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LEFT GOVERNMENT, POLICY, AND CORPORATISM

Explaining the Influence of Partisanship on Inequality

By DAVID RUEDA*

IT is well known that wage inequality has increased dramatically in the United States over the last three decades. Between 1973 and 1998 the hourly earnings of a full-time worker in the 90th percentile of the American distribution (someone whose earnings exceeded those of 90 percent of all workers) relative to a worker in the 10th percentile grew by 25 percent, and the corresponding figure for men only was nearly 40 percent. In the words of Paul Krugman, America today is no longer a “middle-class nation.”¹ Wage inequality has increased in most other OECD countries as well, but the extent of this phenomenon varies a great deal. In fact, cross-national differences in levels of wage inequality remain as great as they were in the 1970s. In the United States the worker in the 90th percentile earned 4.63 times as much as the worker in the 10th percentile in 1996. In Sweden, by contrast, a worker in the 90th percentile earned only 2.27 times as much as the worker in the 10th percentile.

Inequality is frequently invoked as an explanation of a number of crucial issues in political science. It is often considered a determinant of processes as diverse as the decline of electoral turnout,² the increase in support for extreme-right parties,³ and the likelihood of political

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¹ Paul Krugman, “The Spiral of Inequality,” *Mother Jones* (November–December 1996).

² Sidney Verba, Norman Nie, and Jae-On Kim, *Participation and Political Equality* (New York: Cambridge University Press, 1978); Steven Rosenstone and John Mark Hansen, *Mobilization, Participation and Democracy in America* (New York: Macmillan, 1993).

³ Hans-Georg Betz, *Radical Right-Wing Populism in Western Europe* (New York: St. Martin's Press, 1994).

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conflict.⁴ At the same time recent work by labor economists demonstrates that supply and demand factors alone cannot account for cross-national variation in wage inequality.⁵ Because inequality has political determinants and political consequences, it deserves to be a central concern of comparative political economy.

The politics of inequality are fundamentally influenced by questions about political agency and institutional constraints. A large and influential literature in comparative politics has emphasized partisan differences as a determinant of political and economic outcomes.⁶ According to this framework, political agency is indeed important, and different parties can and do promote distinct economic outcomes (in terms of equality, unemployment, inflation, and so on). Other authors, however, have emphasized the role of institutions as a mediating force. Institutions, they argue, shape the ability of political actors to affect the economy.⁷ I argue in this article that to understand the relationship between government partisanship and inequality requires doing two things: separating the effects of government partisanship and policy on the economy; and assessing the influence of political agency once the mediating role of institutions is accounted for.

A number of analysts of the political economy of industrialized democracies have argued that the partisan nature of governments should influence the levels of earnings inequality in the economy.⁸ While sharing the general partisan assumptions presented in this literature, I wish to emphasize that governments do not possess the ability to transform the wage distribution directly. Governments, that is, whether conserva-

⁴For a review, see Mark I. Lichbach, "An Evaluation of 'Does Economic Inequality Breed Political Conflict?' Studies," *World Politics* 41 (July 1989).

⁵Richard Freeman and Lawrence Katz, eds., *Differences and Changes in Wage Structures* (Chicago: University of Chicago Press, 1995); Francine Blau and Lawrence Kahn, "International Differences in Male Wage Inequality," *Journal of Political Economy* 104, no. 4 (1996); Peter Gottschalk and Timothy Smeeding, "Cross-national Comparisons of Earnings and Income Inequality," *Journal of Economic Literature* 35, no. 2 (1997).

⁶Commonly cited examples are Douglas Hibbs, "Political Parties and Macroeconomic Theory," *American Political Science Review* 71, no. 4 (1977); idem, *The Political Economy of Industrial Democracies* (Cambridge: Harvard University Press, 1987); James Alt, "Political Parties, World Demand, and Unemployment," *American Political Science Review* 79, no. 4 (1985).

⁷See, for example, Sven Steinmo, Kathleen Thelen, and Frank Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Analysis* (New York: Cambridge University Press, 1992).

⁸See, for example, David Bradley, Evelyne Huber, Stephanie Moller, François Nielsen, and John D. Stephens, "Distribution and Redistribution in Postindustrial Democracies," *World Politics* 55 (January 2003); Lane Kenworthy and Jonas Pontusson, "Rising Inequality and the Politics of Redistribution in Affluent Countries," *Perspectives on Politics* 3 (September 2005); Jonas Pontusson, David Rueda, and Christopher Way, "Comparative Political Economy of Wage Distribution," *British Journal of Political Science* 32, no. 2 (2002); David Rueda and Jonas Pontusson, "Wage Inequality and Varieties of Capitalism," *World Politics* 52 (April 2000); Michael Wallerstein, "Wage-Setting Institutions and Pay Inequality in Advanced Industrial Societies," *American Journal of Political Science* 43, no. 3 (1999).

tive or liberal, cannot legislate a particular amount of inequality and must rely instead on the design and implementation of policy to accomplish any degree of redistribution. To assess accurately the influence of government partisanship, therefore, we are required to explicitly separate the effects of government partisanship on policy and of policy on inequality.

The second element in the argument presented in this article is related to the role of institutions as factors affecting political agency. I argue that, when analyzing inequality, the effects of government partisanship on policy and the effects of policy on economic outcomes are contingent on institutions. The starting point for the analysis is that partisan differences do affect the policies that governments are likely to promote. But I argue that these partisan differences will be influential only when some institutions are in place. More specifically, I argue that even when they are committed to redistribution, leftist governments will not promote egalitarian policies unless they are convinced that the institutional context allows these policies to affect economic outcomes.

It could be argued that to clearly identify the policy tools that governments can use to affect the economy and to assess the effects of partisanship and of policy are necessary steps in any comparative political economy analysis. They are steps, however, that are rarely taken in the analysis of inequality. A number of studies hypothesize that government partisanship will influence inequality, but we are left in the dark as to how this would be accomplished. Although limited to a particular kind of inequality (one affecting those in the lower half of the earnings distribution),⁹ the analysis makes clear why it is essential to consider the role of policy. I argue that there are reasons to expect that some policies should affect inequality while others should not. I also argue that some policies should be affected by institutional differences while others should not. By ignoring these important differences, we run the risk of fundamentally misunderstanding the role of partisanship and institutional constraints.

WAGE INEQUALITY IN THE OECD

This article focuses on the effects of the relationship between political agency and institutions on the lower half of the earnings distribution.

⁹ Although disposable income inequality is an outcome whose connection to policy would also be interesting to analyze, this article presents the analysis of a topic (wage inequality) that has been the focus of an extensive literature in comparative political economy (see, for example, fn. 8). It is also the case that the availability of disposable income data is more limited than the wage inequality variable used in this article, which reduces the range of claims that can be tested with these data.

That is because government partisanship should have its clearest influence on those with the lowest wages. It is reasonable to assume that if left government affects inequality, it will do so by raising the wage levels of the most needy. Table 1 summarizes the wage inequality data that serve as the dependent variable for my analysis. For each country, the table provides the mean value for wage inequality at the lower half of the wage distribution (the 50-10 ratio) for the entire period 1973-95 and also the percentage change from the earliest to the most recent observation.

It should be noted at the outset that these inequality measures refer to individuals' gross income from employment, while ignoring other sources of income (government transfers, self-employment, income from capital, and so on) and excluding the distributive effects of taxation and income pooling within households. The data also are restricted to full-time employees, except in the case of Austria. Since part-time employees invariably earn less, on an hourly basis, than full-time employees, the figures in Table 1 understate the extent of wage inequality in the other countries. And because the incidence of part-time employment has increased in most OECD countries since the early 1980s, they also understate the upward trend in wage inequality. Keeping these qualifications in mind, income from employment still accounts for the greatest portion of total income in all OECD countries, and wage inequality among full-time employees still correlates quite closely with broader cross-national measures of income distribution.¹⁰

Table 1 reveals important cross-national variation in wage inequality. In these sixteen countries, the average both-gender 50-10 ratio for the 1973-95 period was 1.64. In other words, a person in the 50th percentile of the wage distribution (the wage median) earned on average 1.64 times as much as a person in the 10th percentile. Sweden, with an average 50-10 ratio of 1.33, stands out as the OECD country with the most compressed lower-half wage distribution. While the Scandinavian countries fall within a narrow range of very compressed lower-half wage distributions, the continental European countries included in this data set (France, Belgium, Germany, Italy, the Netherlands, and Switzerland) can be classified as a group with inequality levels slightly below the OECD average. The exception, of course, is Austria, which is located at the opposite end of the spectrum with the United States, the United Kingdom, Japan, and Canada. All these countries exhibit considerably larger than average levels of inequality at the lower half of the wage distribution.

¹⁰ OECD, *Income Distribution in OECD Countries: Evidence from the Luxembourg Income Study* (Paris: OECD, 1995); Gottschalk and Smeeding (fn. 5); Wallerstein (fn. 8).

Turning to change over time, the cross-national variation in the data is also very noticeable. From the earliest to the most recent observation available for each country, there are large increases of 50-10 inequality in the U.S., Canada, the Netherlands, and Australia. However, lower-half wage inequality fell quite significantly in Germany, Finland, Norway, and Japan.

Table 1 shows the high degree of cross-country and over-time variation found within the sample. What accounts for the different patterns? I argue that the interplay of partisanship, corporatism, and policy is an important part of the story.

THE PUZZLE: GOVERNMENT PARTISANSHIP AND INEQUALITY AT THE LOWER HALF OF THE WAGE DISTRIBUTION

The starting point for this article's exploration of the determinants of inequality is the hypothesis that the partisan nature of governments influences wage inequality. Governments can influence a country's wage distribution through a variety of policies (for example, those affecting minimum wages, social wages, and taxes). The argument supporting the existence of a relationship between government partisanship and inequality at the lower half of the wage distribution can be explained in very simple terms. It hinges on the proposition that the policy preferences of left parties raise the wage floor for competition in the labor market. By legislating a higher minimum wage or favoring a higher social wage, for example, left governments are likely to curtail the egalitarian effects of unemployment and, more generally, to boost the relative bargaining power of unskilled workers.

In one of the few existing political analyses of inequality at the lower end of the distribution, Pontusson, Rueda, and Way analyze the determinants of 50-10 ratios to test whether left governments do in fact raise the relative market power and the wages of poorly paid workers.¹¹ They do this through a set of regressions in which the relationship between Cusack's measure of government partisanship and the levels of 50-10 inequality is explored.¹² I reproduce their main results in the first column in Table 2.

The results in Table 2 show that government partisanship does not significantly influence inequality at the lower half of the wage

¹¹ Pontusson, Rueda, and Way (fn. 8)

¹² See Thomas Cusack, "Partisan Politics and Public Finance," *Public Choice* 91, no. 3/4 (1997). Higher values of Cusack's index signify more conservative government.

TABLE I
MEANS AND PERCENTAGE CHANGES IN INEQUALITY^a

<i>Country and Years Covered</i>	<i>50-10 Ratios</i>	
	<i>Mean</i>	<i>% Δ</i>
Australia (1976-95)	1.66	3.1
Austria (1980-94)	1.96	0.0
Belgium (1986-93)	1.45	-1.4
Canada (1973-94)	2.30	9.1
Denmark (1980-94)	1.40	-2.8
Finland (1977-95)	1.46	-10.2
France (1973-95)	1.66	-5.7
Germany (1984-95)	1.63	-11.9
Italy (1986-95)	1.42	-3.4
Japan (1975-95)	1.70	-6.3
Netherlands (1977-95)	1.56	5.8
Norway (1980-94)	1.39	-6.4
Sweden (1975-95)	1.33	0.0
Switzerland (1990-95)	1.61	0.0
United Kingdom (1973-95)	1.78	1.5
United States (1973-95)	2.00	11.0
Average	1.64	-1.1
Standard Deviation	0.26	6.38

SOURCES: For all countries except the U.S., see OECD, "Earnings Inequality, Low-Paid Employment and Earnings Mobility," in *Employment Outlook*, (Paris: OECD, 1996), 61-62. For the U.S., see OECD (1996), 103; and OECD, "Earnings Inequality," in *Employment Outlook* (Paris: OECD, 1993), 161.

^a The percentage changes measure the variation from earliest to latest available observation in the country series.

distribution.¹³ As Pontusson, Rueda, and Way recognize, this is a puzzling finding. In this regression the coefficient for government partisanship is positive (as expected, social democratic governments would be associated with lower levels of wage inequality), but it does not even approach statistical significance. These results therefore offer little support for the hypothesis that left parties promote relative wage gains for poorly paid workers by setting a floor for competition in the labor market.

Since the lack of significance of the partisanship variable could be interpreted as a result of the presence of country and time dummies (the regression in the first column includes dummies for all countries¹⁴

¹³ I use a similar methodological setup and the same control variables as those used by Pontusson, Rueda, and Way (fn. 8).

¹⁴ I ran the regressions without a constant.

TABLE 2
THE EFFECTS OF GOVERNMENT PARTISANSHIP ON INEQUALITY IN THE
LOWER HALF OF THE WAGE DISTRIBUTION^a

<i>Constant</i>	—	-.125 (.061)
		<i>.041</i>
<i>Lagged Dependent Variable</i>	.484 (.065)	.980 (.015)
	<i><.001</i>	<i><.001</i>
<i>Cabinet Partisanship</i>	.003 (.005)	.008 (.005)
	<i>.593</i>	<i>.112</i>
Unemployment Rate	-.005 (.004)	-.001 (.003)
	<i>.166</i>	<i>.705</i>
LDC Trade	-.001 (.006)	-.005 (.004)
	<i>.814</i>	<i>.188</i>
Female Labor-Force Participation	-.025 (.031)	.008 (.013)
	<i>.412</i>	<i>.526</i>
Private Sector Services	-.002 (.034)	.027 (.009)
	<i>.950</i>	<i>.004</i>
Union Density	-.018 (.010)	-.006 (.003)
	<i>.086</i>	<i>.078</i>
Wage-Bargaining Centralization	-.028 (.007)	.004 (.003)
	<i><.001</i>	<i>.164</i>
Public Sector Employment	-.068 (.020)	.010 (.005)
	<i>.001</i>	<i>.047</i>
N	203	203
Adjusted R ²	.99	.99
Fixed Effects	Yes	No

^aAll entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are their panel-corrected standard errors; numbers in italics are p-values from two-sided t-tests.

and for all time periods¹⁵), I also present the results of an identical regression without fixed effects. In this regression, which explicitly assesses the sort of cross-national variation excluded by country dummies, the effects of government partisanship are still insignificant.

Pontusson, Rueda, and Way further explore the wage-floor hypothesis by developing a preliminary analysis of the relationship between government partisanship and income-replacement policies, on the one hand, and that between income-replacement policies and wage inequality, on the other. They plot average income-replacement rates in 1985–91 against each country's average partisanship score for 1970–90.¹⁶ And then they plot 50-10 ratios in 1991 against the average unemployment-replacement rates. Their analysis suggests that there is a very weak association between left government and the generosity of unemployment compensation and that the relationship between unemployment compensation and 50-10 compression is even weaker. In other words, both steps in the argument linking left government to egalitarianism via a wage-floor effect seem to falter.

It is clear, however, that the connection between government partisanship and policy, on one side, and policy and wage inequality, on the other, needs more attention. Pontusson, Rueda, and Way recognize that their analysis of the effects of income-replacement rates over inequality (as well as their relationship to government partisanship) is very rudimentary. Income-replacement policies are not the only tool at a government's disposal for influencing the market power and the wages of poorly paid workers. In fact, since replacement rates do not reflect the percentage of workers who are entitled to unemployment benefits,¹⁷ there are reasons to suspect this policy is in fact not the most appropriate for assessing the influence of governments on inequality. The analysis needs to be extended to other policies and to employ an improved methodology. More systematic tests of the relationships among partisan governments, policies, and wage outcomes must be performed. These are the objectives of the analysis that follows.

¹⁵ The periods are 1973–79, 1980–84, 1985–89, and 1991–95. The excluded reference year is 1990.

¹⁶ The average level of earnings replacement provided by public unemployment insurance during the first year of unemployment. For more details, see OECD, "Unemployment and Related Benefits," in *The OECD Jobs Study: Evidence and Explanations* (Paris: OECD, 1994), pt. 2, chap. 8.

¹⁷ The prerequisites for unemployment benefits differ substantially in OECD nations. As a consequence, there is great variation in terms of the percentage of unemployed people receiving benefits. See, for example, Sveinbjorn Blöndal and Mark Pearson, "Unemployment and Other Non-Employment Benefits," *Oxford Review of Economic Policy* 11, no. 1 (1995).

THE ARGUMENT: SEPARATING THE EFFECTS OF PARTISANSHIP FROM
THOSE OF POLICY AND ASSESSING THE ROLE OF INSTITUTIONS

The argument supporting the existence of a relationship between government partisanship and earnings inequality rests on the proposition that the policy preferences of left parties raise the wage floor for competition in the labor market. I seek to make two fundamental points. The first point concerns the connection between governments and inequality. A number of comparative political economists have posited the existence of an association between the partisan nature of governments and levels of inequality. Governments, however, cannot transform the wage distribution directly but must rely on the design and implementation of policy to accomplish any degree of redistribution. If we aspire to arrive at an accurate assessment of the relationship between partisanship and wage inequality, it is therefore imperative that we disentangle the effects of partisanship and policy. We must first explore whether and why government partisanship affects specific policies and then whether these policies affect inequality.

The second point concerns the role of institutions as factors affecting political agency. The influence of institutions on political processes has been emphasized by many scholars.¹⁸ Regarding inequality, I argue that the effects of government partisanship on policy and the effects of policy on economic outcomes are contingent on institutions. In other words, even when they are committed to redistribution, partisan policymakers will not promote egalitarian policies unless they are convinced that the institutional context allows these policies to affect economic outcomes.

There is good reason to believe that the effects of policy on redistribution are contingent on an important set of labor-market institutions: those related to the existence of corporatism. According to Katzenstein, three traits define corporatism: "an ideology of social partnership expressed at the national level; a relatively centralized and concentrated system of interest groups; and voluntary and informal coordination of conflicting objectives through continuous political bargaining between interest groups, state bureaucracies and political parties."¹⁹ Arguably, all these arrangements constrain the ability of governments to influence the distribution of wages. Put more positively, they enable the social partners to negotiate effective wage floors and therefore reduce their

¹⁸ For an analysis, see Steinmo, Thelen, and Longstreth (fn. 7); Jonas Pontusson, "From Comparative Public Policy to Political Economy," *Comparative Political Studies* 28, no. 1 (1995); Peter Hall and Rosemary Taylor, "Political Science and the Three New Institutionalisms," *Political Studies* 44, no. 5 (1996).

¹⁹ Peter Katzenstein, *Small States in World Markets* (Ithaca, N.Y.: Cornell University Press, 1985), 32.

reliance on government policy (like minimum wage legislation) for this purpose. In this context, it is logical to assume that the link between some policies and wage inequality would actually be very weak in corporatist countries. Furthermore, since policymakers understand that policy is ineffectual and that wage inequality is in some ways taken care of by corporatist institutions, it is also logical to hypothesize that the influence of government partisanship on these policies would be very weak when corporatism is high.

How can a government influence the distribution of wages? As mentioned above, a government can influence inequality through the use of a variety of policies. In the rest of the article, I focus on three policies that are clearly related to setting a wage floor for competition in the labor market: minimum wages, the generosity of the welfare state, and public employment.²⁰ The reasons for analyzing the first two policies are clear enough. Governments can raise the wage floor for competition in the labor market by increasing the minimum wage or the social wage. In the first case, the effects on the lower half of the wage distribution are straightforward. Regarding the generosity of the welfare state, it is equally clear that social policy provides a reservation wage. In this context, a higher social wage should have effects similar to those of an increase in the minimum wage. Public employment, by contrast, reflects the ability of governments to affect the labor market directly. In industrialized democracies the state is the biggest employer in the labor market. Government employees are, on average, almost 20 percent of the labor force. In some countries, this figure reaches more than 30 percent. It is unambiguous then that governments can influence inequality directly by setting the levels and conditions of public wages.

Let us explore in more detail the reasons why these policies should be the product of government partisanship and the cause of wage inequality.

1. *Government employment.* Little needs to be said about the expectation that left governments would promote higher levels of government employment. A large number of analysts have observed the association between left government and a large public sector.²¹ Traditionally, this was related to the preference by left parties for a more interventionist state. In the words of Cusack, the left is in favor of “a state heavily

²⁰ For a similar argument analyzing some additional policies (government consumption, taxes on labor income, and taxes on corporate income), see David Rueda, “Political Agency and Institutions: Explaining the Influence of Left Government and Wage Bargaining on Inequality,” in Pablo Beramendi and Christopher J. Anderson, eds., *Democracy, Inequality and Representation* (New York: Russell Sage Foundation, forthcoming).

²¹ See, for example, Edward Tufte, *Political Control of the Economy* (Princeton: Princeton University Press, 1978); Hibbs (fn. 6); and especially Cusack (fn. 12).

engaged in regulating the market and using public finances to equalize the outcomes of market operations.”²² More recently, this association has also been related to the fact that public workers are more likely to support left parties.²³ In this view, employees in the public sector have strong incentives to support left parties that provide them with more generous budgets, a well-developed welfare state, and protection from the vagaries of the market.

As for the connection between government employment and inequality, it is generally acknowledged that the size of the public sector will be associated with wage compression. Garrett and Way have convincingly argued that public sector employers, while sheltered from competition in product markets, are more directly exposed to political pressures favoring equality and robust wage growth.²⁴ The strongest determinant of wages in the public sector is, after all, “government preference rather than global competitiveness.”²⁵

The previous paragraph makes clear that one should expect a positive relationship between left government and government employment and a negative one between government employment and inequality. It is equally clear, moreover, that the intermediating role of corporatism should not affect these relationships. The social partners may be more involved in setting wage floors when corporatism is high, but this will not necessarily affect the desirability of a large public sector for left governments (or its influence on inequality).

2. *Welfare state generosity.* There is a large literature in comparative political economy exploring the effects of government partisanship on the welfare state. I will emphasize two approaches with contradictory expectations. In what could be called the traditional partisanship model, authors emphasize left government and working-class mobilization as the main determinants of the welfare state.²⁶ In the words of Michael

²² Cusack (fn. 12), 375.

²³ See, for example, André Blais, Donald Blake, and Stephane Dion, *Governments, Parties, and Public Sector Employees* (Pittsburgh, Pa.: University of Pittsburgh Press, 1997); Oddbjørn Knutsen, “Social Class, Sector Employment, and Gender as Party Cleavages in the Scandinavian Countries,” *Scandinavian Political Studies* 24, no. 4 (2001).

²⁴ Geoffrey Garrett and Christopher Way, “Corporatism, Public Sector Employment, and Macroeconomic Performance,” *Comparative Political Studies* 32, no. 4 (1999).

²⁵ *Ibid.*, 417

²⁶ The most cited early works are those by David Cameron, “The Expansion of the Public Economy: A Comparative Analysis,” *American Political Science Review* 72, no. 4 (1978); John Stephens, *The Transition from Capitalism to Socialism* (London: Macmillan, 1979); Walter Korpi, *The Democratic Class Struggle* (Boston: Routledge and Kegan Paul, 1983). More recently, Evelyne Huber and John Stephens support, but also amend, this power resource approach to the welfare state; Huber and Stephens, *Development and Crisis of the Welfare State* (Chicago: University of Chicago Press, 2001). For a more institutional analysis of the welfare state, see the contributions in Paul Pierson, ed., *The New Politics of the Welfare State* (New York: Oxford University Press, 2001).

Shalev, "(t)he essential argument of this perspective on the welfare state is that the growth of reformist labor unions and parties which reflect the class divisions of capitalist society, and in particular the ascension of labor parties to executive power, have been the preeminent forces in the initiation and development of public policies for furthering justice and equality between the classes."²⁷

Rueda, on the other hand, has argued that insider-outsider differences significantly affect the social policy preferences of left governments.²⁸ Rueda divides labor into two segments: those with secure employment (insiders) and those without (outsiders). He contends that left governments have strong incentives to consider insiders their core constituency. He also argues that, to the degree that insiders are protected from unemployment, they do not necessarily benefit from some forms of social policy. Unemployment benefits or active labor-market policies directed to outsiders, for example, mean higher taxes and low-wage competition.²⁹ The implication of this insider-outsider model is that left government will not necessarily be associated with higher levels of social policy and Rueda finds significant support for his claims.

If we turn to the relationship between the welfare state and inequality, the expectations are less contested. The provision of welfare state services represents an important way in which governments may influence inequality. Welfare services provide a way to redistribute wealth to the poor and to insure them against labor-market risks.³⁰ There are, then, two ways in which the welfare state can affect inequality. The first is by insuring workers against risks. As argued by Esping-Andersen, welfare programs reduce people's dependence on employment as a source of income.³¹ Following Iversen and Cusack, the welfare state also directly reduces inequalities in peoples' access to the public services that allow workers with low wages to increase their income.³² To the degree that the lower half of the wage distribution represents outsiders,

²⁷ Michael Shalev, "The Social Democratic Model and Beyond," *Comparative Social Research* 6 (1983), 317.

²⁸ David Rueda, "Insider-Outsider Politics in Industrialized Democracies," *American Political Science Review* 99 (February 2005); idem, "Social Democracy and Active Labour Market Policies: Insiders, Outsiders, and the Politics of Employment Promotion," *British Journal of Political Science* 36 (July 2006); idem, *Social Democracy Inside Out: Partisanship and Labor Market Policy in Industrialized Democracies* (Oxford: Oxford University Press, 2007).

²⁹ For the details, see, for example, Rueda (fn. 28, 2007).

³⁰ Karl Ove Moene and Michael Wallerstein, "Earnings Inequality and Welfare Spending: A Disaggregated Analysis," *World Politics* 55 (July 2003).

³¹ Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990).

³² Torben Iversen and Thomas R. Cusack, "The Causes of Welfare State Expansion: Deindustrialization or Globalization?" *World Politics* 52 (April 2000).

this traditional interpretation does not contradict an insider-outsider argument. We can agree with Rueda that left governments care mostly about insiders,³³ but, even if partisanship does not influence social policies, we would still expect these public services to improve the lot of low-paid outsiders.

There are, therefore, no clear expectations regarding the effects of left government on welfare policy (they depend on either the traditional interpretation or the insider-outsider interpretation we favor). Welfare policy, however, is expected to decrease inequality. As for the influence of corporatism, the expectations are equally unclear. The traditional party approach would lead us to believe that the influence of left governments on social policy would be greater under corporatist arrangements.³⁴ The insider-outsider approach, however, would lead us to believe that left governments do not influence social policy, regardless of the levels of corporatism.³⁵

3. *Minimum wage.* There is a vacuum in the comparative political economy literature about the role of government partisanship in the determination of the minimum wage. This is surprising, especially when we take account of the attention paid to the minimum wage as a determinant of inequality in the economics literature. This article seeks to address this vacuum by providing a novel empirical analysis of the politics affecting minimum wage levels. The partisan expectations are relatively unambiguous. To the extent that minimum wages improve the status of low-paid labor, left governments are expected to promote them.³⁶

The effects of minimum wage policies, however, are not uncontroversial. Those who defend them argue that they limit labor-market excesses and increase the wages of the lowest paid to a socially acceptable level. Those who oppose them argue that their effect is in fact an increase in unemployment (resulting from pricing out low-skilled workers).³⁷ In relation to inequality, the consequences of minimum wages are, at one level, very straightforward. Setting a minimum wage makes those who previously had earnings below it automatically earn more. In this sense, minimum wages can promote equality simply by raising the

³³ Rueda (fn. 28, 2005).

³⁴ See, for example, Harold Wilensky, *The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures* (Berkeley: University of California Press, 1975).

³⁵ See Rueda (fn. 28, 2007) for an argument that emphasizes the role of corporatist institutions in protecting insiders.

³⁶ Since low-paid labor includes both insiders and outsiders, the expectations of the traditional and insider-outsider models are the same here.

³⁷ For an explanation, see Juan Dolado, Francis Kramarz, Stephen Machin, Alan Manning, David Margolis, Coen Teulings, Gilles Saint-Paul, and Michael Keen, "The Economic Impact of Minimum Wages in Europe," *Economic Policy* 11, no. 23 (1996).

wages of the poorest workers. The OECD in fact finds that “those countries with higher minimum wage rates relative to the median have less earnings dispersion and a lower incidence of low pay.”³⁸ The scholarship on the effects of minimum wages is, however, not unambiguous.³⁹

It is particularly with respect to this policy that my claims about the influence of corporatist structures become essential. As argued above, corporatist arrangements constrain the ability of governments to influence the distribution of wages by making the actions of the social partners more influential on inequality. My expectation, therefore, is that minimum wage levels would in fact not be strongly linked to inequality when corporatism is high. Logically, this also implies a weak association between government partisanship and minimum wages (since policymakers understand that low-wage inequality is taken care of by the social partners).

It is important to emphasize here that my claims about the influence of corporatist structures contradict generally accepted views about the comparative political economy of industrialized democracies. This literature rests on the argument that corporatist structures and left government act in synergy to promote certain political and economic outcomes. In Garrett’s words, “(s)ocial democratic corporatist regimes are based on a virtuous circle.”⁴⁰ Left governments promote policies that protect labor while unions moderate their wage demands and promote the absence of social strife. More specifically related to the topic of this article, Beramendi and Cusack argue that high levels of wage bargaining coordination facilitate the implementation of left-wing policy while the absence of coordination between capital and labor facilitates the implementation of right-wing preferences and constrains the egalitarian effects of left-wing policy.⁴¹ My argument challenges these interpretations and maintains that high levels of corporatism make the social partners capable of limiting wage inequality directly. As a consequence of this, corporatist structures constrain the impact of parties on public policy and therefore mute the impact of partisanship on the lower half of the wage distribution.

Figure 1 summarizes the theoretical claims outlined in the previous sections. The figure illustrates why it is so important to identify the influence of policy and to separate it from the effects of govern-

³⁸ OECD, *Employment Outlook* (Paris: OECD, 1998), 32.

³⁹ For an overview, see OECD (fn. 38), Annex 2.B.

⁴⁰ Geoffrey Garrett, *Partisan Politics in the Global Economy* (New York: Cambridge University Press, 1998), 5.

⁴¹ Pablo Beramendi and Thomas R. Cusack, “Diverse Disparities: The Politics and Economics of Wage, Market and Disposable Income Inequalities” *Political Research Quarterly* (forthcoming).

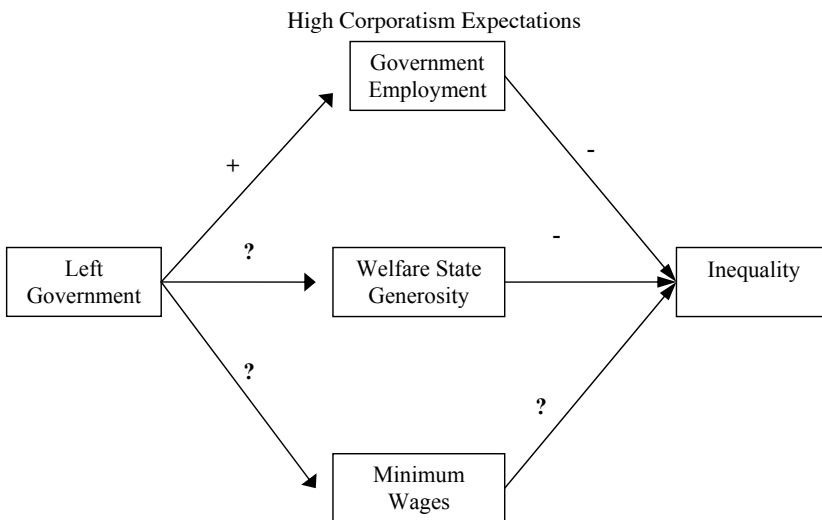
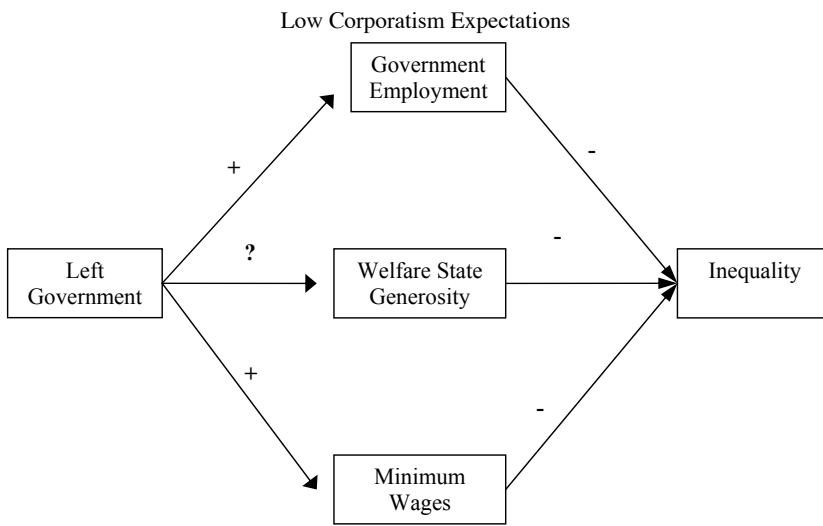


FIGURE 1

ment partisanship. Out of the three policies emphasized in this article, only one, government employment, displays the conventional partisan expectations. Regardless of the level of corporatism, left government is expected to increase government employment and government employment is expected to decrease wage inequality. The expectations regarding welfare state generosity are more ambiguous, for the reasons explained above. In the case of minimum wages, finally, I expect a different relationship, depending on the nature of any corporatist arrangements. When corporatism is low, leftist governments will raise minimum wages, an increase that will be associated with decreases in low-wage inequality. When corporatism is high, however, because the institutional context enables the social partners to negotiate effective wage floors and therefore reduces their reliance on government policy, the effects of minimum wages on inequality are expected to be uncertain and government partisanship is also expected to have an uncertain effect.

THE VARIABLES OF INTEREST⁴²

GOVERNMENT PARTISANSHIP

The government partisanship measure used in my analysis attempts to capture the ideological position of governments in relation to a left-right continuum. Two variables are needed for the construction of these measures: one that reflects the presence of parties in government and another that measures their ideological characteristics. There are, however, important questions surrounding the operationalization of both these variables. There is, first, the issue of how to measure the influence of parties in government.⁴³ A possibility is to take into consideration the proportion of cabinet seats that all parties in government possess. Once a party is in government, however, the support it enjoys may be influenced not only by its position in the cabinet but also by the degree of support enjoyed in parliament.⁴⁴

Regarding the second factor influencing government partisanship, the measurement of party ideological positions is also not completely straightforward. Assessments of right-left party positions are typically

⁴² See Appendix 1 for details and sources for all variables used in this article.

⁴³ For a more detailed analysis of some of the options, see John D. Huber and G. Bingham Powell, Jr., "Congruence between Citizens and Policymakers in Two Visions of Liberal Democracy," *World Politics* 46 (April 1994).

⁴⁴ For evidence supporting the position that a government's behavior will be influenced by its share of seats in parliament, see Wolfgang Müller and Kaare Strøm, eds., *Coalition Government in Western Europe* (New York: Oxford University Press, 2000).

based on two different measures: the analysis of expert opinions or the analysis of party manifestos. Although there are no perfect measures,⁴⁵ those based in expert opinions have particularly significant weaknesses. They are produced from surveys that are administered rarely and that may be interpreted differently in different national contexts.⁴⁶ In addition, expert opinions about party positions do not reflect changes through time.⁴⁷ Perhaps more importantly, partisanship data based on expert opinions are vulnerable to the criticism that they are endogenous. Particularly in analyses of policy and economic outcomes, expert opinions do in fact reflect the very same policy and economic outcomes we are trying to present as dependent variables.

I therefore use a measure of government partisanship based on data extracted from party manifestos to assess a party's right-left position. This variable relies on party programs for the codification of policy emphases. For party positions, the policy emphases in election programs are codified into twenty-six categories. The categories are then summarized in a right-left index, ranging from the extreme right (-100) to the extreme left (+100).⁴⁸ As documented by Gabel and Huber, the index values generated by this procedure correlate reasonably well with various party-classification schemes based on expert surveys.⁴⁹ Moreover, several studies have shown that the right-left dimension is a good summary of what parties stand for in elections and that it is a meaningful factor for voters.⁵⁰ For the construction of government partisanship, a party's average right-left position is then multiplied by its cabinet weight (which is measured as the proportion of parliamentary seats held by parties in coalition governments).⁵¹

⁴⁵ Party manifestos data can be criticized for being a reflection of what parties say to win elections and not necessarily of what they will do once they have won them. For an analysis arguing that there is a correlation between party platforms and policy in the American case, see Ian Budge and Richard Hofferbert, "Mandates and Policy Outputs," *American Political Science Review* 84, no. 1 (1990).

⁴⁶ For a more detailed explanation of this argument, see Matthew Gabel and John Huber, "Putting Parties in Their Place," *American Journal of Political Science* 44, no. 1 (2000).

⁴⁷ Michael McDonald and Silvia Mendes, "Parties in Parliaments and Governments, 1950-1995" (Manuscript, Political Science Department, Binghamton University-SUNY, 2001).

⁴⁸ The original index ranges from left (-100) to right (+100); I have inverted it to facilitate the interpretation of the results with regards to the hypotheses presented in Figure 1.

⁴⁹ Gabel and Huber (fn. 46). The measure I use is in fact very highly correlated with Cusack's (fn. 12) more commonly used cabinet partisanship variable (with is based in expert opinions).

⁵⁰ G. Bingham Powell, Jr., *Elections as Instruments of Democracy* (New Haven: Yale University Press, 2000).

⁵¹ If there is only one party in government, its cabinet weight is 100 percent. When there are more, a party's weight is given as its proportion of parliamentary seats within the total of seats held by the coalition parties. There is considerable evidence showing that "governments apportion their cabinet portfolios to parties in simple proportion to the relative percentage of seats held by each in the lower house of the legislature"; Powell (fn. 50), 173. See also Michael Laver and Norman Schofield, *Multi-party Government* (New York: Oxford University Press, 1990).

CORPORATISM

Corporatism encapsulates a number of economic characteristics, including the centralization and coordination of unions, business, and wage setting; the cooperation between government and interest groups; the existence of tripartite organizations; and the degree of cooperation among economic actors. I use a measure provided by Hicks and Kenworthy.⁵²

WELFARE STATE GENEROSITY

Measures of welfare state generosity are not completely clear-cut. It is common to assess the importance of the welfare state by looking at the level of social policy as a percentage of GDP.⁵³ Although this may be a reasonable measure for some purposes, there are clear limitations in its ability to capture the generosity of the welfare state. Its most important weakness concerns the fact that it focuses exclusively on the supply of social policy, while ignoring the demand side. In this respect, I agree with Clayton and Pontusson, who convincingly argue that “measuring the size of the welfare state in terms of social spending as a percentage of GDP, as virtually all of the literature does, is problematic because such measures fail to take account of changes in societal welfare needs.”⁵⁴ For example, only by taking into consideration the increasing social demands resulting from rising levels of inequality and insecurity will we fully understand the recent retrenchment of the welfare state.

In this article, I follow the lead of Iversen and Cusack and measure welfare state generosity as the ratio of social transfers to GDP over the ratio of the nonworking to the total population.⁵⁵ This is a reasonable measure of welfare generosity. When transfers as a proportion of the total size of the economy rise faster than the share of the nonworking population, for example, this measure of welfare generosity will increase.

GOVERNMENT EMPLOYMENT

This variable measures government employees (not including employees of state-owned enterprises) as percentage of total employed labor force.

⁵² Alexander Hicks and Lane Kenworthy, “Cooperation and Political Economic Performance in Affluent Democratic Capitalism,” *American Journal of Sociology* 103, no. 6 (1998).

⁵³ See, for example, Huber and Stephens (fn. 26).

⁵⁴ Richard Clayton and Jonas Pontusson, “Welfare-State Retrenchment Revisited: Entitlement Cuts, Public Sector Restructuring, and Inegalitarian trends in Advanced Capitalist Society,” *World Politics* 51 (October 1998).

⁵⁵ Iversen and Cusack (fn. 32).

MINIMUM WAGES

For this analysis I use the ratio of a statutory minimum wage to the average wage. Clearly, the ratio of minimum wages to average earnings is not a perfect measure.⁵⁶ It is, however, the most commonly used measure in analyses in economics and political science and it is a useful tool to help us understand whether left governments promote equality at the lower half of the wage distribution.

As pointed out by Dolado et al., industrialized democracies set minimum wages in several ways.⁵⁷ First, a statutory minimum can be set by the government (sometimes in consultation with employers and unions). This is the case in France, Spain, and the Netherlands, among others. Second, a minimum wage can be set as part of collective bargaining at the national level. Third, different minimum wages can be determined in collective agreements, as is the case (with some national differences) in Germany, Italy, Austria, Switzerland, Sweden, Norway, and Finland.⁵⁸ Given the emphasis of this article on the role of government in determining inequality, only statutory minimum wages should be used as a variable. For countries in which the government does not set the minimum wage, the ratio of minimum wage to average wage is set to 0.⁵⁹

Table 3 presents summary statistics for the article's variables of interest. It provides the mean, standard deviation, and minimum and maximum values for the variables measuring government partisanship, corporatism, public employment, welfare state generosity, and minimum wages. I will refer to this table when discussing the effects of government partisanship on these factors and the effects of these factors on inequality.

Table 3, however, does not provide the reader with a good impression of the range in these variables (both in cross-sectional and temporal terms). To supply a more intuitive illustration, I turn to Figures 2–6. I have selected four countries that reflect the diversity in our sample: the United States, Sweden, Germany, and France. The figures contain time series of the data available for the four countries.

Figure 2 shows the levels of government partisanship from 1973 to 1995. If we focus on the cross-sectional variation, Sweden emerges as the country with the most leftist governments on average, Germany as

⁵⁶ As with other ratios, the use of this measure introduces the question of whether the causes (or the effects) that are observed are related to a change in the minimum wage or to a change in the average wage.

⁵⁷ Dolado et al. (fn. 37).

⁵⁸ For a more detailed explanation, see Dolado et al. (fn. 37); and oecd (fn. 38).

⁵⁹ See Appendix 1 for details.

TABLE 3
VARIABLES OF INTEREST
SUMMARY STATISTICS

<i>Variables</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>Minimum</i>	<i>Maximum</i>
Cabinet Partisanship	3.95	14.59	-25.72	29.53
Corporatism	.56	.32	.01	.99
Government Employment	18.96	6.43	6	32.7
Welfare State Generosity	27.55	7.74	9.88	47.06
Minimum Wages	.18	.24	0	.66

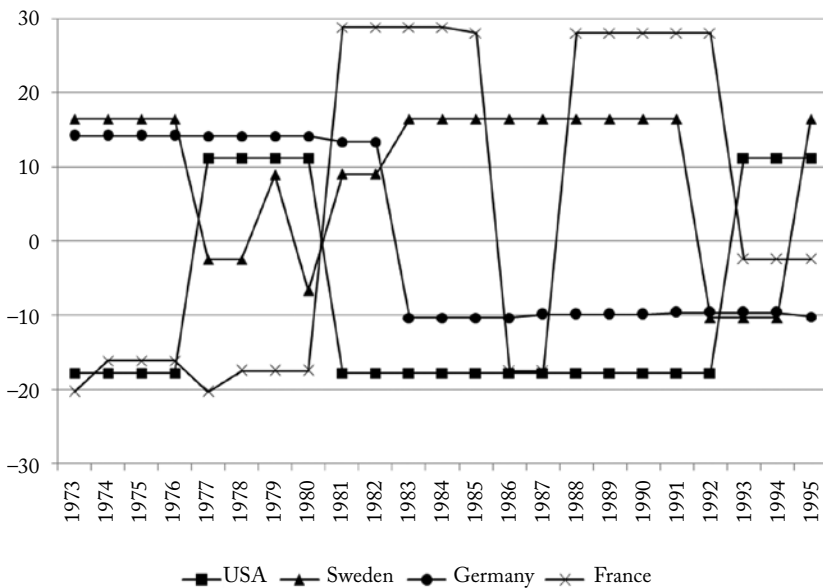


FIGURE 2
GOVERNMENT PARTISANSHIP

the one with the most centrist governments, and the U.S. as the country with a conservative government in a majority of the years in the sample. This characterization, however, overlooks the high temporal variation in these countries. France is the clearest example, with very conservative governments from 1981 to 1986 and from 1988 to 1992, but very leftist ones from 1973 to 1980 and in 1986 and 1987. But the other countries exhibit change through the period as well. In the U.S.

there were left governments from 1977 to 1980 and from 1993 to 1995. In Sweden there were centrist or conservative governments in 1977, 1978, and 1980 and from 1992 to 1994. And in Germany there were leftist governments until 1982 and a conservative one from 1983 to 1995.

The levels of corporatism in the four illustrative countries are presented in Figure 3. Predictably, corporatism is much more stable through time than government partisanship. There are temporal changes, to be sure, but the variation in the figure is mostly cross-national. Not surprisingly, Sweden exhibits the highest levels of corporatism, followed quite closely by Germany. While France occupies an intermediate position in Figure 3, the U.S. displays an almost complete absence of corporatist arrangements.

Figure 4 provides the levels of government employment from 1973 to 1995. In terms of cross-national variation, there is a substantial difference between Sweden (where government employment represented more than 25 percent of the employed labor force between 1975 and 1980 and more than 30 percent from 1980 to 1995) and the rest of the countries in the figure. In France government employment was at an intermediate level (between 17 percent and 25 percent of the employed labor force), while in Germany and the U.S. it ranged from 12 percent to 17 percent. The figure also displays a great deal of temporal variability. While the U.S. is the only country in the figure where government employment declined, the other three all experienced increases. This is particularly the case in Sweden and France, but there was also a pattern of growth (admittedly more discreet) in Germany.

The levels of welfare state generosity in the four countries used as an illustration are presented in Figure 5. The share of transfers as a percentage of GDP relative to the share of the nonworking population as a percentage of the total population was highest in Sweden and lowest in the U.S., whereas France and Germany occupied in-between positions for most of the period. While in 1995, this ratio was just below 40 in Sweden, it was around 30 for Germany and France, and only 25 for the U.S. In terms of temporal variation, there is a general increase in the generosity of the welfare state when measured as the ratio of transfers to nonworking population. This is particularly the case in Sweden and the U.S., but is also the case to a lesser degree in Germany. The only possible exception is France, where welfare state generosity is more variable and ends the period at a similar level to the one where it started.

Finally, Figure 6 reflects statutory minimum wages as a ratio of average wages. This measure was highest in France, where minimum wages were between 50 percent and 65 percent of average wages from 1973 to

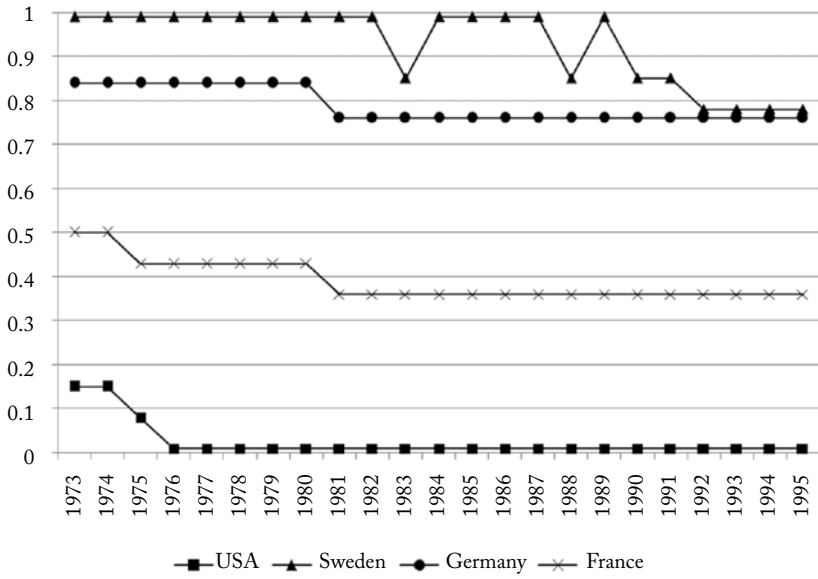


FIGURE 3
CORPORATISM

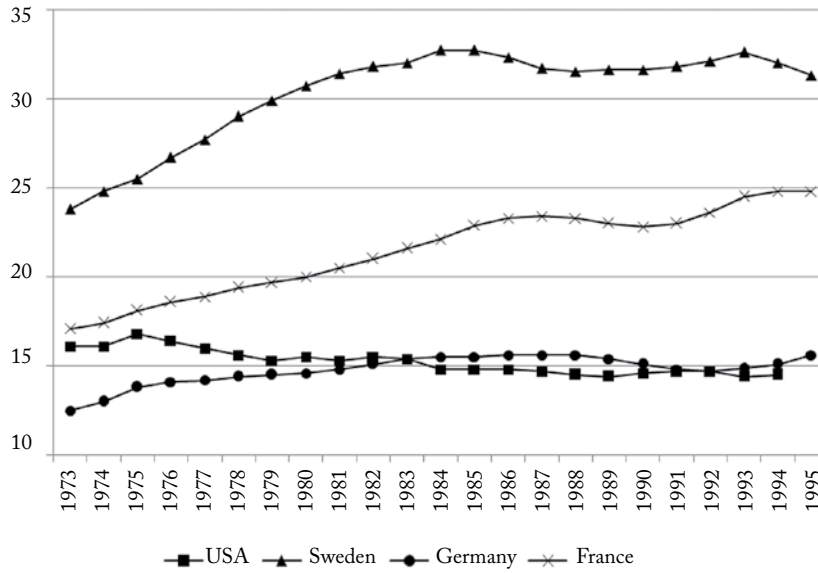


FIGURE 4
GOVERNMENT EMPLOYMENT

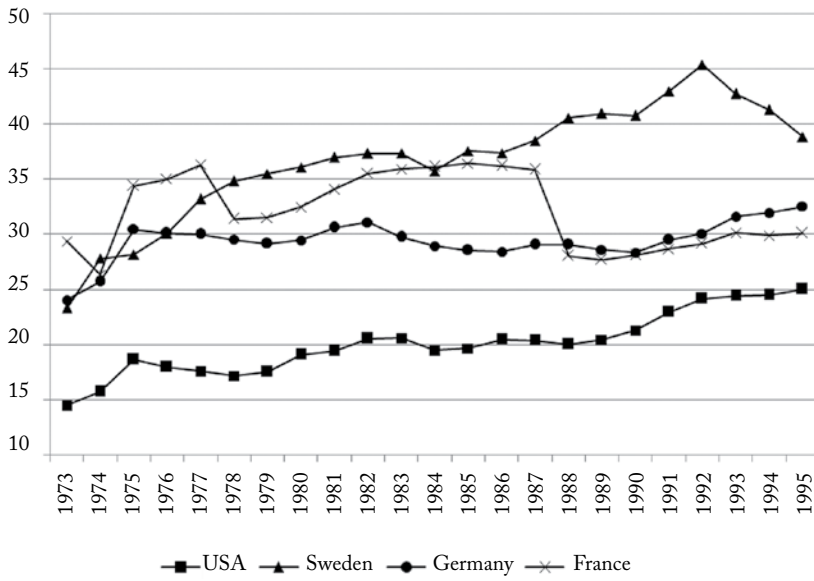


FIGURE 5
WELFARE STATE GENEROSITY

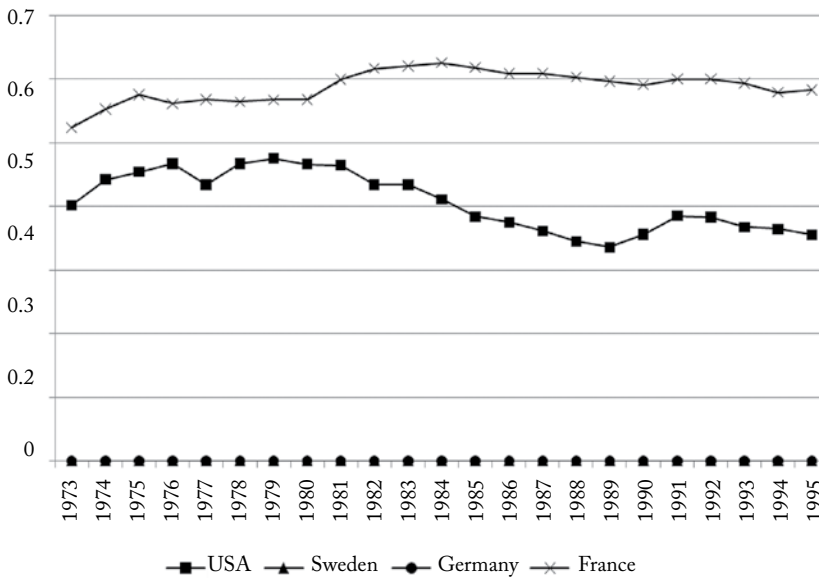


FIGURE 6
MINIMUM WAGES

1995. In the U.S., they were between 40 percent and 50 percent of average wages between 1973 and 1984, but fell below 40 percent between 1985 and 1995. As explained above, in Sweden and Germany statutory minimum wages are set not by governments but by collective agreements. The ratio of the statutory minimum wage to the average wage is therefore 0.

METHODOLOGY AND CONTROL VARIABLES

Data availability limits this article's analysis to annual observations from a selection of OECD countries for the years 1973 to 1995.⁶⁰ I present ordinary least squares (OLS) results. The pooled data significantly increase the number of observations and therefore allow me to test more complex causal models. There are some complications, however.

A set of modified Wald tests reveals a significant amount of panel-specific heteroskedasticity in the data. Beck and Katz have proposed a method that produces consistent standard errors estimates in the presence of panel heteroskedasticity.⁶¹ Since their recommendations have been widely followed in the recent comparative political economy literature, I ran the regressions with panel-corrected standard errors.

I include fixed effects in my analysis. Fixed effects deal with country-specific omitted variables by introducing a unit dummy per cross section. This seems the right strategy since our general understanding in comparative political economy is that there are country-specific factors that are difficult to introduce into the model (specific historical circumstances, difficult-to-capture institutional developments, and so on). To capture cyclical factors I also include time period dummies in the regressions.⁶² Fixed effects are a powerful tool because they pose a hard test for any given hypothesis.

⁶⁰ The countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the U.K., and the U.S. In the regressions for the determinants of government employment and welfare state generosity, data are missing for Australia (1992–95), Switzerland (1973 and 1974), and Belgium (1995, but only for the government employment regression). In the regressions for the determinants of minimum wages data for Switzerland are missing. Finally, the lack of availability of OECD inequality data imposes more limitations in our analysis of the determinants of 50-10 ratios. In these regressions data for Switzerland are again missing (since minimum wages are now an explanatory variable), as well as for the year 1995 (for all countries), Australia (1973–75), Belgium (1973–84), Canada (1974–80), Denmark (1973–79), Finland (1973–76), Germany (1973–83), Italy (1973–85), Japan (1973 and 1974), the Netherlands (1973–76), Norway (1973–89, 1994, and 1995), and Sweden (1972–74).

⁶¹ Nathaniel Beck and Jonathan Katz, "What to Do (and Not to Do) with Time-Series Cross-Section Data," *American Political Science Review* 89, no. 3 (1995); idem, "Nuisance vs. Substance," *Political Analysis* 6, no. 1 (1996).

⁶² The periods are 1973–79, 1980–84, 1985–89, and 1991–95. The excluded reference year is 1990.

I run two sets of regressions. First, I regress policy (government employment, welfare state generosity, and minimum wages) on government partisanship, corporatism, their interaction, and a number of control variables (specified below). Then, I regress inequality at the lower half of the wage distribution on the policies, corporatism, their interaction, and a number of control variables (again, specified below).⁶³

The main hypotheses in this article involve the existence of an interaction between corporatism and government partisanship, on the one hand, and corporatism and policy, on the other. These interactions are introduced into the analysis in the conventional way (both terms of the interaction are introduced into the equation on their own and also interacted).

It is important to check that there is not a simultaneity/endogeneity problem between the two sets of regressions in the analysis (since I am running them independently). If there were such a problem, two-stage least square (2SLS) would be required. A series of Durbin-Wu-Hausman tests suggest that there is no simultaneity/endogeneity problem and, therefore, no need for a 2SLS model.⁶⁴

CONTROL VARIABLES FOR THE ANALYSIS OF POLICY⁶⁵

Although they are not related theoretically to my main claims, a number of variables need to be included in the analysis. In some cases opposing claims about their influence over government partisanship have been provided in the literature, and in all cases there are strong theoretical or empirical reasons to believe that they affect the outcomes I am interested in analyzing.

INTERNATIONAL AND FINANCIAL OPENNESS

There are two contradictory accounts of the effects of internationalization on partisan politics. There is first a large literature suggesting that growing levels of international openness, integration, and interdependence result in a blurring of partisan differences caused by the inability of social democratic parties to produce policies that do not conform to market forces.⁶⁶ Then there are some authors who argue either that in-

⁶³ These analyses on inequality include linearly interpolated data for a few missing observations in the wage series. I did not interpolate across gaps of more than three years, and interpolated observations account for only 13 out of those used in the analyses (the N is 226 in these regressions).

⁶⁴ Russell Davidson and James G. MacKinnon, *Estimation and Inference in Econometrics* (New York: Oxford University Press, 1993).

⁶⁵ See Appendix 1 for details and data sources.

⁶⁶ See, for example, Torben Iversen, "Power, Flexibility and the Breakdown of Centralized Wage Bargaining," *Comparative Politics* 28, no. 4 (1996); Jonathan Moses, "Abdication from National Policy

ternational forces do not affect some partisan differences⁶⁷ or that they actually have strengthened the influence of partisanship on policies and economic outcomes.⁶⁸

GOVERNMENT DEBT

Government debt is introduced into the analysis as a measure of the possible limitations affecting a government's choice of policy. The general argument is that governments with more debt have fewer resources at their disposal and that this affects spending strategies.⁶⁹

UNEMPLOYMENT

The rate of unemployment represents a measure of the need for some of the policies emphasized in the article. Numerous authors have argued that the generosity of the welfare state, for example, is simply the result of increasing needs (whether demographic, economic, or other).⁷⁰

GDP GROWTH

Most analyses of economic policy include a measure of economic growth. This is particularly relevant for the analysis presented here because it is important to control for the effects of macroeconomic growth on policies promoted by governments.

CONTROL VARIABLES FOR THE ANALYSIS OF WAGE INEQUALITY⁷¹

Given the nature of the outcomes to be explained (inequality at the lower half of the wage distribution rather than policy), some of the control variables for this portion of the analysis are different from those in the previous section.

Autonomy: What's Left to Leave?" *Politics and Society* 22, no. 2 (1994); and Fritz Scharpf, *Crisis and Choice in European Social Democracy* (Ithaca, N.Y.: Cornell University Press, 1991).

⁶⁷ Carles Boix, *Political Parties, Growth and Equality* (New York: Cambridge University Press, 1998); Geoffrey Garrett and Peter Lange, "Political Responses to Interdependence: What's 'Left' for the Left?" *International Organization* 45, no. 4 (1991).

⁶⁸ Garrett (fn. 40).

⁶⁹ One interpretation of the policy changes of the early 1980s, for example, is that many governments had reached unsustainable levels of public debt; see Herman Schwartz, "Small States in Big Trouble: State Reorganization in Australia, Denmark, New Zealand, and Sweden in the 1980s," *World Politics* 46 (July 1994).

⁷⁰ See Phillip Cutright, "Political Structure, Economic Development, and National Social Security Programs," *American Journal of Sociology* 70, no. 5 (1965); Wilensky (fn. 34).

⁷¹ See Appendix 1 for details and data sources.

UNEMPLOYMENT

There are two potential effects of unemployment on inequality. On the one hand, the basic insight of the literature on labor-market segmentation is that unskilled, low-paid workers are more readily substitutable than skilled, high-paid workers and consequently that their bargaining position is more immediately and more adversely affected by unemployment.⁷² On the other hand, employers are more likely to lay off unskilled workers than skilled ones during economic downturns. To the extent that it entails a disproportionate loss of low-paid jobs, an increase of unemployment produces wage compression by altering the composition of the labor force.

LDC TRADE

Wood argues that much of the trend toward increased wage inequality in the OECD countries in the 1980s can be attributed to an increase in trade with less developed countries.⁷³ The basic logic of Wood's analysis is that by importing less skill-intensive goods from low-wage countries, OECD countries are essentially importing low-skill labor, which puts downward pressure on the relative wages of the unskilled.

FEMALE LABOR-FORCE PARTICIPATION

Higher female participation in the labor force can be associated with higher inequality for several reasons. There is first the influence of wage discrimination.⁷⁴ Also, to the extent that women are on average less educated and/or have less work experience than men, an increase in the proportion of the total labor force made up by women represents an increase in the relative supply of unskilled or less skilled labor.⁷⁵

PRIVATE SERVICE EMPLOYMENT

It is often argued that wage inequality and private service employment are associated. As Iversen and Wren point out, the scope for productivity growth in services is limited, pricing closely reflects labor costs, and

⁷² James Galbraith, *Created Unequal* (New York: Free Press, 1998); Katherine Bradbury, "Rising Tide in the Labor Market: To What Degree Do Expansions Benefit the Disadvantaged," *New England Economic Review* 32 (May–June 2000).

⁷³ Adrian Wood, *North-South Trade, Employment and Inequality* (Oxford: Clarendon Press, 1994).

⁷⁴ Francine Blau and Lawrence Kahn, "Gender Differences in Pay," *Journal of Economic Perspectives* 14, no. 4 (2000).

⁷⁵ Robert Topel, "Wage Inequality and Regional Labor Market Performance in the United States," in Toshiaki Tachibanaki, ed., *Labour Market and Economic Performance* (New York: St. Martin's Press, 1994); Lennart Svensson, *Closing the Gender Gap* (Lund: Ekonomisk-Historiska Föreningen, 1995).

demand for these services is highly price sensitive.⁷⁶ If, however, one relaxes the assumption that the production of personal services with a high content of unskilled labor is tightly constrained by labor costs, the opposite association between wage inequality and private service employment would result.

RESULTS

As explained in the previous section, there are two sets of results needed for testing the hypotheses in this article. The first set of regressions captures the relationship between policy and government partisanship, corporatism, and their interaction. There is one regression for each policy outcome (government employment, welfare state generosity, and minimum wages). The second set of regressions captures the relationship between inequality and policy, corporatism, and their interaction. Although these regressions control for all policies, it is complicated to calculate all interactions in a single equation. For this reason, there is one regression for each policy interaction. Results for all regressions are presented in Appendix 2.

Because so many regressions must be run, a simpler way to present the results is reflected in Figure 7, in which only the results for the variables of interest (partisanship and policy) conditional on the levels of corporatism are reported. Appendix 2 provides the results for the variables used to calculate these conditional effects, as well as results for all control variables. The figure reflects the two sets of relationships hypothesized in this article when corporatism is low and when corporatism is high. In each scenario there are (1) causal arrows from government partisanship to the policies and (2) causal arrows from the policies to inequality at the lower half of the wage distribution. The numbers in bold next to the arrows represent the coefficients for these variables in the regressions I ran. The numbers in parentheses are z statistics. The asterisks summarize p-values from two-sided z-tests in the usual manner (** if p-value < .01, * if < .05). The absence of an asterisk means that the variable is statistically insignificant.

Conditional effects are calculated in the following way. Having described the range of variation in the corporatism variable in Table 3, I identify a low and a high value. Low corporatism is defined as a score of .15. This was the level of corporatism for Australia in the second half of the 1970s and the first half of the 1990s, for instance. High cor-

⁷⁶Torben Iversen and Anne Wren, "Equality, Employment and Budgetary Restraint: The Trilemma of the Service Economy," *World Politics* 50 (July 1998).

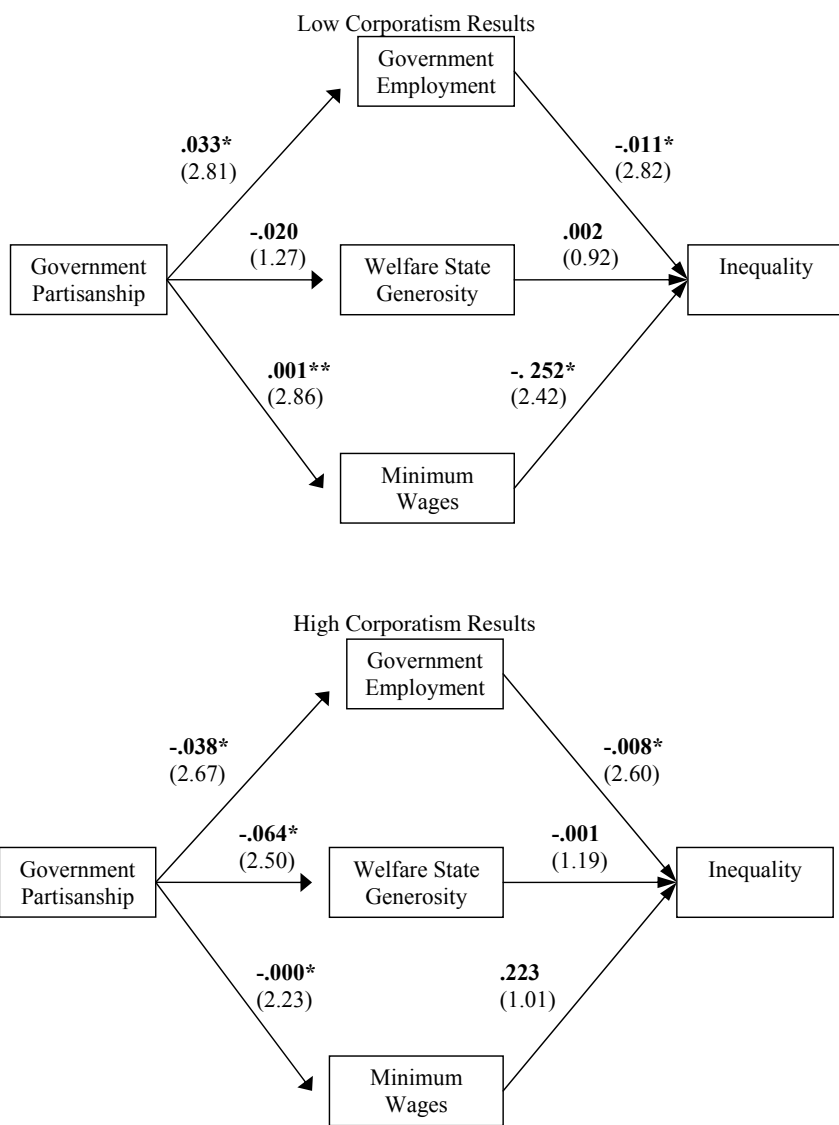


FIGURE 7^a

^aAll entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are z statistics (calculated with panel-corrected standard errors); asterisks summarize p-values from two-sided z-tests (* if significant at 5% level, ** if significant at 1% level). All other estimates in Appendix 2.

poratism is defined as a score of .90. This was the level in Finland for most of the time in the sample. It is important to mention that these values are not extreme ones. For low corporatism, the United States from 1976 to 1995 displayed a level equal to .01. For high corporatism, Sweden's level equalled .99 from 1973 to 1987. The estimates for the coefficients and the standard errors in Figure 7 represent the conditional effects when corporatism is high or low.⁷⁷

Going back to the theoretical claims summarized in Figure 1, left government was expected to be associated with higher levels of government employment and government employment with lower levels of inequality, regardless of the level of corporatism. These hypotheses receive a significant amount of support from the results in Figure 7. One should keep in mind throughout the analysis of these results that higher levels in the government partisanship variable mean more leftist governments. Figure 7 shows that left governments promote higher levels of government employment when corporatism is low and that higher levels of government employment promote more equality regardless of the value of corporatism. These results confirm the hypotheses. The surprise is the sign of the government partisanship variable when corporatism is high. The results indicate that in highly corporatist countries, it is right government that is associated with higher levels of government employment. The reasons for this result are not immediately obvious and will need to be the focus of further research.

Although the government employment results in Figure 7 illustrate the statistical significance of the findings, a substantive interpretation of the effects of left government is not completely straightforward. The calculations in Figure 7, however, can be used to produce estimates of noticeable substantive effects. Take the Social Democratic Party in Sweden: its score on the right-left ideological index is around 24 in the 1994 election (which is high, though not an extreme value for left parties within the sample). Further, consider the variation in this article's measure of government partisanship that would result from a left party of these ideological characteristics winning an election and going from the opposition to substituting a completely centrist party in single-party government. The measure would increase from 0 (a completely centrist government and a left party in opposition) to 24 (a left party of these characteristics winning 100 percent of seats in the cabinet). According to the estimates in Figure 7, this increase in government partisanship in a country with low corporatism would result in an increase

⁷⁷ For more details about calculating conditional effects and their significance, see Jeffrey Wooldridge, *Introductory Econometrics* (Cincinnati: South-Western College Publishing, 2000), 190–91.

in government employment equal to 0.8 percent of the employed labor force. This number is all the more meaningful when we consider that the average level of government employment for all the countries in our sample is around 19 percent of the employed labor force.

What about the effects of changes in government employment? Take the government employment levels in two countries we used as illustrations in previous sections: the U.S. and Sweden. Figure 4 shows government employment to be around 15 percent of the employed labor force in the U.S. and around 30 percent in Sweden. The effects of government employment can be illustrated by assessing the consequences in terms of inequality of increasing the levels of government employment in the U.S. to the levels found in Sweden. This increase in government employment in a country with low corporatism would result in a decrease equal to 0.17 in the 50-10 ratio. Table 1 shows the mean for the 50-10 ratio in the U.S. to be around 2.00. Increasing the levels of government employment in the U.S. to the levels in Sweden would therefore take the 50-10 ratio in the U.S. to 1.83, a 9 percent decrease that would make the level of inequality in the U.S. similar to the average in the U.K.⁷⁸

I explained above that expectations regarding welfare state generosity were more ambiguous. While traditional partisanship views would lead us to expect left government to be associated with more generous welfare states, the insider-outsider framework would imply the lack of any association. The results in Figure 7 suggest that insider-outsider differences may be more significant than usually recognized.⁷⁹ Left government is not a significant determinant of welfare generosity in countries with low corporatism. In countries with high corporatism, the relationship is actually reversed. Governments that are more leftist are associated with less generous welfare states. The relationship between welfare state generosity and inequality is, however, unexpected. While the claims in Figure 1 imply that higher levels of welfare state generosity would decrease inequality at the lower half of the wage distribution (regardless of the levels of corporatism), the results in Figure 7 show that this is not the case. Welfare state generosity is an insignificant determinant of inequality whether corporatism is high or low.

⁷⁸ The same increase in a country with high corporatism would promote a similar although less substantial decrease in inequality, but, as mentioned above, left government is not associated with more government employment in these countries.

⁷⁹ It is important to point out, however, that this is not an ideal measure of welfare state generosity for testing an insider-outsider argument. The variable capturing social transfers in this analysis is too aggregate and it includes portions (like old-age benefits) that would mostly benefit insiders.

The results for the relationship between government partisanship and the generosity of the welfare state seem to partially support an insider-outsider argument about the influence of left parties on social policy. But the findings for the lack of an association between the generosity of the welfare state and inequality in the lower half of the wage distribution are surprising. It could be argued that the results are a consequence of the measure for welfare state generosity used in this article. I explained above that it is common to measure welfare state effort by focusing on the levels of social policy as a percentage of GDP. I also presented some reasons why I consider the measure of welfare state generosity used in the analysis to be better (since it measures not only the supply of but also the demand for social policy). I reproduced the analysis presented in Figure 7, in any case, with a measure of welfare state generosity that captures only social transfers as a percentage of GDP. This alternative analysis confirms the results presented in Figure 7.⁸⁰

In Figure 1 the relationships involving statutory minimum wages were expected to vary according to the levels of corporatism. While statutory minimum wages were to promote lower inequality with low corporatism, the actions of the social partners made the effects of minimum wages insignificant with high corporatism. Governments were expected to mirror these effects and only promote minimum wages when they would affect the economy: in low corporatism countries. The results in Figure 7 present a remarkable amount of support for these hypotheses. When corporatism is low, government partisanship significantly affects minimum wages and minimum wages significantly affect inequality. When corporatism is high, government partisanship is significant but the coefficient (although very small) is negative, indicating that left parties promote lower levels of statutory minimum wages. Minimum wages, in any case, are insignificant as a determinant of wage inequality with high corporatism.⁸¹

Figure 7 illustrates the statistical significance of the findings but it does not provide an intuitive interpretation of their effects. I will therefore produce estimates of the substantive effects of these variables as I did with the results for government employment. Once again, I will illustrate the effects of government partisanship by considering

⁸⁰ Results available from the author.

⁸¹ It could be argued that governments influence the minimum wage even if they do not set a statutory level and that they can influence the wage demands of social partners. The analysis above is reproduced with a dependent variable reflecting minimum wages (whether statutory or the result of collective bargaining) as a percentage of average wages. They confirm the results discussed in this section.

an electoral victory that would make a left party (with the ideological characteristics of the Swedish Social Democratic Party in 1994) move from the opposition to single-party government. As pointed out above, if the left party substituted a completely centrist party in government, the government partisanship measure would increase from 0 to 24. According to the estimates in Figure 7, this increase in government partisanship in a country with low corporatism would result in an increase in the statutory minimum wage equal to 2.4 percent of the average wage. This number may not seem large, but we must remember that the average statutory minimum wage for all the countries in our sample is around 18 percent of the average wage. In a country like the United States, where the minimum wage has often been as little as 32 percent of the average wage, an increase of 2.4 percent is significant.

We can demonstrate the substantive effects of changes in the minimum wage on inequality in a similar fashion. We will focus on two of the countries used as illustrations in Figure 6: the U.S. and France. Figure 6 shows minimum wages to be around 40 percent of average wages in the U.S. and around 60 percent of average wages in France. The effects of minimum wage levels can be illustrated by assessing the consequences in terms of inequality of increasing the statutory minimum wage in the U.S. to the average in France. In a country with low corporatism, this increase would result in a decrease equal to 0.050 in the 50-10 ratio. The effects of the minimum wage on inequality are clearly not as significant as those of government employment, but they are still substantial. As mentioned before, the average for the 50-10 ratio in the U.S. during the period under analysis was around 2.00. Increasing the statutory minimum wage in the U.S. to the level in France would therefore mean a 2.5 percent decrease in inequality at the lower half of the wage distribution.

I have provided above an explanation of effects that are both statistically and substantively significant. One more issue needs to be addressed, however. The results above could be criticized for containing control variables that can possibly be related to the dependent variable. It is not difficult to imagine reasons why unemployment, private service employment, or female labor-force participation, to name but a few of the control variables, could themselves be affected by either policy or levels of inequality. It would be impossible to take into consideration all possible sources of endogeneity. But I can provide some sensitivity tests that will support the robustness of the findings to alternative specifications of the model. I do this by rerunning the analysis and eliminating one control variable at a time. For the results in Figure 7, I run twelve

regressions in total, three for the determinants of policy and three for their effects on inequality for both high and low levels of corporatism. All these regressions are rerun in Figure 8 while one control variable at a time is eliminated from the model. The figure reports the ranges for coefficients and z statistics found in these different combinations (extreme bounds).⁸² The results suggest that the statistical significance and the substantive effects shown in Figure 7 are in fact reasonable. The extreme bounds analysis corroborates the discussion of Figure 7.⁸³

To fully understand the relevance of policy, it is finally important to assess what the direct influence of government partisanship is. Figure 9 provides the results of a regression of government partisanship, corporatism, and their interaction (plus the control variables mentioned above) on inequality.⁸⁴ In this analysis, we ignore the intermediating role of policy and assess the direct effect of left government on inequality. The expectation here is that the importance of the relationships explored in Figure 7 will be confirmed. The influence of the interaction with corporatism is expected to be significant enough to influence the aggregate relationship between government partisanship and inequality. Figure 9 shows that this is the case. Left government promotes equality only when corporatism is low.

CONCLUSIONS

It is perhaps appropriate to conclude by briefly summarizing the main points. The article focuses on the relationship between government partisanship, policy, and earnings inequality at the lower half of the wage distribution. The analysis was motivated by the absence of government partisanship effects on inequality previously found in the literature. My expectations were theoretically derived from emphasizing the importance of policy and from conceptually differentiating between government partisanship and the role of institutions. I first explained a set of theoretical reasons why some policies should be affected by government partisanship (and should themselves affect wage inequality) and some others should not. I then focused on the role of corporatism as a factor mediating the influence of leftist governments.

I emphasize two main conclusions. The first concerns the importance of government employment as an instrument that governments

⁸² For a similar analysis, see Lane Kenworthy, "Corporatism and Unemployment in the 1980s and 1990s," *American Sociological Review* 67 (June 2002).

⁸³ Results available from author.

⁸⁴ Results available from author.

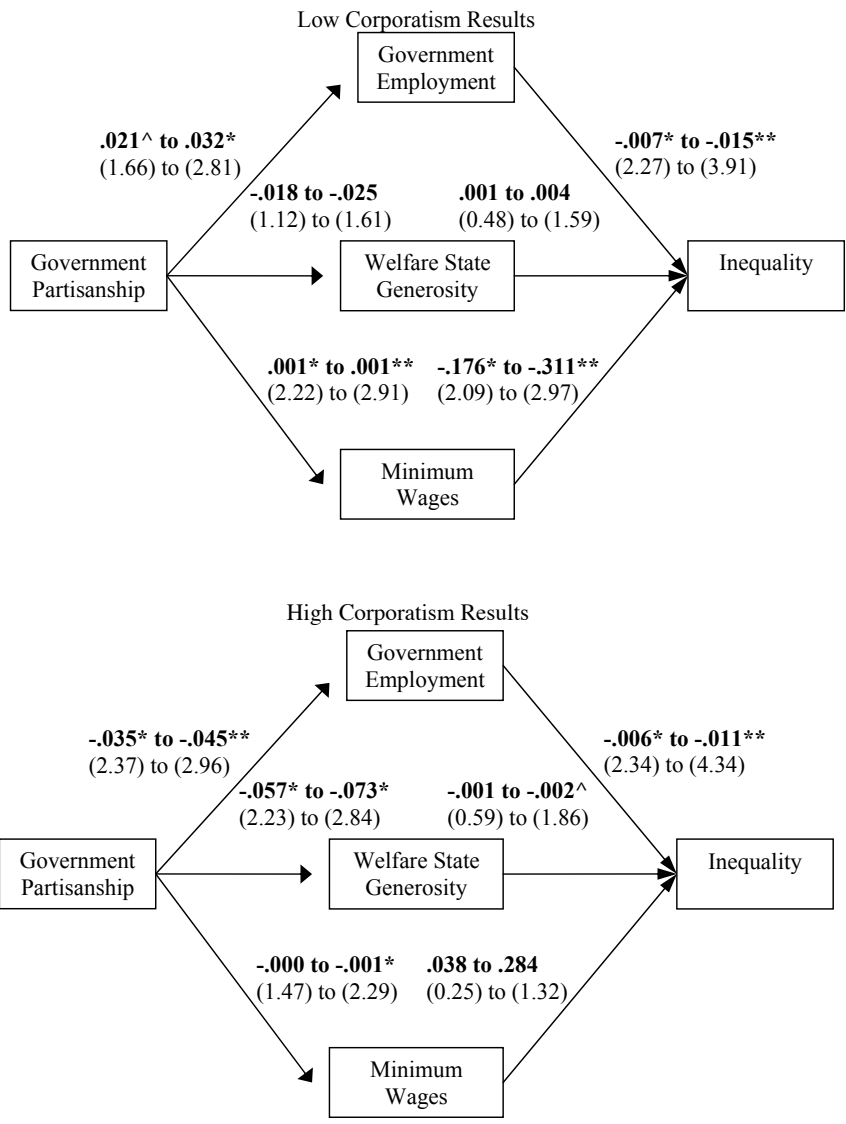
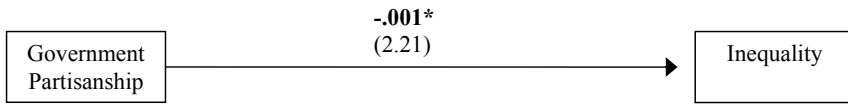


FIGURE 8
EXTREME BOUNDS ANALYSIS^a

^aAll entries are OLS estimates. Numbers in bold are estimated coefficients; numbers in parentheses are z statistics (calculated with panel-corrected standard errors); asterisks summarize p-values from two-sided z-tests (^ if significant at 10% level, * at 5% level, ** at 1% level).

Low Corporatism Results



High Corporatism Results

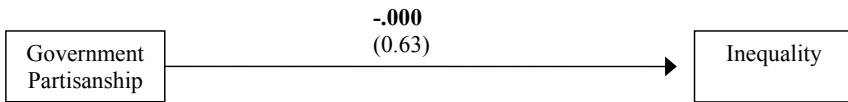


FIGURE 9

use to affect inequality. The influence of left government on public employment, on the one hand, and the influence of public employment on inequality, on the other, has received little attention in the comparative political economy literature. While many authors have focused on the potential role of social policy in reducing wage differentials, the more direct effects that governments can have as employers have been generally disregarded. And yet government employment emerges from this article's results as a very important tool that partisan governments use in trying to reduce inequality at the lower half of the wage distribution when corporatism is low. The lack of attention paid to government employment is in direct contrast to that dedicated to the generosity of the welfare state. In this case, however, this article's results seem to suggest that social transfers (whether measured in relation to the nonworking population or not) do not contribute significantly to the compression of differentials in the lower half of the earnings distribution.

The second conclusion concerns the (not necessarily intuitive) argument that left governments do not promote policies to affect outcomes that the social partners had already "taken care" of. It is important to point out that the argument made about the relationship between corporatism and left government contradicts the generally accepted wisdom about left power. An influential strand of the literature in com-

parative political economy argues that corporatist structures and left government act in synergy to promote certain political and economic outcomes.⁸⁵ My results show that the virtuous cycle of corporatism and left government works in a different way. It is not necessarily the case that the actions of corporatist partners and left governments reinforce each other. Regarding inequality at the lower half of the wage distribution, I show that the relationship between left governments and corporatism is sometimes complementary: when institutions cannot provide enough equality, the policies promoted by left governments pick up the slack.

Admittedly, the analysis in this article represents an oversimplification of the relationship between government partisanship and corporatism. It has treated corporatism as an exogenous variable, a set of stable institutional constraints that affect left government. In this respect, the analysis reproduces the approach of most existing analyses of inequality in industrialized democracies.⁸⁶ It is, however, clear that corporatist structures, although stable over time, are deeply connected to developments in government partisanship. Not only do left governments affect inequality directly, but they can also promote corporatist structures that may have more of an effect on labor-market inequalities in the long run. In this respect, as rightly argued by Wallerstein and Western, empirical studies “that treat wage-setting institutions as exogenous, i.e. virtually all existing studies, are attempting to draw inferences from biased estimates.”⁸⁷ An important question for further research, therefore, is whether endogenizing the relationship between corporatism and left government affects our understanding of the determinants of wage inequality.

Finally, what does this analysis mean for low-wage inequality in the future? Numerous authors have noted that centralized wage bargaining and union membership have experienced important declines in many OECD countries. Pontusson, Rueda, and Way argue that these institutional developments have not been favorable to wage equality.⁸⁸ From the perspective of the preceding analysis, however, a more positive argument can be offered. This article shows that when institutional factors become less relevant, government partisanship can pick up the

⁸⁵ See, for example, Cameron (fn. 26); Katzenstein (fn. 19); Michael Alvarez, Geoffrey Garrett, and Peter Lange, “Government Partisanship, Labor Organization and Macro-Economic Performance,” *American Political Science Review* 85 (June 1991); Garrett (fn. 40).

⁸⁶ See, for example, Rueda and Pontusson (fn. 8); Wallerstein (fn. 8); Beramendi and Cusack (fn. 41).

⁸⁷ Michael Wallerstein and Bruce Western, “Unions in Decline? What Has Changed and Why,” *Annual Review of Political Science* 3 (June 2000), 374.

⁸⁸ Pontusson, Rueda, and Way (fn. 8).

slack by promoting the right policies. The countervailing effects of left government, therefore, can still produce significant levels of equality at the lower half of the wage distribution. The decline of corporatism can be an opportunity for government partisanship to become more influential.

APPENDIX I: DEFINITION OF VARIABLES AND DATA SOURCES

GOVERNMENT PARTISANSHIP

Source for all countries but Japan: McDonald and Mendes.⁸⁹ Data for Japan created by author using Comparative Manifestos Project left-right party index⁹⁰ and Woldendorp, Keman, and Budge.⁹¹

CORPORATISM

Hicks-Kenworthy composite corporatism measure. It measures business centralization, wage-setting coordination, cooperation between government and interest groups, tripartite neocorporatism, cooperation between investors and firms, and cooperation between labor and management. Source: Hicks and Kenworthy.⁹²

GOVERNMENT EMPLOYMENT

Government employees (not including employees of state-owned enterprises) as percentage of total employed labor force. Sources: OECD electronic database; OECD, *Historical Statistics 1960–1995*.

WELFARE STATE GENEROSITY

The percentage share of transfers in GDP relative to the percentage share of the nonworking population in the total population. Source: author's calculations using data from Armingeon et al.⁹³

MINIMUM WAGES

Ratio of statutory minimum wage to average wage. Source: Neumark and Wascher.⁹⁴ For countries where the government does not set the

⁸⁹ McDonald and Mendes (fn. 47).

⁹⁰ Klaus Armingeon, Philipp Leimgruber, Michelle Beyeler, and Sarah Menegale, *Comparative Political Data Set 1960–2002* (Bern: Institute of Political Science, University of Bern, 2005).

⁹¹ Jaap Woldendorp, Hans Keman, and Ian Budge, *Party Government in 48 Democracies, 1945–1998* (Boston: Kluwer Academic Publishers, 2000).

⁹² Hicks and Kenworthy (fn. 52).

⁹³ Armingeon et al. (fn. 90).

⁹⁴ David Neumark and William Wascher, "A Cross-National Analysis of the Effects of Minimum Wages on Youth Employment," *NBER Working Paper 7299* (1999).

minimum wage, the ratio of minimum wage to average wage is set to 0. Following Neumark and Wascher, Dolado et al., and OECD, Canada, France, Japan, the Netherlands, the U.K. and the U.S. are considered to have statutory minimum wages.⁹⁵ In Australia, Austria, Belgium, Denmark, Finland, Germany, Italy, Norway, and Sweden, the ratio of the statutory minimum wage to the average wage is considered to be 0.

UNEMPLOYMENT

Unemployed is measured as percentage of total labor force. Sources: OECD electronic database; OECD, *Historical Statistics 1960–1995*.

LDC TRADE

Trade with less developed countries as percentage of GDP, not including trade with OPEC countries. Sources: OECD electronic database; OECD *Historical Statistics 1960–1995*; and OECD, *Monthly Trade Statistics*.

FEMALE LABOR-FORCE PARTICIPATION

Female labor force as percentage of total labor force. Source: OECD *Historical Statistics 1960–1995*.

PRIVATE SERVICE EMPLOYMENT

Service employment as percentage of total employment minus government employment as a percentage of total employment. Source: OECD *Historical Statistics 1960–1995*.

INTERNATIONAL OPENNESS

International openness is measured as imports plus exports as percentage of GDP. Sources: OECD electronic database; OECD *Historical Statistics 1960–1995*.

FINANCIAL OPENNESS

Financial openness is measured as the sum of the index for restrictions on payments and receipts of goods and invisibles, the index for restrictions on payments and receipts of capital, and the index for legal international agreements that constrain a nation's ability to restrict exchange and capital flows. Values for 1994 and 1995 were extrapolated. Source: Armingeon et al.⁹⁶

⁹⁵ Ibid.; Dolado et al. (fn. 37); OECD (fn. 38).

⁹⁶ Armingeon et al. (fn. 90).

GOVERNMENT DEBT

Government debt is measured as the level of consolidated central government debt as a percentage of GDP. Source: Franzese.⁹⁷

GDP GROWTH

GDP growth is measured as year-to-year percentage changes. Sources: OECD electronic database; OECD Historical Statistics 1960–1995.

APPENDIX 2
REGRESSION RESULTS FOR FIGURE 7^a

	<i>The Determinants of Policy</i>		
	<i>Government Employment</i>	<i>Welfare State Generosity</i>	<i>Minimum Wage</i>
Cabinet Partisanship	0.047 (3.12)**	-0.011 (0.59)	0.001 (2.91)**
Corporatism	0.239 (0.11)	-7.185 (1.83)	-0.003 (0.07)
Cabinet Partisanship *Corporatism	-0.095 (3.39)**	-0.059 (1.58)	-0.002 (2.95)**
International Openness	-0.021 (1.43)	-0.123 (3.43)**	-0.001 (2.34)*
Financial Openness	0.216 (2.01)*	-0.107 (0.60)	0.008 (2.63)**
Government Debt	-0.019 (0.02)	2.456 (1.52)	0.045 (1.71)
Unemployment Rate	0.383 (7.48)**	0.476 (4.15)**	0.003 (2.22)*
GDP Growth	-0.008 (0.20)	-0.185 (2.24)*	-0.002 (1.79)
Constant	21.998 (15.16)**	17.828 (6.39)**	-0.116 (2.90)**
Observations	360	362	339
Number of countries	16	16	15
R ²	.95	.85	.98

⁹⁷ Robert Franzese, "The Political Economy of Public Debt: An Empirical Examination of the OECD Postwar Experience" (Paper presented at the Wallis Conference on Political Economy, Northwestern University, Chicago, 1998).

APPENDIX 2, *cont.*

<i>The Determinants of Inequality</i>			
Government Employment	-0.012 (2.58)**	-0.008 (2.42)*	-0.010 (3.57)**
Welfare State Generosity	-0.000 (0.36)	0.003 (1.00)	-0.001 (0.55)
Minimum Wages	-0.258 (2.33)*	-0.264 (2.49)*	-0.347 (3.13)**
Corporatism	-0.157 (0.95)	0.102 (0.72)	-0.141 (2.38)*
Government Employment*	0.004 (0.76)		
Corporatism		-0.005 (1.24)	
Welfare State Generosity*			0.633 (2.46)*
Corporatism			
Minimum Wages*			
Unemployment Rate	-0.003 (1.90)	-0.004 (2.24)*	-0.002 (1.15)
LDC Trade	0.006 (1.53)	0.005 (1.34)	0.003 (0.85)
Female Labor Force Participation	-0.002 (0.64)	-0.002 (0.72)	0.004 (1.18)
Private Service Sector	-0.002 (0.91)	-0.002 (0.69)	-0.003 (1.22)
Constant	2.151 (10.20)**	1.971 (11.10)**	1.903 (11.06)**
Observations	226	226	226
Number of countries	15	15	15
R ²	.98	.98	.98

All entries are OLS estimates. Numbers without parentheses are estimated coefficients; numbers in parentheses are z statistics (calculated with panel-corrected standard errors); asterisks summarize p-values from two-sided z-tests (if significant at 5% level, ** if significant at 1% level). Estimates for country and period dummies are not reported (available from author).