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# The political economy of social assistance and minimum income benefits: a comparative analysis across 26 OECD countries

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**Abstract** Social assistance benefit schemes are a peculiar type of welfare state program. As the electoral costs are relatively low, this program forms an obvious target for cost reduction in times of austerity. The aim of this study is to examine the determinants of the developments in social assistance benefits. We seek to make two contributions. First, this paper provides insight into the role of economic, political, and institutional determinants of the variation in social assistance benefits. Second, cross-national data on social expenditures and income replacement rates are available for several welfare state programs, but not for social assistance benefits. Presenting minimum income benefit replacement rates, this study analyzes the developments of social assistance benefits across 26 OECD countries over the past two decades. The analysis leads to the conclusion that budgetary pressure stemming from increased exposure to international trade and soaring levels of unemployment is associated with benefit cuts.

**Keywords** Comparative political economy · Welfare state · Globalization · Social assistance

## Introduction

With the return of mass unemployment and with substantial cutbacks in first-tire social insurance, social assistance has become an important safeguard against low income and poverty in Europe and other OECD countries (OECD 2016). Such

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minimum income benefit schemes provide an income for households that do not have sufficient other resources to support themselves. A number of studies in the comparative welfare state literature show that the generosity of social assistance benefits has declined in many OECD countries over the past few decades (Cantillon and Van den Bosch 2002; Hölsch and Kraus 2004; Lødemel and Moreira 2014; Nelson 2008; Van Mechelen and Marchal 2013; Wang and Van Vliet 2016a). Interestingly, there is substantial variation in the developments of social assistance benefits across countries. In some countries, benefits decreased more than in other countries and in a number of countries social assistance benefits were increased. The question is how to explain this variation. To date, insight into the sources of this variation has been limited. The aim of this study is to explore the determinants of the developments in social assistance benefits across 26 OECD countries over the past two decades.

One of the most discussed explanations for declining generosity levels of welfare state programs is the pressure stemming from economic developments, such as economic globalization or increased unemployment rates (Busemeyer 2009; Dreher 2006; Garrett and Mitchell 2001; Jensen 2012; Pierson 2001; Rodrik 1998; Swank 2002). With regard to globalization, governments tend to cut tax burdens in order to facilitate competitive conditions for domestic firms due to increasing competitiveness pressures in global markets. The resulting budgetary pressure triggers or contributes to reductions of social protection levels. Similarly, soaring levels of unemployment lead to high levels of social expenditures, which may put pressure on social assistance benefit schemes. At the same time, increasing exposure to economic globalization and high unemployment rates may lead to an increased demand from voters for social protection in order to compensate the increased economic insecurity. Providing benefits to the long-term unemployed, typical labor-market outsiders, social assistance benefit schemes form a peculiar type of welfare state program. As the long-term unemployed are not well organized and therefore weakly represented in the policy-making process, social assistance benefits may form an easy target when policy-makers have to deal with budgetary pressure. In this study, we assess the role of economic developments in the changes of social assistance benefits, accounting for several political and institutional factors.

This study seeks to make two contributions to the comparative political economy literature on the reform of social protection programs. In the comparative political economy literature, the determinants of the benefit levels of several welfare state programs have been examined, including unemployment benefits, sick pay benefits, and pension benefits (e.g. Allan and Scruggs 2004; Hicks and Freeman 2009; Korpi and Palme 2003; Swank 2011). Nelson (2013) has examined the impact of the increased attention for active labor market policies on the adequacy of social assistance. With respect to Nelson's study, we seek to make two contributions. First, we assess the role of a number of key variables from the comparative political economy literature, such as globalization, political parties and institutions. The second contribution has an empirical character. One reason for the small number of studies on the determinants of social assistance benefits is the limited availability of data. Cross-national data on social expenditures and income replacement rates are available for several welfare state programs, but not for social assistance benefits.



This came to an end when Nelson published the first version of the Social Assistance and Minimum Income Protection Dataset. Whereas Nelson (2013) analyzed social assistance adequacy, we present minimum income benefit replacement rates to analyze the developments of social assistance benefits across 26 advanced capitalist democracies.

The remainder of the article is organized as follows. In the first section, we discuss the literature and hypotheses regarding the determinants of minimum income benefits. The following section describes the data and measures of minimum income replacement rates and the independent variables as well as the methods used in the empirical analysis. Subsequently, the third section presents the developments of the minimum income replacement rates and the results of the regression analysis. The final section concludes.

## **Social assistance benefits, fiscal pressure and political institutions**

### **Social assistance and minimum income benefits**

Social assistance or minimum income benefits can be defined as public transfers that are aimed at helping individuals and households to obtain an adequate standard of living (Adema 2006; Immervoll et al. 2015). Another characteristic of minimum income benefits is that these schemes are generally means-tested and non-contributory schemes. Since basic social assistance allowances are usually supplemented with other low-income programs, such as child supplements and tax credits, we use the terms ‘social assistance’ and ‘minimum income’ benefits interchangeably in this article. An important goal of minimum income benefit schemes is preventing and reducing financial poverty. However, several recent studies have shown that in many OECD countries social assistance benefits are not sufficient for lifting households out of poverty (Figari et al. 2013; Marchal et al. 2014; Nelson 2013). Moreover, there are no signs that the trend of declining benefit levels has come to an end.

### **Pressure from globalization, unemployment and deindustrialization**

A first explanation for the declining trends in social assistance benefit levels may be the budgetary pressure stemming from economic globalization and soaring levels of unemployment. Over the past few decades, the process of globalization has accelerated rapidly across OECD countries, which has triggered an extensive scholarly debate on the relationship between economic openness and welfare generosity. This debate has been centered around the supply and the demand side of social protection. With respect to the supply side, the efficiency hypothesis states that policy makers are inclined to reduce tax burdens and social protection levels in order to lower labor costs and to provide attractive conditions for domestic producers (Garrett and Mitchell 2001). On the demand side, on the contrary, the compensation hypothesis predicts that social protection is extended to compensate



the increased labor market risks faced by people due to economic globalization (Rodrik 1998).<sup>1</sup>

In a similar vein, developments on domestic labor markets may put pressure on social assistance benefit schemes. High levels of unemployment lead to high expenditures on unemployment benefits and social assistance benefits. This increased spending puts pressure on the government budget and this pressure may trigger benefit cuts (Gaston and Rajaguru 2008; Huber and Stephens 1998; Saint-Paul 1996). At the same time, higher levels of unemployment also lead to a higher perceived risk of becoming unemployed for employees. This will increase the demand for social protection (Gaston and Rajaguru 2008; Jensen 2012).

The results of empirical studies on the effects of pressure from economic globalization and unemployment levels on welfare state reform are mixed. For globalization, some studies (e.g. Hicks and Zorn 2005) found positive effects on social protection levels, whereas other studies reported negative (e.g. Busemeyer 2009) or mixed effects (e.g. Brady et al. 2005). Similarly, Hicks and Zorn (2005) showed that soaring levels of unemployment have negative effects on the level of social protection, whereas Gaston and Rajaguru (2008) found that unemployment can have both positive and negative effects. To some extent, these differences in the results between studies are the result of methodological differences, such as different country and year samples or different model specifications.

More substantively, these mixed results indicate that globalization and unemployment yield both negative effects on social protection levels via the supply side and positive effects via the demand side. This combination of pressure on government budgets and an increased demand for social protection creates a dilemma for policy-makers. Hays (2009) has coined this the globalization dilemma. How policy-makers deal with this dilemma is contingent on the type of welfare state program, as is, therefore, the overall effect of globalization on the social protection level (Burgoon 2001). We argue that the overall effect of globalization on social assistance benefit levels can be expected to be negative.

When politicians are faced with budgetary pressure, a viable strategy for retrenchment is to consolidate the politically least costly program. Cutting social assistance benefit levels is electorally less costly than consolidating social insurance programs such as unemployment and disability benefits or broad universalistic programs such as education, health care or pensions, because for social assistance the number of beneficiaries and the perceived chance to become a beneficiary are relatively small. Moreover, the recipients of social assistance benefits—long-term unemployed—are barely organized and therefore relatively weakly represented in the policy-making process. Hence, demands for higher social assistance benefit levels in order to compensate increased economic risks are relatively ineffective. Another reason why their political position is relatively weak is that recipients of social assistance benefits cannot count on support from the general public. Van Oorschot (2006) has shown that in the perception of citizens, social assistance is the welfare state program that ranks the lowest in terms of deservingness. Hence, also

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<sup>1</sup> A growing number of studies provides evidence for the micro-level mechanisms of the compensation hypothesis (Scheve and Slaughter 2004; Walter 2017).



the argument that larger differences between social assistance benefit levels and wages contributes to a policy-agenda of making work more attractive is not controversial for large shares of the electorate. Whereas retrenchment of other welfare state programs could generate a lot of political turmoil, retrenchment of social assistance can be considered as ‘smooth consolidation’ (Offe 1991), making it an obvious target for cost reductions in times of budgetary pressure. In summary, increased demand for social protection and undermined public finances imply a dilemma for policy-makers. In the case of social assistance, we hypothesize that globalization and unemployment rates are negatively associated with benefit levels.

Another socio-economic development that can be expected to affect social policy changes is deindustrialization. Other than globalization and unemployment, the effect of deindustrialization only runs through the demand-side of social protection, not through the supply-side. Structural labor market changes resulting from the transitions from an industrial economy to an economy that is largely based on service sectors, come with economic risks for employees (Iversen and Cusack 2000).<sup>2</sup> When skills are barely transferable from industrial sectors to service sectors, structural long-term unemployment rises and this will increase the demand for social assistance. Hence, we hypothesize that deindustrialization is positively associated with minimum income replacement rates.

### **Politics and institutions**

How the pressure on the supply of and changes in the demand for social protection eventually shape the provision of social assistance benefits depends on political processes. In the comparative political economy literature, partisanship is considered to be an important factor to explain the variation in the generosity of welfare state programs. The central proposition is that left-wing parties have a preference for more generous social protection schemes than right-wing parties (Allan and Scruggs 2004; Korpi and Palme 2003). Although many scholars have argued that the impact of partisan government on welfare state trajectories has diminished (Huber and Stephens 2001; Pierson 2001; Ross 2000), recent work demonstrates that partisan theory is still relevant (Potrafke 2016; Swank 2013). Inspired by these studies, we examine to what extent left-wing parties are positively related to social assistance benefits.

Other actors that may play a role in the supply of and demand for social assistance are trade unions. They are usually considered as important actors in welfare state reforms and as strong defenders of social insurance programs (Rueda 2007). However, it might be argued that trade unions have different policy preferences with regard to social assistance benefits than with regard to social insurances. A first reason for this is that trade unions mainly represent the interests of the employed and the short-term unemployed workers whilst social assistance benefit recipients are mainly long-term unemployed. Secondly, in many countries, trade unions have been institutionally involved in the organization of social insurances. In order to protect the legitimacy of their organizations and the number

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<sup>2</sup> For a detailed analysis of micro-level mechanisms, see Rehm (2016).



of union members, trade unions have an interest in defending the generosity of social insurance schemes (Olson 1965). Moreover, when trade unions are involved in the organization of social insurance schemes, they have also a considerable degree of influence on policy changes. In contrast, trade unions do not have a formal responsibility in the provision of minimum income benefits, as they are provided by the state (Clegg 2014). Nevertheless, trade unions may have an important incentive to resist social assistance benefit cuts. The most important power source that unions possess is their control over the labor supply (Rothstein 1992). When benefit levels fall and the means of existence are affected, workers may have an incentive to underbid the union-set wage level. This will put pressure on the wage levels and the control of unions over the labor supply will be diminished, which forms a threat to union strength (Rothstein 1992; Wallerstein 1989). Therefore, we hypothesize that trade unions are positively associated with social assistance benefit levels.

Subsequently, also the institutional structure in which social partners bargain is associated with the generosity of the welfare benefits (e.g. Ebbinghaus and Hassels 2000). In a more centralized bargaining system, trade unions have more influence in the policy-making process and because of that they can counter benefit cuts more effectively. Hence, we expect that collective wage-bargaining is positively related to social assistance benefits. In addition, political institutions may be relevant factors in the social assistance policy-making process. Political constraints such as veto points reduce the feasibility of policy changes (Henisz 2002). Therefore, one may either expect political constraints to be associated with less retrenchment (Huber and Stephens 2001). However, one may also expect that veto points are negatively associated with social assistance benefit levels. One explanation is that in an institutionally fragmented system, pro-welfare constituencies are politically weak and hence less capable of resisting benefit cuts (Swank 2002). An alternative explanation is that in an institutionally fragmented system governments are better able to avoid blame for unpopular decisions such as benefit cuts (Bonoli 2001; Jensen and Mortensen 2014).

Finally, the study accounts for the type of electoral system. In a system of proportional representation, parties with egalitarian policy goals are provided with more institutional opportunities to pursue widely supported policies or to resist benefit cuts (Iversen and Soskice 2006; Martin and Swank 2004). Thus, it is expected that proportional representation systems are positively associated with social assistance benefits.

## Data, measures and method

### Dependent variable

The dependent variable of this study is the net minimum income replacement rate, which is defined as the ratio of the net minimum income benefit level to the net average production worker wage (Wang and Van Vliet 2016b). This indicator gives an impression of the level of social assistance benefits relative to the wages in a country.



Specifically, data for minimum income benefits are derived from the Social Assistance and Minimum Income Benefit Interim Dataset (Nelson 2013). The minimum income benefit package includes basic allowance, child supplements, other supplements and tax credits.<sup>3</sup> The denominator, the average production worker wage, is defined as the in-work wage after deducting taxes. For the average production worker wage, we used data from the OECD and Van Vliet and Caminada (2012).

The replacement rate is the simple average of the replacement rates calculated for three household types: single persons, lone parents with two children, and households with two parents and two children. It is assumed that each type-case has zero labor earnings and has no access to contributory benefits (Nelson 2012).

Although replacement rates can be seen as useful measures to compare social rights across countries and over time, they have a number of limitations too (Danforth and Stephens 2013; Whiteford 1995). A first limitation is that the duration of benefit programs is often difficult to capture with income replacement rates. Arguably, this issue is less problematic for social assistance benefits than for unemployment benefits, as there is often no maximum duration for social assistance benefits, whereas in many countries the duration of unemployment benefits is maximized. Similarly, social assistance benefit levels are—in absence of policy reforms—usually constant over time, whereas for instance unemployment benefit levels can vary over the unemployment spell of an individual. Furthermore, social assistance benefit levels are usually not related to previous earned income, whereas unemployment or disability benefits are (Wang and Van Vliet 2016a). An important limitation of income replacement rates, that applies as much to social assistance benefits as to other welfare state programs, is that they do not account for variation in institutional characteristics, such as eligibility conditions, work requirements, and benefit sanctions.<sup>4</sup>

## Independent variables

The measures and data sources of the independent variables are presented in Table 1. To assess the role of globalization, we include two different variables. The first one is trade openness, measured as the sum of exports and imports of goods and services as a percentage of GDP. The second indicator is capital openness, measured

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<sup>3</sup> One-time social assistance allowances to cover unexpected and urgent needs or regular benefits to cover exceptional needs are not included in this benefit package. Furthermore, housing supplements are not included. The inclusion of housing supplements requires a number of demanding assumptions. Van Mechelen et al. (2011) have shown that the assumptions regarding the actual housing costs strongly determine the resulting benefit indicators. Therefore, we follow Scruggs' (2005) approach and exclude the housing supplements from our minimum income benefit package.

<sup>4</sup> An important aspect of social assistance benefit programs is the coverage rate or take-up rate, which measures the extent to which individuals are entitled to the benefits. Recently, the OECD has published the Social Benefit Recipients Database but the data for social assistance benefit recipients are only available for the period 2007–2012 for lone parents (OECD 2016). These data show that between 2008 and 2012, long-term unemployment has surged and the number of recipients of social assistance increased. Longitudinal internationally comparable information on coverage rates of social assistance benefit recipients is scarce. Therefore, we do not include the coverage rate in our analysis.



**Table 1** Explanatory variables, 26 OECD countries, 1990–2009

Variable	Measure	N	Mean	SD	Source
Trade openness	Sum of exports and imports of goods and services measured as a share of gross domestic product	517	81.51	39.60	World Bank (2012)
Capital openness	Sum of net inflows and outflows of foreign direct investment as a percentage of GDP	494	6.88	9.50	World Bank (2012)
Left-wing governments	Social democratic and other left-wing parties as a percentage of total cabinet posts, weighted by the number of days the government was in office in a given year	508	36.23	36.40	Armingeon et al. (2012)
Union density	Net union membership as a proportion of wage and salary earners in employment	480	34.85	20.12	Armingeon et al. (2012)
Wage coordination	5-point of coordination of wage-setting; 5 = economy-wide bargaining; 4 = mixed industry and economy-wide bargaining; 3 = industry bargaining with no or irregular pattern setting; 2 = mixed or alternating industry- and firm level bargaining; 1 = fragmented bargaining	515	2.84	1.32	Visser (2013)
Political constraints	The number of independent branches of government (executive, lower and upper legislative chambers) with veto power over policy change	510	0.47	0.12	Henisz (2002)
Electoral system	1 = proportional representation; 0 = otherwise	510	0.84	0.37	Beck et al. (2001)
Unemployment rate	The share of the labor force that is without work but available for seeking employment	508	7.69	3.85	World Bank (2012)
Deindustrialization	100 minus the sum of manufacturing and agricultural employment as a percentage of the working age population	505	77.20	5.26	OECD (2014)
GDP per capita (* 10 <sup>-3</sup> )	PPP converted GDP per capita (Laspeyres), derived from growth rates of c, g, I, at 2005 constant prices	520	26.82	9.12	Heston et al. (2012)



as the sum of inflows and outflows of foreign direct investment as a percentage of GDP. For both indicators, data are taken from the World Bank (2012). To explore the role of partisan politics, we take a conventional measure from the comparative political economy literature, which is the percentage of left-wing cabinet posts (Allan and Scruggs 2004). For the union density and the coordination of wage-setting, we use data from Armingeon et al. (2012) and Visser (2013) respectively. Furthermore, the study accounts for the number of institutional veto points and for the type of electoral system. For deindustrialization, we include the measure proposed by Iversen and Cusack (2000). Finally, the study accounts for the variation in GDP per capita, and the fiscal pressure stemming from the unemployment rate.

## Method

The analyses are based on pooled time-series-cross-sectional data for 26 OECD countries, including: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Italy, Japan, New Zealand, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, the Netherlands, the United Kingdom, and the United States. As such, the study includes Western-European, Central and Eastern European and other OECD countries. The study is focused on the period 1990–2009 as this is the period for which most data is available.

To examine the variation in minimum income benefit replacement rates, this study relies on an error correction model (ECM). The ECM has become a conventional estimator in studies on pooled time-series-cross-sectional data in the field of comparative political economy (e.g. Ansell and Gingrich 2013; Iversen and Cusack 2000; Swank 2011). In an error correction specification, first-differences of the dependent variable are regressed on the lagged level of the dependent variable and on both the first-differences and the lagged levels of the independent variables. As such, the estimators are able to capture both short-term transitory effects and long-term structural effects of the independent variables by the first-differenced variables and the lagged levels respectively (De Boef and Keele 2008). The estimating equation takes the following general form:

$$\Delta Y_{i,t} = \alpha + \beta Y_{i,t-1} + \sum \delta_j X_{i,t-1} + \sum \gamma_j \Delta X_{i,t} + \varepsilon_{i,t}$$

Here,  $\alpha$  refers to the intercept.  $\Delta Y_{i,t}$  stands for the changes in the dependent variable in country  $i$  and year  $t$ .  $Y_{i,t-1}$  represents the lagged levels of the dependent variable. In this study,  $Y$  refers to the minimum income replacement rate.  $X$  denotes a vector of explanatory variables. The first differences and lagged levels of the explanatory variables are denoted by  $\Delta X_{i,t}$  and  $X_{i,t-1}$  respectively and  $\varepsilon_{i,t}$  is the error term.

The inclusion of both a lagged dependent variable and country-fixed effects might render the estimator inconsistent (Nickell 1981). However, it is most likely that this problem occurs when the number of countries is large and the times series is very short (Beck and Katz 2011). This seems to be unlikely in our dataset, as it consists of 26 countries and 20 years. Nevertheless, we estimate models with and without country fixed-effects. Furthermore, panel-corrected standard errors are



applied to correct for panel-heteroscedasticity and contemporaneous spatial correlation (Beck and Katz 2011).

## Empirical analysis

### Descriptive statistics

Table 2 shows that the net minimum income replacement rates vary considerably across the 26 OECD countries and over time. In 1990, the highest replacement rates could be observed in Czech Republic, Sweden and Finland, whereas in 2009, Denmark, Ireland and Italy had the highest replacement rates. In 1990, the countries with the lowest replacement rates were the United States, Germany and Norway. In 2009, the United States, Estonia and Czech Republic were the countries with the lowest replacement rates. These shifts in the rankings already indicate that there have been quite some changes in the course of time. On average, the replacement rates decreased from 50.8 % in 1995 to 42.4 % in 2009. Moreover, the data show that the replacement rates declined in most of the countries. This declining trend is in line with developments reported in other studies (Van Mechelen and Marchal 2013). Furthermore, there is quite some variation in the developments of the replacement rates across countries. The largest increases can be found in Italy and Denmark with 9.3 and 8.5 percentage points respectively. Substantial decreases are observed in Czech Republic and Slovakia. In these countries, minimum income replacement rates dropped with 49.6 and 30.4 percentage points respectively.<sup>5</sup> To examine the sources of this variation in developments across countries, we continue with regression analyses.

### Regression results

Table 3 presents the regression results of the minimum income replacement rates across 26 OECD countries for the period 1990–2009. Model 1 shows that trade openness is negatively and significantly associated with minimum income replacement rates. This result provides evidence for the efficiency hypothesis stating that economic globalization puts pressure on minimum income protection programs. The predicted, long-term effect of an increase in trade openness of roughly 25 percentage points (e.g., the Netherlands 1990–2000) is a reduction of the replacement rate of 2.2 percentage points.<sup>6</sup> Furthermore, the results show negative coefficients for the unemployment rate. The predicted long-term reduction of the replacement rate as a consequence of an increase in the unemployment rate of roughly 2 percentage points (e.g., Germany 1990–2009) amounts 3.7 percentage points. In line with our expectations, these results suggest that when countries are

<sup>5</sup> A sensitivity analysis reported below indicates that the regression results are not contingent on these large changes in the Central and Eastern European countries.

<sup>6</sup> This prediction is calculated by dividing the coefficient of the lagged-level variable ( $-0.005$ ) by the negative coefficient of the lagged dependent variable ( $-(-0.056)$ ) and then multiplying by 25. See Iversen and Cusack (2000, pp. 330–331) and Busemeyer (2009, p. 479).



**Table 2** Net minimum income replacement rates

	1990	1995	2000	2005	2009	Change 1990–2009
Australia	47.8	47.5	45.7	45.3	40.9	– 6.9
Austria	43.4	45.1	43.5	43.7	44.4	1.0
Belgium	47.7	48.5	47.7	46.3	47.3	– 0.4
Canada	61.0	60.7	47.7	41.7	42.7	– 18.3
Czech Republic	74.8	70.5	57.1	52.9	25.3	– 49.6
Denmark	53.2	67.4	67.2	64.6	61.7	8.5
Estonia		34.8	28.5	25.7	23.9	
Finland	58.6	53.4	46.0	41.2	39.0	– 19.6
France	40.6	40.4	40.6	39.1	38.0	– 2.5
Germany	36.6	37.6	33.6	38.3	36.9	0.3
Hungary	48.0	61.1	34.2	31.8	49.4	1.3
Ireland	48.4	46.9	39.9	44.4	50.9	2.5
Italy	57.7	53.8	56.1	62.4	67.1	9.3
Japan	54.0	55.9	56.4	57.5	59.6	5.6
Netherlands	59.3	60.9	55.3	48.8	51.7	– 7.6
New Zealand	50.8	47.4	42.5	43.1	38.0	– 12.9
Norway	39.7	44.5	51.7	45.1	41.9	2.1
Poland		59.6	51.2	47.8	38.1	
Portugal		45.3	49.0	49.9	49.7	
Slovakia	62.3	53.2	56.8	31.9	31.9	– 30.4
Slovenia		78.8	50.8	59.9	57.1	
Spain	50.9	39.5	34.0	35.0	34.0	– 16.9
Sweden	60.9	58.9	44.4	43.1	38.7	– 22.2
Switzerland	38.7	38.1	41.4	32.9	30.8	– 8.0
United Kingdom	38.0	39.9	38.5	37.5	41.8	3.8
United States	35.0	32.3	26.8	24.6	22.5	– 12.5
Mean OECD-26		50.8	45.6	43.6	42.4	
SD		11.6	9.7	10.3	11.4	
Coefficient of variation		0.2	0.2	0.2	0.3	

Simple average of minimum income replacement rates of three household types: single persons, lone parents with two children and two parents with two children

Data years are around 1990 (Hungary, 1992; Czech Republic, Slovakia, 1993), or around 1995 (Portugal, 1996)

Source: Social Assistance and Minimum Income Levels and Replacement Rates Dataset (Wang and Van Vliet 2016b)

increasingly exposed to economic globalization or when rising unemployment rates lead to budgetary pressure, social assistance benefit levels are subject to cuts.

Interestingly, Model 2 indicates that capital openness is positively associated with minimum income replacement rates, although only the short-run effect is significant. Apparently, capital openness captures some of the mechanism



**Table 3** Minimum income replacement rates, 26 OECD countries, 1990–2009

	Model (1)	Model (2)	Model (3)
<i>Globalization</i>			
Trade openness ( $t - 1$ )	- 0.005** (- 2.40)		- 0.009** (- 2.50)
$\Delta$ Trade openness	0.007 (0.31)		- 0.011 (- 0.51)
Capital openness ( $t - 1$ )		0.005 (0.49)	0.023 (1.51)
$\Delta$ Capital openness		0.048*** (4.44)	0.057*** (4.26)
<i>Domestic institutions</i>			
Left government ( $t - 1$ )	0.001 (0.50)	0.001 (0.49)	0.000 (- 0.08)
$\Delta$ Left government	0.001 (0.34)	0.000 (- 0.10)	- 0.001 (- 0.16)
Union density ( $t - 1$ )	0.001 (0.22)	0.000 (- 0.11)	0.001 (0.31)
$\Delta$ Union density	0.240*** (5.07)	0.260*** (5.85)	0.228*** (4.71)
Wage coordination	0.383*** (4.41)	0.401*** (4.43)	0.402*** (4.26)
Political constraints	- 1.752** (- 2.30)	- 2.273*** (- 3.25)	- 2.047*** (- 2.99)
Electoral system	0.184 (0.84)	- 0.099 (- 0.61)	0.203 (0.86)
<i>Socio-economic variables</i>			
Unemployment ( $t - 1$ )	- 0.104*** (- 3.40)	- 0.096*** (- 3.68)	- 0.109*** (- 4.41)
$\Delta$ Unemployment	- 0.169 (- 1.53)	- 0.240** (- 2.25)	- 0.236** (- 2.11)
Deindustrialization ( $t - 1$ )	0.058*** (3.09)	0.033 (1.63)	0.047** (2.05)
$\Delta$ Deindustrialization	0.227* (1.77)	0.301** (2.50)	0.326** (2.51)
GDP per capita $\times 10^{-3}$ ( $t - 1$ )	- 0.036** (- 2.46)	- 0.022 (- 1.31)	- 0.035* (- 1.81)
$\Delta$ GDP per capita $\times 10^{-3}$	- 0.196 (- 1.45)	- 0.269** (- 2.28)	- 0.221 (- 1.39)
Replacement rate ( $t - 1$ )	- 0.056*** (- 4.91)	- 0.054*** (- 5.09)	- 0.058*** (- 4.91)
Constant	- 0.435 (- 0.37)	0.959 (0.69)	0.642 (0.49)
Country-fixed effects	No	No	No
Observations	427	414	413



**Table 3** continued

	Model (1)	Model (2)	Model (3)
Adj. $R^2$	0.049	0.069	0.073

Unstandardized coefficients; t statistics in the parentheses

\* Significant at 0.1; \*\* significant at 0.05; \*\*\* significant at 0.01

underlying the compensation hypothesis. In Model 3, trade openness and capital openness are included simultaneously and the results are comparable to the results shown in Model 1 and 2. Below, we examine the magnitude of both effects in more detail.

As expected, the results show a positive coefficient for deindustrialization. This suggests that as a consequence of structural transitions on the labor market, the demand for social assistance increases in order to compensate the increased levels of economic risks.

Turning to the domestic institutions, the models do not show significant results for left-wing governments. With regard to union density, we find positive coefficients for the short run, but the coefficients of the long-run effects are not significant. The positive coefficients provide support for the argument that trade unions aim to prevent reductions of benefit levels, as lower benefit levels could undercut wage levels. Furthermore, the results for the level of wage coordination suggest that economy-wide bargaining is positively related with social assistance benefits, which corresponds with our expectation.

Political constraints are negatively associated with minimum income replacement rates. This result is not in line with the argument that institutional veto points constrain the governments' ability to retrench benefits (Huber and Stephens 2001). Instead, this result provides support for the hypotheses that in an institutionally fragmented system, pro-welfare constituencies are less capable of resisting benefit reform (Swank 2002) or that governments can better diffuse blame for unpopular decisions (Jensen and Mortensen 2014). Finally, the results indicate that the type of electoral system is not associated with social assistance benefit reform.<sup>7</sup>

### Sensitivity analyses

To examine the robustness of our results, we employ a number of sensitivity analyses. The results are presented in Table 4. First, we add country-fixed effects to the error correction model. The variables wage coordination, political constraints and the electoral system cannot be included, as these variables do not vary over time. As shown in Model 4, the results are largely in line with the results of the models presented above. In the fixed-effects model, also the lagged level of capital

<sup>7</sup> We have also examined indirect effects of the domestic institutions by including interaction variables between globalization and unemployment rates and institutional variables. We did not find robust results for such indirect effects.



**Table 4** Country-fixed effects models of minimum income replacement rates

	(4)	(5)
<i>Globalization</i>		
Trade openness ( $t - 1$ )	- 0.036** (- 2.30)	- 0.033** (- 2.07)
$\Delta$ Trade openness	0.003 (0.12)	0.003 (0.16)
Capital openness ( $t - 1$ )	0.060*** (3.19)	0.062*** (3.34)
$\Delta$ Capital openness	0.070*** (5.07)	0.070*** (5.05)
<i>Domestic institutions</i>		
Left government ( $t - 1$ )	0.003* (1.75)	0.004* (1.81)
$\Delta$ Left government	0.000 (0.02)	0.000 (0.08)
Union density ( $t - 1$ )	0.049* (1.67)	0.050* (1.76)
$\Delta$ Union density	0.144* (1.66)	0.140* (1.69)
<i>Socio-economic variables</i>		
Unemployment ( $t - 1$ )	- 0.093* (- 1.82)	- 0.098** (- 1.97)
$\Delta$ Unemployment	- 0.154 (- 1.60)	- 0.165* (- 1.74)
Deindustrialization ( $t - 1$ )	0.048 (0.61)	0.062 (0.78)
$\Delta$ Deindustrialization	0.392*** (2.73)	0.403*** (2.81)
GDP per capita $\times 10^{-3}$ ( $t - 1$ )	- 0.058 (- 1.03)	- 0.057 (- 1.07)
$\Delta$ GDP per capita $\times 10^{-3}$	- 0.328** (- 1.99)	- 0.430** (- 1.98)
Crisis dummy		- 0.402 (- 1.38)
Replacement rate ( $t - 1$ )	- 0.201*** (- 7.62)	- 0.204*** (- 7.90)
Constant	7.802** (1.97)	6.821 (1.63)
Country-fixed effects	Yes	Yes
Observations	413	413
Adj. $R^2$	0.161	0.160

Unstandardized coefficients; t statistics in the parentheses

\* Significant at 0.1;

\*\* significant at 0.05;

\*\*\* significant at 0.01



openness is positively associated with minimum income benefits. When we compare the effects of trade and capital openness, the magnitude of the coefficient of the lagged-level is larger for capital than for trade openness. However, in most countries, the growth in international trade exceeded the growth in capital mobility. Between 1990 and 2008, trade openness increased on average with 33 percentage points (from 65 to 98), whilst capital openness increased on average with 9 percentage points (from 3 to 12).<sup>8</sup> Hence, the predicted long-term effects are that trade openness contributed to a decline of the replacement rates of on average 6 percentage points, whilst capital openness contributed to an increase of the replacement rates of on average 3 percentage points. Together, these results provide evidence for both the efficiency and the compensation hypothesis. Governments face a globalization dilemma, as increased economic openness increases the demand for social protection, whilst it undermines the budgetary means for providing such a safety net. As expected, the results suggest that the negative effect is stronger than the positive effect.

Another notable difference between Tables 3 and 4 is the result for left-wing governments. Model 4 shows a positive and significant coefficient for left-wing governments. This result suggests that left-wing governments are associated with higher benefit levels—or fewer benefit cuts—which is in line with partisan theory. From a methodological perspective, it is an interesting observation that the models without country-fixed effects do not yield significant results, whereas when we focus the analysis on the within-country variation, we do find significant results. This suggests that the classification of political parties into left and right is more meaningful within countries than across countries (Häusermann et al. 2013). However, it should be noted that the magnitude of the association is rather limited. An increase of left-cabinet seats of roughly 50 percentage points (e.g., Austria 2006) would imply a predicted increase of the minimum income benefit replacement rate of 0.75 percentage points.

As social assistance is an obvious candidate for retrenchments in times of economic downturns, it might be expected that the global financial crisis has had a major impact on social assistance benefits (Van Kersbergen et al. 2014). To assess the effects of the crisis, we add a dummy variable to the regressions, that is scored 1 for 2008 and 2009 and 0 for the years before. Model 5 shows an insignificant coefficients for the crisis dummy and largely replicated coefficients for the other variables. These results suggest that—other than indirectly through other factors such as higher unemployment rates and lower GDP per capita—the changes in social assistance benefits during the crisis-years are not substantially different from the changes in the period before the crisis.

Finally, we examine the sensitivity of the results for the inclusion of Central and Eastern European countries (CEECs), as social policies may follow distinct reform paths in these countries (Leibrecht et al. 2011). We include a dummy variable, that is coded 1 for Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia and 0 for the other countries. Subsequently, we include interactions of this dummy

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<sup>8</sup> The difference in developments between trade and capital openness is even larger for the years 1990 and 2009 (instead of 2008), as FDI decreased substantially as a result of the financial crisis in 2009.



Table 5 Sensitivity analysis for Central and Eastern European Countries

	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
<i>Globalization</i>								
Trade openness ( $t - 1$ )	- 0.036** (- 2.30)	- 0.032* (- 1.91)	- 0.036*** (- 2.74)	- 0.035** (- 2.40)	- 0.032** (- 2.14)	- 0.029* (- 1.85)	- 0.031** (- 2.10)	- 0.027* (- 1.85)
$\Delta$ Trade openness	0.003 (0.12)	- 0.021 (- 0.85)	0.005 (0.25)	- 0.007 (- 0.32)	0.005 (0.21)	0.016 (0.70)	0.011 (0.51)	0.011 (0.53)
Capital openness ( $t - 1$ )	0.060*** (3.19)	0.064*** (3.83)	0.007 (0.54)	0.054*** (2.99)	0.065*** (3.57)	0.054*** (2.76)	0.058*** (2.98)	0.062*** (3.47)
$\Delta$ Capital openness	0.070*** (5.07)	0.075*** (5.91)	0.008 (0.69)	0.067*** (4.80)	0.073*** (5.43)	0.066*** (4.62)	0.068*** (4.79)	0.071*** (5.37)
<i>Domestic institutions</i>								
Left government ( $t - 1$ )	0.003* (1.75)	0.003 (1.43)	0.003* (1.93)	0.000 (- 0.12)	0.003 (1.59)	0.004** (2.14)	0.004* (1.89)	0.003 (1.45)
$\Delta$ Left government	0.000 (0.02)	0.000 (- 0.04)	0.001 (0.36)	0.002 (0.46)	- 0.001 (- 0.43)	- 0.001 (- 0.30)	- 0.001 (- 0.34)	- 0.002 (- 0.45)
Union density ( $t - 1$ )	0.049* (1.67)	0.032 (1.21)	0.066*** (2.45)	0.061*** (2.26)	- 0.029 (- 1.13)	0.057* (1.95)	0.026 (0.88)	0.009 (0.34)
$\Delta$ Union density	0.144* (1.66)	0.143* (1.73)	0.131 (1.53)	0.101 (1.25)	0.145* (1.65)	0.176** (2.03)	0.153* (1.78)	0.185*** (2.35)
<i>Socio-economic variables</i>								
Unemployment ( $t - 1$ )	- 0.093* (- 1.82)	- 0.094* (- 1.85)	- 0.136** (- 2.38)	- 0.151** (- 2.23)	- 0.082* (- 1.66)	- 0.067 <sup>a</sup> (- 1.62)	- 0.077* (- 1.69)	- 0.105** (- 2.18)
$\Delta$ Unemployment	- 0.154 (- 1.60)	- 0.138 (- 1.51)	- 0.213** (- 2.44)	- 0.119 (- 1.05)	- 0.127 (- 1.43)	- 0.299*** (- 3.16)	- 0.190*** (- 2.23)	- 0.192** (- 2.12)
Deindustrialization ( $t - 1$ )	0.048 (0.61)	0.05 (0.68)	0.094 (1.04)	0.09 (1.10)	0.051 (0.68)	0.036 (0.46)	0.067 (0.84)	0.054 (0.71)



Table 5 continued

	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
$\Delta$ Deindustrialization	0.392*** (2.73)	0.372*** (2.71)	0.459*** (3.39)	0.380** (2.45)	0.328** (2.37)	0.390*** (2.63)	0.313** (2.15)	0.321** (2.37)
GDP per capita $\times 10^{-3}$ ( $t - 1$ )	-0.058 (-1.03)	-0.083* (-1.66)	-0.043 (-0.86)	-0.076 (-1.30)	-0.126** (-2.22)	-0.05 (-0.92)	-0.081 (-1.42)	-0.108** (-2.02)
$\Delta$ GDP per capita $\times 10^{-3}$	-0.328** (-1.99)	-0.293* (-1.84)	-0.199 (-1.48)	-0.289* (-1.77)	-0.374** (-2.33)	-0.454*** (-2.71)	-0.417** (-2.43)	-0.392** (-2.37)
<i>Central and Eastern European Countries</i>								
CEECs dummy	0.688 (0.28)	3.235 (0.93)	1.549 (0.68)	0.212 (0.09)	-5.266** (-2.09)	1.912 (0.65)	21.245* (1.90)	5.794** (2.00)
CEECs dummy $\times$ Trade openness ( $t - 1$ )		-0.024 (-1.10)						
$\Delta$ (CEECs dummy $\times$ Trade openness)		0.053 (1.21)						
CEECs dummy $\times$ Capital openness ( $t - 1$ )			0.060*** (3.93)					
$\Delta$ (CEECs dummy $\times$ Capital openness)			0.221*** (11.17)					
CEECs dummy $\times$ Left government ( $t - 1$ )				0.039*** (3.79)				
$\Delta$ (CEECs dummy $\times$ Left government)				-0.006 (-0.36)				
CEECs dummy $\times$ Union density ( $t - 1$ )					0.169*** (3.30)			
$\Delta$ (CEECs dummy $\times$ Union density)					0.215 (0.98)			



Table 5 continued

	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
CEECs dummy $\times$ Unemployment ( $t - 1$ )						- 0.133 (- 1.51)		
$\Delta$ (CEECs dummy $\times$ Unemployment)						0.375*** (3.00)		
CEECs dummy $\times$ Deindustrialization ( $t - 1$ )							- 0.292* (- 1.93)	
$\Delta$ (CEECs dummy $\times$ Deindustrialization)							0.367 (1.42)	
CEECs dummy $\times$ GDP per capita $\times 10^{-3}$ ( $t - 1$ )								- 0.413*** (- 4.27)
$\Delta$ (CEECs dummy $\times$ GDP per capita $\times 10^{-3}$ )								- 1.278*** (- 2.61)
Replacement rate ( $t - 1$ )	- 0.201*** (- 7.62)	- 0.207*** (- 8.74)	- 0.200*** (- 8.01)	- 0.204*** (- 8.14)	- 0.222*** (- 8.27)	- 0.199*** (- 7.83)	- 0.205*** (- 8.01)	- 0.222*** (- 8.50)
Constant	7.802** (1.97)	9.088** (2.47)	3.485 (0.68)	5.307 (1.33)	12.864*** (3.52)	7.924* (1.93)	7.647* (1.84)	11.031*** (2.74)
Country-fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	413	413	413	413	413	413	413	413
Adj. R <sup>2</sup>	0.161	0.161	0.213	0.173	0.166	0.164	0.163	0.169

Unstandardized coefficients; t statistics in the parentheses

\* Significant at 0.1; \*\* significant at 0.05; \*\*\* significant at 0.01

<sup>a</sup>Borderline significant ( $p$  value = 0.105)

variable and substantive variables. Table 5 shows that the coefficient of this CEECs dummy is not significant in most of the models. With respect to trade openness and unemployment, the results presented above are largely replicated. Interestingly, Model 8 shows that the coefficients for capital openness are not significant, whereas the interaction of the CEECs dummy and capital openness is significant. This indicates that the positive and significant coefficients for capital openness presented in Tables 3 and 4 are mainly driven by CEECs. Furthermore, the positive coefficient for left-wing governments does not reach significance in all models, which is also the case in Table 3. The results for the other variables are largely in line with the results presented above.

## Conclusions

This paper engages on the changes in social assistance benefits across 26 OECD countries between 1990 and 2009. In particular, we assess the roles of globalization, domestic institutions and socio-economic factors in the developments of minimum income replacement rates. These variables have been analyzed extensively in relation to the developments of other welfare state programs, but the drivers of the developments in social assistance benefit programs have not been analyzed yet. Hence, our contribution to the existing comparative welfare state literature first lies in our efforts to explore the variation in social assistance benefit developments across countries and over time. We rely on minimum income replacement rates to measure social assistance benefit levels relative to labor income.

The data show that minimum income replacement rates decreased in most OECD countries between 1990 and 2009 and that the developments vary considerably across countries. To examine the determinants of social assistance benefits, this study utilizes pooled time-series-cross-sectional data analysis. The results indicate that budgetary pressure stemming from increased exposure to trade openness and soaring levels of unemployment is negatively related to minimum income replacement rates. These results suggest that when policy-makers are faced with budgetary pressure, social assistance benefits are an obvious program for retrenchments as the long-term unemployed—typical labor market outsiders—are relatively weakly represented in the political arena and the political costs are relatively low.

Interestingly, our findings suggest that trade unions act as defenders of social assistance benefits. This finding provides empirical support for the argument that trade unions aim to prevent benefit cuts as such cuts could harm the positions of trade unions (Rothstein 1992; Wallerstein 1989). An interesting direction for future research would be to examine how trade unions act in policy-changes regarding other dimensions of social assistance benefit schemes, considering that a notable limitation of this study on minimum income replacement rates is that other institutional characteristics, such as eligibility conditions or work requirements, are not taken into account.

Furthermore, the results show positive as well as negative associations between globalization and minimum income benefits. As such, our findings provide evidence



for both the efficiency and the compensation hypothesis. Trade openness puts pressure on government budgets and capital openness induces a higher demand for social protection to compensate the increased economic risks. As a result, policy-makers are faced with a globalization dilemma (Hays 2009). The electorate has a higher demand for social protection, but economic globalization restricts the budgetary room for manoeuvre.

Finally, our results indicate that social assistance benefits have not been affected by the crisis, other than via other independent variables such as the increased levels of unemployment. This suggests that during 2008 and 2009 social assistance schemes have not been hit by crisis-induced reform initiatives, even though these benefit schemes form an obvious target for retrenchments. However, a recent study by the OECD (2015) shows that since 2010, many governments of OECD countries actually have implemented austerity measures. Hence, future studies should shed more light on the political economy of social assistance and minimum income benefits during the second half of the crisis.

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