The relation between ALMP's and partisanship: Does a predominantly left wing government spend more on active labour market policies than a predominantly right wing government?

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Does a predominantly left wing government spend more on active labour market policies than a predominantly right wing government?

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Date: 18 April 2021

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Summary

There are many studies about active labour market policies, however not much consensus have been reached about the role of partisanship on the spending of active labour market policies (ALMP's). Therefore this paper examines the relation between ALMP's and partisanship. The main question in this paper is whether a predominantly left wing government spend more on active labour market policies than a predominantly right wing government. There are 6 different active labour market policies, which are all tested separately. This research includes 22 European countries over twenty years. The regressions show that different ALMP's have different outcomes regarding the effect of partisanship. Only two variables show a significant result; the employment incentives and the start-up incentives are both positively related to left wing parties in government. All other outcomes were not significant, therefore no effect was found of partisanship on PES, training, sheltered and supported employment and direct job creation.

1 Introduction

From the 1970s onwards, there have been several periods in Europe where the unemployment rates increased considerably. Around 2001, because of the "9/11"-recession, and around 2009, at the start of the financial crisis (Card, Kluve & Weber, 2017). In these time periods the labour market policies became more prominent and international agencies promoted an active approach for individuals to return to work (Bonoli, 2010; Mechtel & Potrafke, 2013). According to Bonoli (2010) the proportion of GDP spent on labour market policies has nearly doubled between 1980 and 2003. Active Labour Market Policies (ALMP's) include spending on Public Employment Services, training, sheltered and supported incentives, direct job creation and start-up incentives (Vlandas, 2013). The rise in the implementation of these policies is sometimes referred to as the "activation turn" (Cronert, 2019). These ALMP's are also a central part of the European Employment Strategy, which tries to coordinate the employment policies of the EU member states (Kluve, 2006). Since 1980 multiple OECD countries have invested in ALMP's, causing the share of GDP spent on it to double from 0.4 percent in 1980 to 0.7 percent in 2003. At the same time, there are large differences in labour market spending between countries and over time (Nelson, 2013).

The spending on ALMP's are partly influenced by contextual conditions and economic events, but political partisanship could also be considered as an important driver (Vlandas, 2013). Political parties that are in charge are able to change the current policies, including ALMP's (Nelson, 2013). In this respect, there are conflicting studies about whether it matters if left wing or right wing parties are in government. ALMP's are often seen as leftist and right wing parties are associated with retrenchment or deregulation of government interventions (Nelson, 2013). Multiple studies show that the effect of partisanship is smaller since the "activation turn" (Cronert, 2019). Allan and Scruggs (2004) state that if there even is a partisan effect it appears small. Specifically, left wing parties try to secure the status quo, while right wing parties try to limit the social protection. On the other hand, it is possible that left wing parties are expanding the social protection, because of a high level of labour market corporatism. Accordingly, employers have a strong bargaining position and restrict the policy room of the left wing parties (Jensen, 2011). But whether it is legitimately true that ALMP's are solely supported by left wing parties will be analyzed in more detail in this paper.

There is a substantial amount of studies on ALMP's over time and between different countries. The effectiveness of the policies is one of the main interests. However, the role of partisanship for the development and implementation of ALMP's has also been observed (Cronert, 2019). Over the last decades studies have found mixed evidence, with positive,

negative, and non-existent relationships between partisanship and ALMP's (Hieda, 2015). Theories on the interrelationship between ALMP's and partisanship contradict each other (Vlandas, 2013). In the current analysis, we will zoom in on this relationship by distinguishing between different types of ALMP's and their connection with political partisanship. Together with insights from the existing literature, an attempt will be made to answer the following question: *"What is the impact of partisanship on different active labour market policies in Europe? Does a predominantly left wing government spend more on active labour market policies than a predominantly right wing government?"*

As mentioned before there is a large amount of studies about ALMP's. However, most of them are about historical movements (Martin, 2015; Rueda, 2006) or do not separate the different policies from one another (Hieda, 2015; Jensen, 2011). The aim of this paper is to combine these two aspects in Europe; the historical view as well as the differences in ALMP's and the political preferences. Vlandas (2013) examines quite the same, except that he uses only three separate policies, namely employment incentives and rehabilitation, training and direct job creation. It will be a step forward in the literature of ALMP's in combination with partisanship if the results of this paper are similar to the results of Vlandas' paper. Because small conclusions can be drawn about the role of partisanship on ALMP's. If the results do not match, there is still a contribution to the literature, because more separate ALMP's will be tested in this paper. The social relevance can be found in the fact that hopefully this paper will show whether partisanship does play a role in the spending on ALMP's or not. This might help citizens in deciding who to vote for in the next elections, because they know which type ALMP will likely be supported by left or right.

The analysis in this paper focuses on 22 European countries, their expenditures on various types of ALMP's and the politics in the country. The data is collected in a quantitative way. The data of the expenditures on the ALMP's is derived from OECD data and the partisanship is from the dataset of Armingeon et al. (2015). Partisanship is measured as the relative power of left and right wing parties in the government. The additional control variables, unemployment rate, GDP growth, and openness, are received from the OECD data as well. Using regression analyses with fixed effects will show whether partisanship has an impact on ALMP's in Europe.

The first section of this thesis will review the existing literature on ALMP's and the relationship with partisanship. The studies will be conflicting as described before, yet all may be relevant for this paper to achieve the best results. The second section will show the research design and data collection. The chosen variables will be explained and the research question

will be clarified. The next section will show the analysis and the results coming from that. The fourth and final section will end with a discussion and conclusion.

2 Active labour market policies

In this section a part of the history of the ALMP's will be described. Afterwards, the two groups within the labour market will be pointed out and at last the different kind of ALMP's will be placed in a matrix of market orientation and investment in human capital ratio.

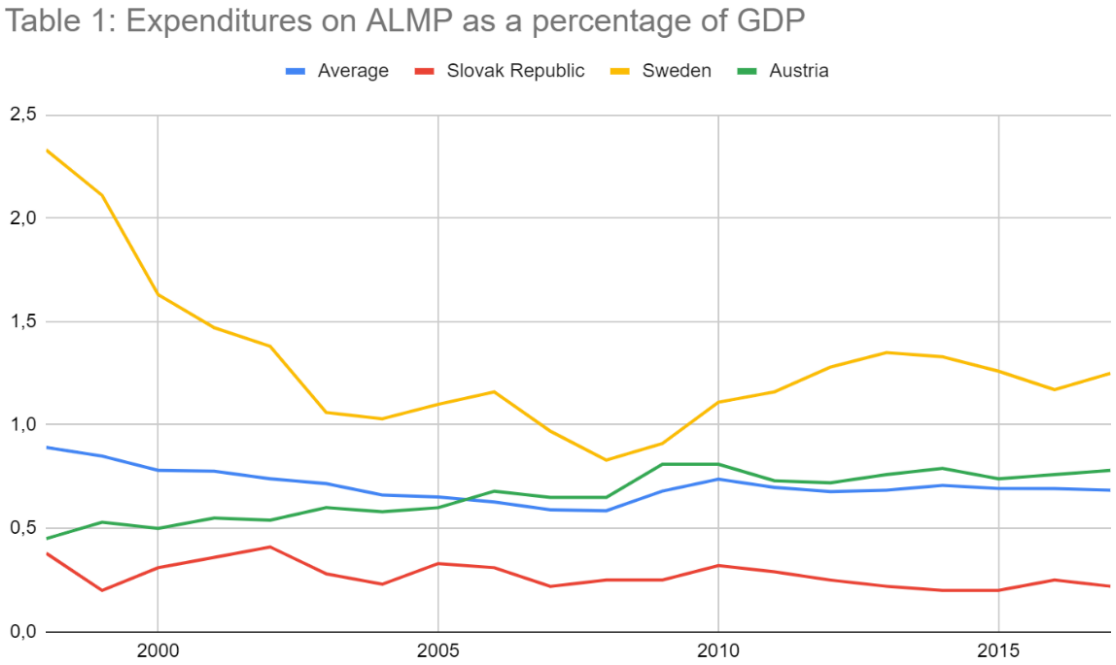
2.1 History

ALMP's can be seen as the opposite of passive labour market policies, which include unemployment insurance, unemployment assistance and related welfare benefits. ALMP's are introduced as a response to the high unemployment with the aim to reduce these high rates (Cronert, 2019) and promote growth and equality (Rueda, 2006). The policies try to accomplish this by enhancing the labour market mobility and adjustment (Boeri and van Ours, 2013). According to supporters of ALMP's they are more capable of integrating unemployed into the labour market and contribute to economic growth in comparison with passive labour market policies (Morel, Palier and Palme, 2012). The intention of almost all the active labour market policy programs is to function as employment service, the intention is not only to keep the unemployed busy. Which is in some activation programs the case, also known as workfare (Boeri and van Ours, 2013). However, some countries with high spending on ALMP's experience rising unemployment, while other countries with relatively low spending on ALMP's maintain low unemployment (Martin, 2015). In the 1950s, Sweden introduced ALMP's and numerous scholars say that left wing parties and unions have played a great role in the development of these policies. On the other hand there are multiple studies that show the role of employers in the organization of ALMP's (Bonoli, 2010). There are also studies that state that activation and ALMP's only work under good labour market conditions; when the demand for labour is relatively low the policies will only rearrange the sequence of the unemployed (Martin, 2015). Martin (2015) himself disagrees with the fact that ALMP's would only work under good labour market conditions by saying that countries with successfully implemented ALMP's have survived, for example, the Great Recession relatively well. The Great Recession did not particularly provide good conditions. Besides, employers become more selective in a weaker market, which might lead to an increasing value of an intervention that makes workers more job-ready, economists refer to this as lower opportunity costs of ALMP's (Card, Kluve & Weber, 2018).

2.2 Insiders and outsiders

Rueda (2006) divides the labour market into two groups of individuals, namely insiders and outsiders. Insiders are those who work in highly protected, mostly full time, jobs. Outsiders are those who are unemployed or have low protected and temporary jobs, low salaries and uncertain levels of benefits and social security (Rueda, 2006; Vlandas, 2013). As the intention of ALMP's is to promote employment, they inevitably benefit outsiders more than insiders. Firstly, these policies might help the unemployed to move up in the job queue. Secondly, the help from private firms is occasionally needed, which leads to hiring unemployed people by these firms while they otherwise would probably not have (Nelson, 2013). Besides, higher levels of ALMP's imply higher taxes, which are paid mostly by insiders (Rueda, 2006). However, there are situations where insiders are able to benefit from ALMP's as well, namely when they have relatively low unemployment protection. That means that their risk of being unemployed increases, and higher risk ask for more protection (Vlandas, 2013).

Apart from differences in the labour market, there are also quite some differences in ALMP's and their objectives over time and between countries. The implementation and responsibility may vary as some countries arranged it nationally and others regionally (Fay, 1996). The scope and intensity of the policies also vary across countries. For example, the Nordic European countries have relatively high intensity of public spending on ALMP's (Martin, 2015). Many European countries try to target young unemployed works with the ALMP's (Kluve, 2006). In table 1 the expenditures on ALMP's over time are shown for the average of all countries, one Nordic country (Sweden), one Germanic country (Austria) and one relatively new OECD country (Slovak Republic). Card, Kluve and Weber stated that there are differences between the Nordic, Germanic and Anglo countries (2018), and it is interesting to see whether the relatively new countries vary from those. Therefore these three countries are shown in the graph. The average of all countries is quite stable over time, around 0,7% of GDP is spent on ALMP's.



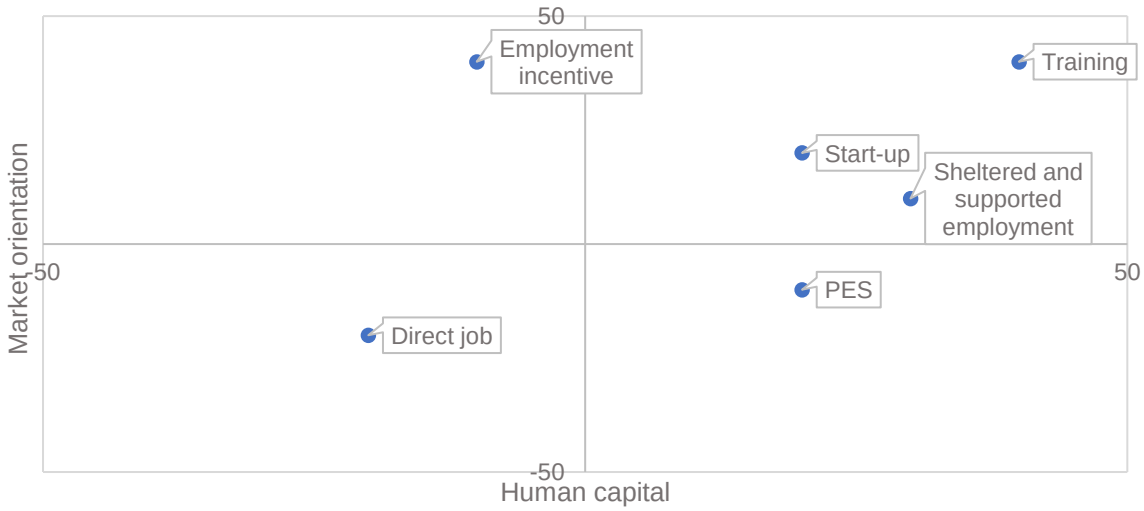
2.3 Market orientation and investment in human capital

ALMP's can be categorized along two theoretical dimensions: market orientation and investment in human capital (Nelson, 2013). Market orientation concerns the question whether workers in non-subsidized jobs should be placed in the private or public sector. Investment in human capital is about the reintegration of the unemployed into the labour market by improving their skills (Bonoli, 2011). In the mid-1990s there was a turning point where market orientation becomes more prominent in the ALMP's. It becomes relevant for all the parties and social policies and ALMP's in particular should promote participation in the labour market (Nelson, 2013).

Nevertheless, no strong conclusions can be drawn about whether one ALMP works better or yields higher employment impact than another (Card, Kluve & Weber, 2018). A policy that works in one country would not necessarily work in another. As an example; in Anglo countries (Australia, Canada, New Zealand, UK and US) the long-term disadvantaged individuals are in the centre of attention, while in Germanic countries (Austria, Germany and Switzerland) most policies are targeted to people in registered unemployed and participation is mostly mandatory. The Nordic countries (Denmark, Finland, Norway and Sweden) are in the middle of the other two, around two-thirds of the policies is for registered unemployed, while the other one-third is for the disadvantaged (Card, Kluve & Weber, 2018). In table 2 the different ALMP's are shown in a matrix, which is based on Nelson and Bonoli's studies (2013;

2011). On the vertical axis the degree of market orientation is placed and on the horizontal axis the investment of human capital. To provide evidence that is as precise as possible the ALMP's are divided into different groups. The OECD has a standard classification which is used in this paper, namely PES and administration, Training, Employment incentives, Sheltered and supported employment and Rehabilitation, Direct job creation and Start-up incentives.

Table 2: Matrix of ALMP's degree of market orienation and human capital



2.4 PES and administration

Public employment service and administration is about job placement, counselling and job-search courses for unemployed workers who have difficulties finding a job. Besides, the administration costs of the agencies are included (OECD, 2015). It is not fully clear whether PES is a tool to monitor the receivers of the benefits more closely or whether it benefits the unemployed. Card, Kluve and Weber (2018) state that in the short run there is a small impact possible, but in the long run there is almost always a negative or very small impact. The overall impact of this policy on unemployment is disputable (Vlandas, 2013). The public employment service is more of human capital program and not so much market orientated (Card, Kluve & Weber, 2018).

2.5 Training

The OECD included special support for apprenticeship, institutional, workplace and integrated training in this policy (2015). Studies show that training is the most widely used measure of ALMP's in Europe, but scholars do not agree on the effectiveness of it as mixed results are

shown (Kluve, 2006). For example, Card, Kluve and Weber (2010) state that classroom and on-the-job training are not very effective in the first two years, but progress positively after that. The aim of training is to invest in skills and thereby increasing the human capital (Nelson, 2013; Vlandas, 2013). As well as investment in human capital, training is typically market orientated. Employers and the economy profit from more skilled workers and the unemployed are better positioned to find a high quality job (Nelson, 2013).

2.6 Employment incentives

An important part of employment incentives are wage subsidies, because the short term subsidies might have long term effects. By providing these subsidies employees are encouraged to hire unexperienced employers (Galasso, Ravallion & Salvia, 2004). Recruitment incentives, employment maintenance incentives and job rotation are considered as "employment incentives". Recruitment incentives pay to facilitate the unemployed to be recruited, while employment maintenance incentives facilitate continuing employment. Job rotation means that an employee is replaced by an unemployed worker, and job sharing refers to the employee and unemployed worker sharing the job (OECD, 2015). According to Vlandas this is not a way to reduce unemployment, but to prevent people from being fired (2013). However, this policy is also able to create jobs and Card, Kluve and Weber (2018) state that this is the most effective policy. Unfortunately, it is one of the most expensive ones. The policies provide subsidies to firms that retain or hire unemployed workers and create jobs for the unemployed, and are therefore market orientated. Nevertheless, these policies do not directly influence human capital, because it does not increase peoples productivity, it reduces the labour costs (Nelson, 2013).

2.7 Sheltered and supported employment and Rehabilitation

Sheltered and supported employment subsidize productive employment of workers with reduced capacity to work, there is no planned duration. Rehabilitation tries to make workers with reduced capacity move on to work or regular training (OECD, 2015). These policies might help develop work-related skills and can eventually lead to a permanent job, causing it to be an investment in human capital (Fay, 1996). The main aim of the government is to promote re-entrance to the labour market and therefore it is market orientated (Bonoli, 2010).

2.8 Direct job creation

This policy creates extra jobs that are usually socially useful and in the public or non-profit sector (OECD, 2015). Thus, direct job creation uses public funds to directly create employment. This may lead to an increase in wages, that benefit both the unemployed and the employed workers (Vlandas, 2013). However, Nelson states that most of the time the needs that are satisfied are not met by the private sector. There are restrictions that exclude most of the private firms from this policy (Nelson, 2013). This policy tries to give people jobs, despite it not being economically viable. In addition, he argues that direct job creation is weak in terms of market orientation and investment in human capital. According to Card, Kluve and Weber it is the worst scoring policy with regard to placement on the labour market and also very costly (2018).

2.9 Start-up incentives

By encouraging to create an start-up the government tries to promote the entrepreneurship of the unemployed (OECD, 2015). Sometimes it even creates an entrepreneurial spirit among those who did not feel very entrepreneurial (Fay, 1996). An advantage of a start-up is that people are self-employed workers. The disadvantage is that it has little to do with the interests of labour or with a worker-employer relationship (Vlandas, 2013).

3 Partisanship

In this section partisanship will be explained. Firstly, a small part will define what partisanship is and how parties have the power to influence policies. Secondly, literature about the connection of partisanship and ALMP's and the possible influence of left wing parties on spending will be described.

Pierson (1996) states that the left and right distinction has become less or not relevant anymore, since the welfare state has become more resilient. After his study scholars have tried to find evidence to agree or disagree with him. Whether partisan politics plays a role in ALMP's is still unclear, because the studies show results that are inconclusive (Cronet, 2019). However, there is a direct impact of political parties on public expenditures (Vlandas, 2013). Political parties have the power to propose new laws or change current laws, which means they are able to influence the mix of policies (Nelson, 2013). Rueda (2006) summarizes that the behaviour of the party is influenced by vote-seeking and policy-seeking motivations.

3.1 Partisanship and active labour market policies

Although most scholars do agree that political parties have an influence on the ALMP's, they do not agree on its magnitude and the underlying mechanisms. The studies about partisanship on ALMP's are inconclusive, some find positive relations, other negative or no relation at all (Cronet, 2019). Traditionally, it would seem logical that left wing parties want to spend more on ALMP's to help people who have a hard time finding a job. Vlandas (2013) and Nelson (2013) confirm this by stating that when left wing parties are in control the spending on welfare state policies, including ALMP's, increase. One of the goals of social democrats is to defend the interests of labour (Rueda, 2006). They want to achieve equality and economic growth and try to do this via ALMP's. This means that left wing parties are key initiators of social policies (Vlandas, 2013). However, party preferences can differ between various labour market policies, which makes it hard to say that left or right wing parties have a greater impact (Nelson, 2013; Vlandas, 2013). Cronert (2019) states that right wing as well as left wing parties invest in ALMP's, but that the preferences about unemployment can differ. It also appeared that an increase in left wing power does not mean that the overall ALMP's expenditures increase (Cronert, 2019). Both the left and right wing parties want to invest in policies that increase the labour supply, but the left wing parties are more likely to also expand programs that primarily serve to reduce unemployment. In line with this Vlandas (2013) found that social democrats support direct job creation, but not employment incentive and rehabilitation. Therefore the partisan politics have not lost their relevance (Cronert, 2019).

4 Hypotheses

Based on the literature of partisanship and the use and usefulness of ALMP's, some hypotheses are derived and will be tested with the data at hand. There is still no consensus achieved about whether left wing parties promote ALMP's more than right wing parties do. However, studies do suggest that left wing parties tend to lean towards policies that benefit both insiders and outsiders. Spending on different ALMP types are all dependent variables and will be analyzed separately to see whether the assumption that left wing parties spend more on ALMP's is well-grounded, or not.

H1: the effect of having left or right wing parties in government on PES spending for the unemployed is ambiguous

The public employment service is a policy that is assumed to be supported by both left and right wing parties. Left wing parties want help for the unemployed to find a job and increase their standards of living, while right wing parties want the unemployed to be activated to work again and prevent benefit costs (Cronet, 2019). It is both about getting outsiders to work again, thus the expectation is that the effect can be negative as well as positive.

H2: the effect of having left or right wing parties in government on training spending for the unemployed is ambiguous

From a historical point of view both social democrats and right, conservative parties support training policies (Vlandas, 2013). Besides training policies may be beneficial both for the insiders as well as the outsiders on the labour market. This is because there are two types of training, namely training for the unemployed and training for the employed for market reasons (Martin, 2000). Social democrats may prefer policies where both insiders and outsiders can achieve a better position in the labour market. However, right wing parties are also interested in a high labour supply (Cronert, 2019). Therefore the expectation is that the effect of partisanship can both be negative and positive.

H3: the effect of having left or right wing parties in government on the use of employment incentives for the unemployed is ambiguous

Employment incentives contain a few different methods, including wage subsidies, job rotation and sharing. Wage subsidies encourage employees to hire unexperienced employers. The last two methods make an employed worker share or give away his job, which means that it benefits outsiders, but this may be at the expense of the insiders (OECD, 2015). Left wing parties will

be doubting this policy, because it can have a negative effect on insiders, but the possible positive effect for outsiders is quite big. Right wing parties on the other hand are interested in a high labour supply, which can be achieved via this policy (Cronet, 2019). On the basis of this the expectation is that the relation between left wing parties and employment incentives can be both negative and positive.

H4: left wing parties do spend more on sheltered and supported incentives than right wing parties

Most of the time sheltered incentives provide an ongoing support without a planned duration, it promotes labour market integration of persons who have a reduced working capacity (OECD, 2015). This program tries to reduce unemployment and promote market mechanisms by raising incentives, which left and right wing parties can appreciate (Vlandas, 2013). Most of the time the insiders don't experience much disadvantages, because the incentives are only indirectly linked to the labour market. Because of the ongoing support this policy is more likely to be a left wing party idea. Hence the relation between left wing parties and sheltered and supported incentives is expected to be positive.

H5: left wing parties do spend more on direct job creation than right wing parties

The creation of new jobs, mostly in the public sector, leads to more employment opportunities. As long as new, additional jobs are created the competition for insiders won't increase much, as they already have a job. As the unemployment reduces, the wages of the employed might go up. Which means that both the insiders and the outsiders' interests are satisfied (Vlandas, 2013). Therefore the relation between left wing parties and direct job creation is expected to be positive.

H6: left wing parties do spend less on start-up incentives than right wing parties

Start-up incentives try to make the unemployed undertake a business themselves. This could induce new firms that increase the competition in a specific market. More competition is a negative result for the insiders, which makes that the relation between left wing parties and start-up incentives is expected to be negative.

5 Research design & data collection

In this section the method of data collection will be described as well as some descriptive statistics to form a better idea of the data being used. Additionally, some graphs are shown to see the differences in ALMP's.

5.1 Method of data collection & analysis

This paper used panel data from 22 European OECD countries over the period 1998 to 2017 (OECD, 2020). The countries that are included in this paper are: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland and United Kingdom. For some years and countries, the information on ALMP's is missing. The time period under investigation starts in 1998, as ALMP spending was only limited before that year and ends in 2017, because that is the most recent year with available data. The dependent variables are spending on the ALMP's. Dependent variable on ALMP's, all measured in a logarithmic value as percentage of GDP, are spending on the Public Employment Service (PES), training, employment incentives, sheltered and supported work, direct job creating and start-up incentives. Economic effects can influence the spending on ALMP's, for each policy there is a regression where the percentage of GDP is divided by the unemployment rate. In this way it is possible to control for economic effects on the results of the analyses. Thirdly a regression with the ALMP as a share of the total spending on ALMP is conducted to see the relative importance of a specific ALMP.

The independent variable is the partisanship in countries over the years, the data achieved comes from Armingeon et al. (2015). Armingeon et al. (2015) made quite a sizeable dataset with political and institutional country-level data for 36 countries. Just a small part of the dataset is used, the variable gov_right2 and gov_left2 are combined as the independent variable partisanship. It measures the relative power of the left and right wing parties in the government based on the number of seats in the parliament. The number of days in office are also taken into account. The variable is named left and shows from 0 to 1 the relative power of left wing parties in government. Finally, to control for the performance of the labour market, the analyses control for unemployment rates, GDP growth and the openness of the country. The unemployment rates and GDP growth are measured as a percentage. The openness of a country is measured as the current account balance of a country as a percentage of GDP, which gives a summary of economic transactions of an economy with the rest of the world (OECD).

In table 3 the descriptive statistics of all the variables included are shown. The ALMP's are represented as the percentage of GDP spent on these policies. On average 0.16% of the total GDP is spent on PES. The variable left describes the degree of left wing parties in the government, when a government is fully filled with left wing parties this variable would be 1. The unemployment rate and GDP growth are shown in percentages and the openness is shown as a percentage of GDP. The mean unemployment rate and GDP growth are respectively 8,3% and 2,3%. Openness shows that the average account balance of a country 0,98% of GDP is.

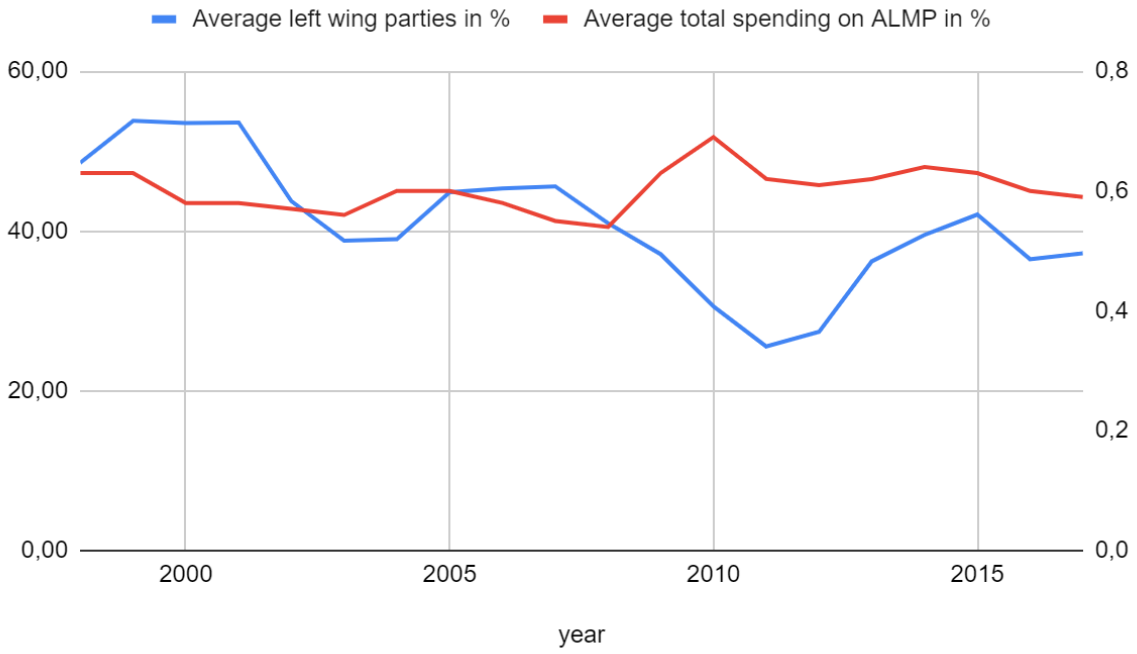
Table 3: Descriptive statistics

Variable	*Obs*	*Mean*	*Std. Dev.*	*Min*	*Max*
PES (% GDP)	394	0.160	0.094	0.03	0.47
Training (% GDP)	420	0.199	0.170	0	0.90
Employment incentives (% GDP)	419	0.131	0.122	0	0.65
Sheltered and supported employment (% GDP)	423	0.112	0.152	0	0.91
Direct job creation (% GDP)	423	0.815	0.111	0	0.76
Start-up incentive (% GDP)	427	0.170	0.027	0	0.15
Total (% GDP)	408	0.701	0.405	0.06	2.33
Left wing parties (%)	440	0.410	0.377	0	1
Unemployment rate (%)	420	8.279	4.523	1.81	27.7
GDP growth (%)	440	2.276	3.059	-14.81	25.16
Openness (% GDP)	393	0.979	6.063	-15.19	16.46

To create a better view on the potential relationship between partisanship and total ALMP spending, the graph below is shown. In table 4 on the left axis the percentage of left wing parties is shown and on the right axis the percentage of total spending on ALMP's is visible. The blue line illustrates the average amount of left wing parties in the government calculated over all countries included in our sample. The red line indicates the average of total spending on ALMP's in all countries. The lines do not have the same pattern, the red line is quite flat with an exception around 2010. The blue line has his ups and downs since the beginning. A striking fact is that the average total spending on ALMP's is increasing around

2010, while the average percentage of left wing parties in the government is decreasing. This is quite the opposite as expected based on the literature and hypotheses.

Table 4: Average left wing parties in government and average total spending for all countries in percentages

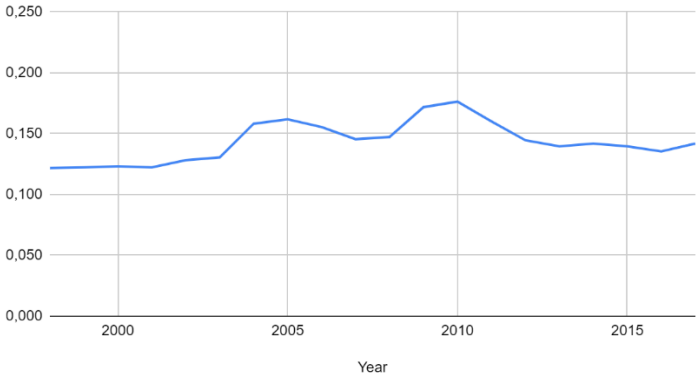


5.2 Differences between active labour market policies

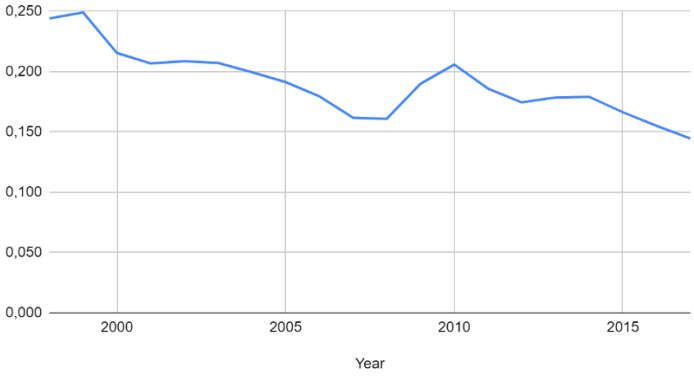
Next, we zoom into changes in spending on specific ALMP's, measured between 1998 and 2017. In this way it is easier to see which policies are thought to be more important or efficient by governments and whether the spending has increased or decreased. The graphs show substantial differences over time and instruments. The first thing that catches the eye is the very low spending on start-up incentives, less than 0,05% of GDP is spent on this policy. On the contrary, relatively much is spent on training. In the beginning about 0,25% of GDP and more recent around 0,15% of GDP. Additionally, most of the policies are quite stable over time. The spending on PES varies a bit and the spending on training decrease over time.

Not much can be concluded based on these graphs, because it shows the average of all countries over time and it is not very detailed. However, some policies are more popular than others and the fact that they increase or decrease over time is interesting. For example, the spending on training decreases over time, while the spending on sheltered and supported incentive increases. In the analyses it will become clear whether the small changes in the spending are due to differences in the government or that partisanship has nothing to do with it.

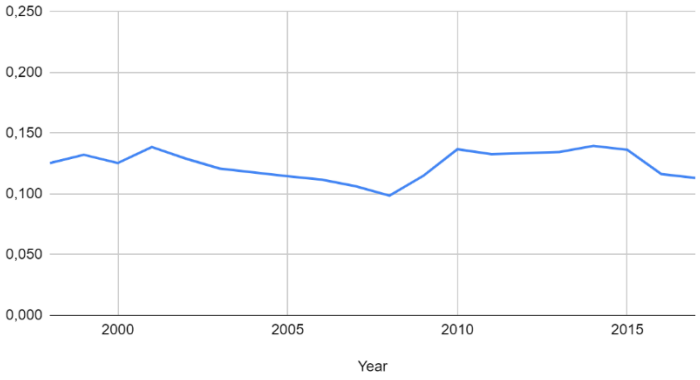
Spending on PES (in % of GDP)



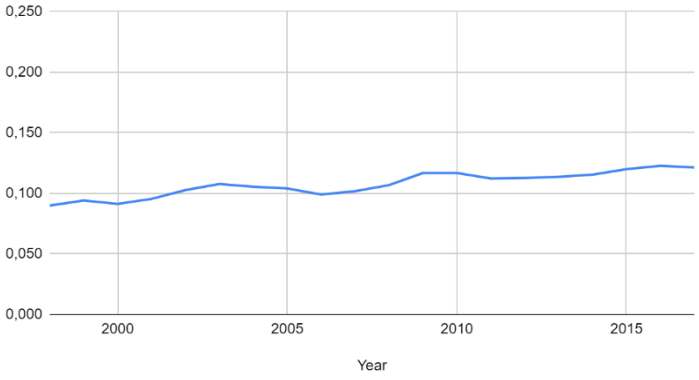
Spending on training (in % of GDP)



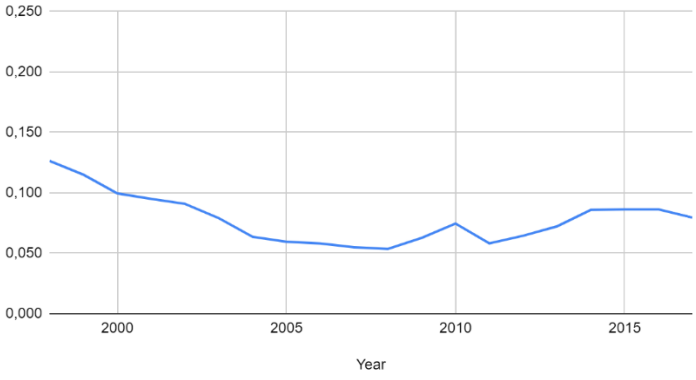
Spending on employment incentives (in % of GDP)



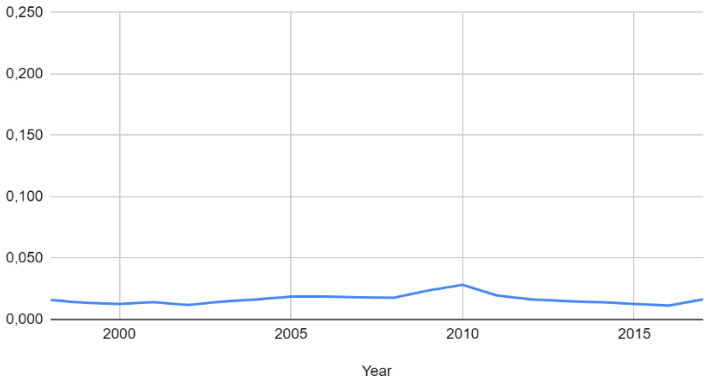
Spending on sheltered and supported incentive (in % of GDP)



Spending on direct job creation (in % of GDP)



Spending on start-up incentive (in % of GDP)



6 Analyses

Based on the data given in the paragraph above, the empirical analyses are conducted in three different ways, with all methods using the logarithmic values for spending measures. The first method used dependent variables that are divided by the unemployment rate, as to obtain a measure of ALMP spending per unemployed individual. The second regression is conducted with the "raw" dependent variables, without dividing. Accordingly, ALMP spending may be more subject to pro-cyclicality in this case. The last method used the dependent variable as a share of the total spending on ALMP's. This provides a measure for the relative importance of ALMP measures.

6.1 General model

To improve the validity and reliability of this paper these three ways are utilised. Each method is conducted in three successive steps: the first step includes a simple regression with a year dummy, the second regression also includes country dummies and the last regression also takes the control variables into account. The country dummy shows whether the variation falls mostly in a country or between countries. Overall, for each ALMP we have nine regressions. For simplicity and an easier understanding of the outcomes not all regressions are shown in the paper. In table 6 the third method is shown, which means that the variable is a share of the total ALMP's spending. The other regressions can be found in the appendix.

So the general regression model in this paper is tested as follows:

$$\ln(ALMP) = \beta 0 + \beta 1\, SHARE_{LEFT_{WING}} + \beta 2\, UNEMPLOYMENT_{RATE} + \beta 3\, GDP_{GROWTH} + \beta 4\, OPENNESS + D1\, YEAR + D2\, COUNTRY + RESIDUAL$$

ln(ALMP) is the dependent variable, which is divided in three versions. The first one where y is logarithmic value of the share of an ALMP of GDP divided by the unemployment rate, secondly the logarithmic value of the share of an ALMP of GDP and last the logarithmic version of a fraction of total ALMP spending. There are 6 dependent variables, because there are 6 different ALMP's. The explanatory variable is SHARE_LEFT_WING, which measures the amount of left wing parties in the government. The variable has a reach from 0 to 1, which means that 0,5 means that half of the government consist of left wing parties and half of right wing parties. To control for some economic effects the variables UNEMPLOYMENT_RATE, GDP_GROWTH and OPENNESS are included. The unemployment rate is measured as a

percentage, as well as the GDP growth. Openness is described as the current account balance of a country as a percentage of GDP. The dummy variables YEAR and COUNTRY complete the model. The variable YEAR includes the years 1998 up to and including 2017. The variable COUNTRY includes all 22 countries in Europe.

Table 5: Regressions on the total spending on active labour market policies (as a logarithmic value in percentage of GDP)

Column	1	2	3
	Outcome measure (i): Logarithmic value of total spending on ALMP divided by unemployment rate		
Left wing parties	-0.196	-0.058	0.001
Unemployment rate			-0.084**
GDP growth			-0.008
Openness			0.007
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	0.025	0.851	0.921
	Outcome measure (ii): Logarithmic value of total spending on ALMP		
Left wing parties	-0.120	0.022	0.029
Unemployment rate			0.004
GDP growth			-0.002
Openness			-0.001
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	0.024	0.876	0.871

*p<0,05 / **p<0,01

Table 5 consists of two parts, the total ALMP spending divided by the unemployment rate and the total ALMP spending. It shows a small positive relationship between the total spending and left wing parties, respectively 0.001 and 0.029. Which means that when the degree of left wing parties increase with 1 percentage point, the spending on ALMP's increases with 0.1% and 2.9%, which is a small, positive effect. An increase of 1 percentage point means that the total

government is filled with left wing parties, because the scale of the variable is only 0 to 1. Thus, a fully left wing government means an increase in spending with 0,1% and 2,9%. However, none of the outcomes are significant, which makes it hard to draw a conclusion based on these results. It is possible that other factors play a role, for example economic effects. It can be concluded that there is no evidence that left or right wing parties are spending more on ALMP's in general. The R^2 reveals that the variation can be explained mostly between countries and not within, because it is much higher in regressions with country dummies than without.

6.2 Specific results per ALMP

Next up the different ALMP's will be discussed separately to see whether partisanship influences the policies. The dependent variables used in table 6 are the ALMP's as a share of the total spending on ALMP's. Just one form of the dependent variables is used to simplify the reading of the results. Besides, only the regression with year and country dummies is shown. In the appendix the other forms of the dependent variables can be found. The results of the other regressions will be included in the discussion of the outcomes. The first row represent the different ALMP's: first the spending on PES, second on training, third on employment incentives, fourth on sheltered and supported incentives, fifth on direct job creation and sixth on start-up incentives.

Table 6: Regressions on the spending of different types of ALMP's (as a logarithmic value of the share of an ALMP of the total ALMP spending)

Column	PES	Training	Employment incentives	Sheltered incentives	Direct job creation	Start-up incentives
Left wing parties	-0.067	0.080	0.170**	-0.002	-0.073	0.300*
Unemployment rate	-0.000	0.045**	-0.035**	0.000	0.448**	0.020
GDP growth	0.008	0.009	-0.015	-0.016	0.024	0.015
Openness	-0.0241**	-0.021**	0.007	-0.005	-0.002	0.009
Year dummies	YES	YES	YES	YES	YES	YES
Country dummies	YES	YES	YES	YES	YES	YES
R^2	0.0733	0.833	0.784	0.893	0.792	0.785

*p < 0,05 / ** p < 0,01

Table 6 shows the relation between the different ALMP's and partisanship. The total spending on ALMP showed a small, positive relation with the amount of left wing parties in government. Despite being not significant it showed a positive effect twice. However, in table 6 some varying results are shown, three positive and three negative outcomes. Only two outcomes are significant, which means for PES, training, sheltered work and direct job creation no effect was found. The two significant outcomes show the opposite, namely that there is an effect of partisanship on the spending of ALMP. The first significant outcome is the one in column three, the spending on employment incentives and the other one is spending on start-up incentives. Both are positively related to left wing parties.

The hypothesis of the effect of left wing parties on the spending on PES and training was defined as ambiguous, because of the different advantages for insiders as well as outsiders. The not significant outcome is therefore no surprise, because the expectation was that the effect could either be positively or negatively related to left wing parties. There was not found an effect, which means that the degree of left wing or right wing parties in government does not

influence the spending on PES and training. The other two regressions, with the "raw" variable and the variable divided by unemployment, have the same outcomes. The outcomes are not significant, thus no effect was found. What is remarkable, is that the unemployment rate in the regressions on training spending are all significant. However, the regression with the variable divided by unemployed shows a negative relation, whether the other two regressions show a positive relation.

The other not significant variables are sheltered and supported work and direct job creation. Both were expected to be positively related to left wing parties, because of the ongoing and direct support. However, no effect was found for a positive nor negative relation with left wing parties. The other two regressions in the appendix show the same non-significant outcomes; no effect was found. The same phenomenon occurs for direct job creation as it did for training. The variable unemployment rate is significant for all three regressions, however, once negatively related and twice positively related.

The effect of left wing or right wing parties in government on the spending of employment incentives was hypothesized as ambiguous. The studies did not quite agree with each other on whether left or right wing parties would want to spend more on employment incentives. However, this paper shows a positive effect of left wing parties in government on the spending. When the government only consists of left wing parties the spending on employment incentives will increase with 17.0%, which seems like quite a large increase in spending. Nevertheless, in most cases governments will probably not only consist of left wing parties. The unemployment rate is also significant for this ALMP, it shows a small negative effect. Consequently, when the unemployment rate increases with 1%, the spending on employment incentives decreases with 3.5%. The other variables for this ALMP are not significant, therefore it can be concluded that no effects are found. The other two regressions in the appendix, with the "raw" variable and the variable divided by unemployment, show the same outcomes. They show a positive relation, respectively 21,5% and 17,7%. Thus, all three regressions find the same results, which strengthens the outcomes.

The hypothesis of the effect of left wing parties on the spending on start-up incentives was that they spend less on start-up incentives than right wing parties. Studies showed start-up incentives would lead to more competition, which is unfavourable for insiders. Left wing parties mostly support insiders as well as outsiders. Yet, this paper shows a positive effect of left wing parties in government on the spending of start-up incentives. The effect is quite large, because when the government only contains left wing parties the increase on start-up incentives is 30%. The other variables for this ALMP are not significant, therefore no further effects can be found.

The other two regressions in the appendix do not show the same results as these results are not significant. Therefore the regression with significant outcome cannot be strengthened by the other regressions.

It is also interesting that all the ALMP's show a high R^2 in table 6. Shown in the appendix the R^2 without the country dummies is far lower, which indicates that a substantial part of the variation is determined between countries instead of variation within a country. Therefore, much of the variation can be explained by the explanatory variable, the share of left wing parties in a government.

7 Conclusion

Despite very much literature has been written about ALMP's, not much consensus has been reached about the role of partisanship on the spending of ALMP's. This paper tries to contribute to the literature by dividing the different kind of ALMP's and analysing them separately. Besides, the partisanship was based on the number of seats in the parliament and the number of days in office. These two things combined will hopefully have led to some more detailed and significant outcomes.

Some studies were interested in the relationship between partisanship and ALMP's, but the results that were found were mixed (Hieda, 2015). The OECD divides the ALMP's in six different aspects and this paper used the separation to test the relationship with partisanship per ALMP. The analysis was based on 22 European countries from 1998 to 2017. Traditionally one would think that left wing parties are more interested in high spending on ALMP's to help people find a job. Nevertheless, different labour market policies can lead to different preferences of parties, and therefore it is too easy to conclude that left wing parties want to spend more on ALMP's (Vlandas, 2013; Nelson, 2013). In the end both left wing as well as right wing parties want to decrease the unemployment rate.

It comes as no surprise that partisanship does not show a significant relationship with the total spending on ALMP's. When dividing the ALMP's two policies show a significant effect, both are considered remarkable. The effect of having left or right wing parties in government on the spending on employment incentives was expected to be ambiguous, because both left wing and right wing parties are interested in a high labour supply, which is the aim of employment incentives. However, the results show a positive effect with the degree of left wing parties in government. These outcomes are in line with the outcomes of Nelson (2013), who also found a positive effect of left wing parties on spending of employment incentives. Surprisingly, the outcome Vlandas (2013) found was the opposite to this paper. He found a negative effect of left wing parties on the spending of employment incentives, which is remarkable. There is a small difference between his definition and the definition used in this paper. Vlandas (2013) included rehabilitation in the variable employment incentives, where this paper included rehabilitation in the variable sheltered and supported employment. The effect of left wing parties in government on the spending on start-up incentives was expected to be negative, because it would lead to more competition which may be disadvantageous for insiders. Surprisingly the effect comes out as positive, which means that more left wing parties would lead to more spending on start-up incentives. There are no other results about the degree of left wing parties on the spending on start-up incentives, thus it is hard to compare the

outcomes of this paper. PES, training, sheltered and supported employment and direct job creation had no significant outcomes. Vlandas (2013) has the same results, he found no effect for training and direct job creation. As he only included three variables, no outcomes for PES and sheltered and supported employment were mentioned in his paper. On the contrary, Nelson (2013) found a positive effect for training and direct job creation. PES and sheltered and supported employment were not included in his paper.

Based on the results from this paper the question *"What is the impact of partisanship on different active labour market policies in Europe? Does a predominantly left wing government spend more on active labour market policies than a predominantly right wing government?"* does not get an unambiguous answer. Three ALMP's show a negative effect with more left wing parties in government and three show a positive effect. However, just two relations are found significant, which makes it even harder to draw conclusions. What can be concluded is that further studies on the relation between partisanship and ALMP's should use the separated ALMP's instead of the total.

The insiders and outsiders by Rueda (2006) were mainly used to form the hypothesis, seeing the contradictory outcomes it might be profitable to include some other theories in further studies. Something that was not taken into account in this paper was the welfare regime of a country. It might be possible that the outcomes would be different if the analysis included the regimes. Besides, it can be interesting to compare the spending on ALMP's with the spending on passive labour market policies. Perhaps, some of the outcomes in this paper can be explained by an increase or decrease in the passive labour market policies.

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9 Appendix

Table 7: Regressions on PES spending (as a percentage of GDP)

Column	1	2	3
	Outcome measure (i): Logarithmic value of PES spending divided by unemployment		
Left	-.01799	-.15550*	-.08158
Unemployment rate			-.10334**
GDP growth			.00467
Openness			-.01625**
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0253	.7816	.8944
	Outcome measure (ii): Logarithmic value of PES spending		
Left	.02716	-.07887*	-.04256
Unemployment rate			-.00320
GDP growth			.00769
Openness			-.02436**
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0152	.8261	.8697
	Outcome measure (iii): Logarithmic value of the share of PES of total ALMP spending		
Left	.07542	-.08886*	-.06663
Unemployment rate			-.00029
GDP growth			.00825
Openness			-.02415**
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0491	.7036	.7326

*p<0,05 / **p<0,01

Table 8: Regressions on training spending (as a percentage of GDP)

Column	1	2	3
	Outcome measure (i): Logarithmic value of training spending divided by unemployment		
Left	-.14143	.06430	.08528
Unemployment rate			-.04192**
GDP growth			.00276
Openness			.-.01137
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0354	.9036	.9080
	Outcome measure (ii): Logarithmic value of training spending		
Left	-.02747	.18311	.11926
Unemployment rate			.04878**
GDP growth			.00745
Openness			-.02109
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0281	.8740	.8923
	Outcome measure (iii): Logarithmic value of the share of training of total ALMP spending		
Left	.07081	.14617*	.08038
Unemployment rate			.04498**
GDP growth			.00901
Openness			-.02130**
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0403	.7772	.8325

*p<0,05 / **p<0,01

Table 9: Regressions on employment incentive spending (as a percentage of GDP)

Column	1	2	3
	Outcome measure (i): Logarithmic value of employment incentive spending divided by unemployment		
Left	.01057	.11781	.17739**
Unemployment rate			-.11373**
GDP growth			-.02560*
Openness			-.00765
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0231	.7210	.8346
	Outcome measure (ii): Logarithmic value of employment incentive spending		
Left	.14625	.20916**	.21515**
Unemployment rate			-.02286*
GDP growth			-.01981
Openness			-.00222
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0236	.7372	.7710
	Outcome measure (iii): Logarithmic value of the share of employment incentive of total ALMP spending		
Left	.28320*	.17007**	.17008**
Unemployment rate			-.03464**
GDP growth			-.01471
Openness			.00658
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0233	.7535	.7836

*p<0,05 / **p<0,01

Table 10: Regressions on sheltered and supported employment spending (as a percentage of GDP)

Column	1	2	3
	Outcome measure (i): Logarithmic value of sheltered and supported employment spending divided by unemployment		
Left	-.27542	-.00369	.03242
Unemployment rate			-.09449**
GDP growth			-.02167
Openness			-.01058
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0123	.8909	.9158
	Outcome measure (ii): Logarithmic value of sheltered and supported employment spending		
Left	-.23585	.07535	.06160
Unemployment rate			.00343
GDP growth			-.01703
Openness			-.01737
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0112	.9069	.9048
	Outcome measure (iii): Logarithmic value of the share of sheltered and supported employment of total ALMP spending		
Left	-.16636	.01977	-.00211
Unemployment rate			.00003
GDP growth			-.01565
Openness			-.00509
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0121	.8918	.8934

*p<0,05 / **p<0,01

Table 11: Regressions on direct job creation spending (as a percentage of GDP)

Column	1	2	3
	Outcome measure (i): Logarithmic value of direct job creation spending divided by unemployment		
Left	-.37970*	-.21464*	-.13331
Unemployment rate			-.03900*
GDP growth			.01970
Openness			.00383
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	0.0537	0.7580	0.7641
	Outcome measure (ii): Logarithmic value of direct job creation spending		
Left	-.30339	-.09491	-.09745
Unemployment rate			.05365**
GDP growth			.02252
Openness			-.00278
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0473	.7199	.7397
	Outcome measure (iii): Logarithmic value of the share of direct job creation of total ALMP spending		
Left	-.17475	-.06499	-.07251
Unemployment rate			.04475**
GDP growth			.02430
Openness			-.00188
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0471	.7495	.7918

*p<0,05 / **p<0,01

Table 12: Regressions on start-up incentive spending (as a percentages of GDP)

Column	1	2	3
	Outcome measure (i): Logarithmic value of start-up incentive spending divided by unemployment		
Left	.08406	.14082	.21788
Unemployment rate			-.04964**
GDP growth			.00077
Openness			.00471
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	0.1171	0.4422	0.5226
	Outcome measure (ii): Logarithmic value of start-up incentive spending		
Left	.08694	.19924	.23817
Unemployment rate			.02667
GDP growth			.00082
Openness			-.00149
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0663	.5589	.6098
	Outcome measure (iii): Logarithmic value of the share of start-up incentive of total ALMP spending		
Left	.10208	.22870*	.30046*
Unemployment rate			.01974
GDP growth			.01473
Openness			.00881
Year dummies	YES	YES	YES
Country dummies	NO	YES	YES
R^2	.0564	.7553	.7853

*p<0,05 / **p<0,01