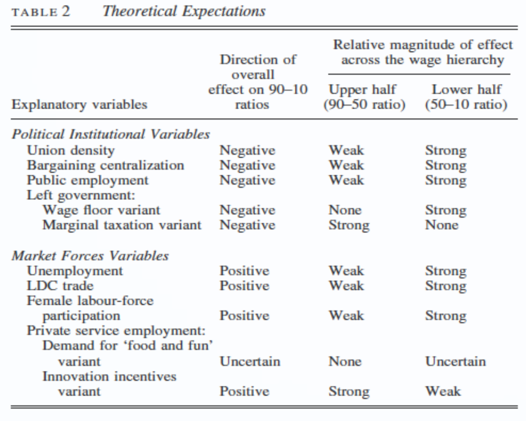


TABLE 2 *Theoretical Expectations*

Explanatory variables	Direction of overall effect on 90–10 ratios	Relative magnitude of effect across the wage hierarchy: Upper half (90–50 ratio)	Relative magnitude of effect across the wage hierarchy: Lower half (50–10 ratio)
Political Institutional Variables			
Union density	Negative	Weak	Strong
Bargaining centralization	Negative	Weak	Strong
Public employment	Negative	Weak	Strong
Left government:			
Wage floor variant	Negative	None	Strong
Marginal taxation variant	Negative	Strong	None
Market Forces Variables			
Unemployment	Positive	Weak	Strong
LDC trade	Positive	Weak	Strong
Female labour-force participation	Positive	Weak	Strong
Private service employment:			
Demand for 'food and fun' variant	Uncertain	None	Uncertain
Innovation incentives variant	Positive	Strong	Weak

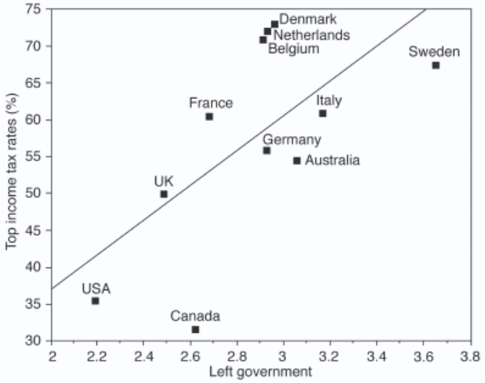


Fig. 1. The relationship between left government and top marginal income tax rates

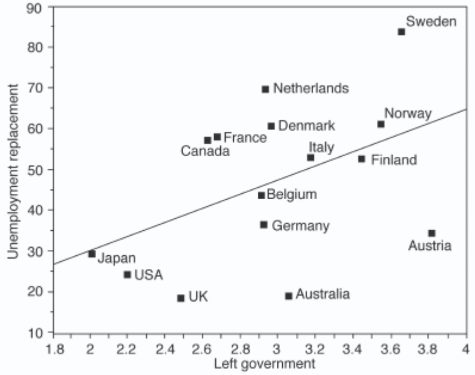


Fig. 3. The relationship between left government and unemployment benefit income replacement rates

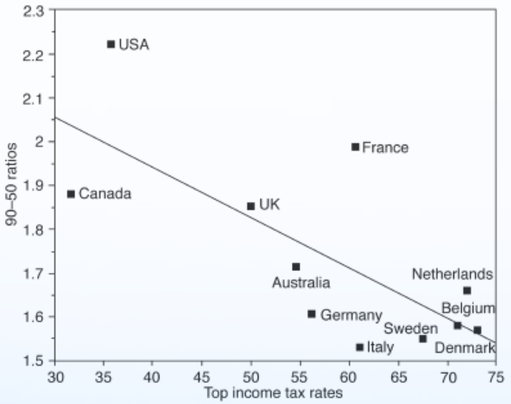


Fig. 2. The relationship between top income tax rates and 90–50 ratios

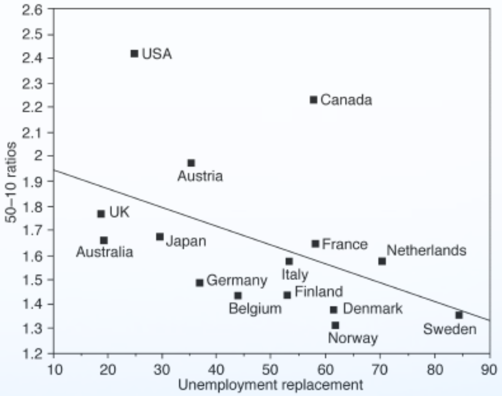
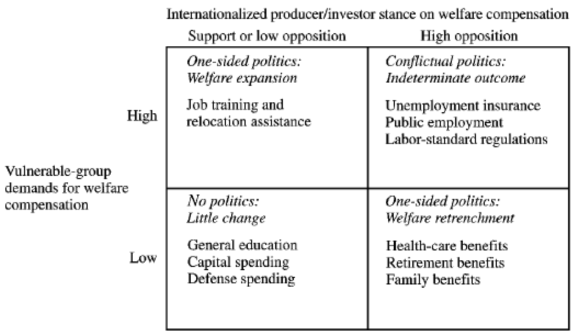


Fig. 4. The relationship between unemployment benefit income replacement rates and 50–10 ratios

Left governments, income taxes, unemployment replacement, and equality (Pontusson et al. 2003)

11.2 Social Spending Adjustment

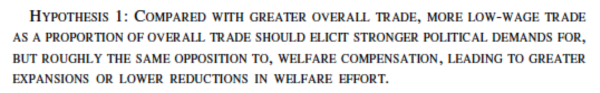
Openness and welfare reform



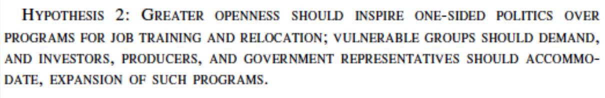
Internationalized producer/investor stance on welfare compensation
Support or low opposition
High opposition
Vulnerable-group demands for welfare compensation
High
Low

		Support or low opposition	High opposition
Vulnerable-group demands for welfare compensation	High	*One-sided politics: Welfare expansion* Job training and relocation assistance	*Conflictual politics: Indeterminate outcome* Unemployment insurance Public employment Labor-standard regulations
	Low	*No politics: Little change* General education Capital spending Defense spending	*One-sided politics: Welfare retrenchment* Health-care benefits Retirement benefits Family benefits

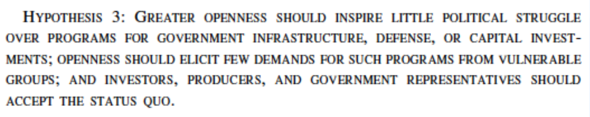
FIGURE 1. *Support for or opposition to welfare compensation in the face of greater economic openness*



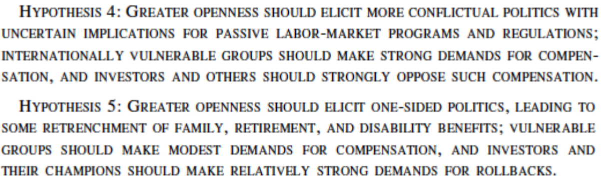
Hypothesis 1: Compared with greater overall trade, more low-wage trade as a proportion of overall trade should elicit stronger political demands for, but roughly the same opposition to, welfare compensation, leading to greater expansions or lower reductions in welfare effort.



Hypothesis 2: Greater openness should inspire one-sided politics over programs for job training and relocation; vulnerable groups should demand, and investors, producers, and government representatives should accommodate, expansion of such programs.



Hypothesis 3: Greater openness should inspire little political struggle over programs for government infrastructure, defense, or capital investments; openness should elicit few demands for such programs from vulnerable groups; and investors, producers, and government representatives should accept the status quo.



Hypothesis 4: Greater openness should elicit more conflictual politics with uncertain implications for passive labor-market programs and regulations; internationally vulnerable groups should make strong demands for compensation, and investors and others should strongly oppose such compensation.

Hypothesis 5: Greater openness should elicit one-sided politics, leading to some retrenchment of family, retirement, and disability benefits; vulnerable groups should make modest demands for compensation, and investors and their champions should make relatively strong demands for rollbacks.

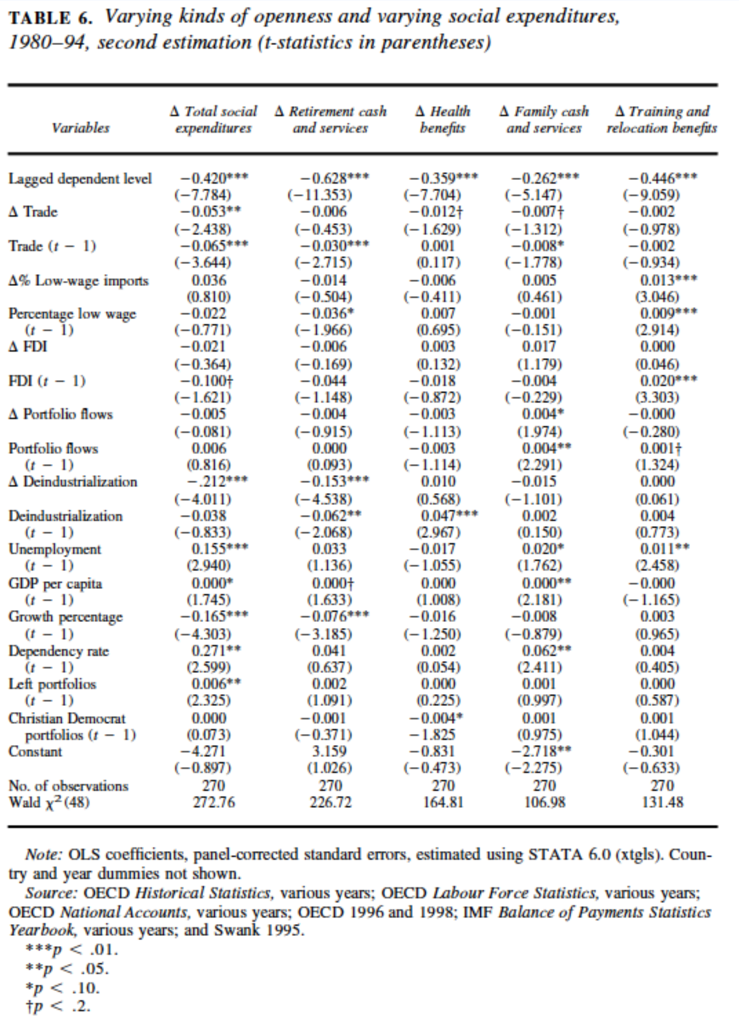


TABLE 6. *Varying kinds of openness and varying social expenditures, 1980–94, second estimation (t-statistics in parentheses)*

Variables	*Δ Total social expenditures*	*Δ Retirement cash and services*	*Δ Health benefits*	*Δ Family cash and services*	*Δ Training and relocation benefits*
Lagged dependent level	−0.420***	−0.628***	−0.359***	−0.262***	−0.446***
	(−7.784)	(−11.353)	(−7.704)	(−5.147)	(−9.059)
Δ Trade	−0.053**	−0.006	−0.012†	−0.007†	−0.002
	(−2.438)	(−0.453)	(−1.629)	(−1.312)	(−0.978)
Trade (t − 1)	−0.065***	−0.030***	0.001	−0.008*	−0.002
	(−3.644)	(−2.715)	(0.117)	(−1.778)	(−0.934)
Δ% Low-wage imports	0.036	−0.014	−0.006	0.005	0.013***
	(0.810)	(−0.504)	(−0.411)	(0.461)	(3.046)
Percentage low wage	−0.022	−0.036*	0.007	−0.001	0.009***
(t − 1)	(−0.771)	(−1.966)	(0.695)	(−0.151)	(2.914)
Δ FDI	−0.021	−0.006	0.003	0.017	0.000
	(−0.364)	(−0.169)	(0.132)	(1.179)	(0.046)
FDI (t − 1)	−0.100†	−0.044	−0.018	−0.004	0.020***
	(−1.621)	(−1.148)	(−0.872)	(−0.229)	(3.303)
Δ Portfolio flows	−0.005	−0.004	−0.003	0.004*	−0.000
	(−0.081)	(−0.915)	(−1.113)	(1.974)	(−0.280)
Portfolio flows	0.006	0.000	−0.003	0.004**	0.001†
(t − 1)	(0.816)	(0.093)	(−1.114)	(2.291)	(1.324)
Δ Deindustrialization	−.212***	−0.153***	0.010	−0.015	0.000
	(−4.011)	(−4.538)	(0.568)	(−1.101)	(0.061)
Deindustrialization	−0.038	−0.062**	0.047***	0.002	0.004
(t − 1)	(−0.833)	(−2.068)	(2.967)	(0.150)	(0.773)
Unemployment	0.155***	0.033	−0.017	0.020*	0.011**
(t − 1)	(2.940)	(1.136)	(−1.055)	(1.762)	(2.458)
GDP per capita	0.000*	0.000†	0.000	0.000**	−0.000
(t − 1)	(1.745)	(1.633)	(1.008)	(2.181)	(−1.165)
Growth percentage	−0.165***	−0.076***	−0.016	−0.008	0.003
(t − 1)	(−4.303)	(−3.185)	(−1.250)	(−0.879)	(0.965)
Dependency rate	0.271**	0.041	0.002	0.062**	0.004
(t − 1)	(2.599)	(0.637)	(0.054)	(2.411)	(0.405)
Left portfolios	0.006**	0.002	0.000	0.001	0.000
(t − 1)	(2.325)	(1.091)	(0.225)	(0.997)	(0.587)
Christian Democrat	0.000	−0.001	−0.004*	0.001	0.001
portfolios (t − 1)	(0.073)	(−0.371)	−1.825	(0.975)	(1.044)
Constant	−4.271	3.159	−0.831	−2.718**	−0.301
	(−0.897)	(1.026)	(−0.473)	(−2.275)	(−0.633)
No. of observations	270	270	270	270	270
Wald χ^2(48)	272.76	226.72	164.81	106.98	131.48

Note: OLS coefficients, panel-corrected standard errors, estimated using STATA 6.0 (xtgls). Country and year dummies not shown.

Source: OECD *Historical Statistics*, various years; OECD *Labour Force Statistics*, various years; OECD *National Accounts*, various years; OECD 1996 and 1998; IMF *Balance of Payments Statistics Yearbook*, various years; and Swank 1995.

***$p < .01$.
**$p < .05$.
*$p < .10$.
†$p < .2$.

Openness and Social Expenditures (Burgoon 2001)