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Constraining ministerial power: the impact of veto players on labor market reforms in industrial democracies, 1973-2000*

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ABSTRACT: This paper investigates how veto players affect the reform of labor market policies in advanced industrial democracies. Complementing Tsebelis' (2002) veto player model with the assumption of ministerial agenda control within the cabinet, the argument is that the constitutional and partisan distribution of veto power affects the capability of ministers to change the status quo in line with their partisan goals. This claim is tested with panel data on unemployment insurance entitlements and employment protection legislation in 20 OECD countries between 1973 and 2000. The central finding is that veto players constrain the power of ministers, cabinet ministers as well as prime ministers alike, to pursue their partisan interests. The partisanship of ministers shapes reforms only if the ideological distance between veto players is relatively small, and the influence of ministerial partisanship declines as ideological distance increases.

INTRODUCTION

A lively literature has accumulated compelling evidence that partisan politics continues to shapes social protection against labor market risks in advanced industrial democracies in times of globalization and de-industrialization (e.g., Allan & Scruggs, 2004; Amable, Gatti & Schumacher, 2006; Di Tella & MacCulloch, 2002; Huo, Nelson & Stephens, 2008; Korpi & Palme, 2003). By contrast, evidence on the consequences of political institutions for labor market policy-making is mixed and inconclusive. In particular, recent quantitative studies cast doubt on the argument that the reform of specific labor market policies becomes more difficult as the number of veto players increases or their policy preferences become more diverse (Allan & Scruggs, 2004; Boockmann, 2006; Huo, Nelson & Stephens, 2008; but see Korpi & Palme, 2003; Tsebelis, 1999). For example, in a panel study of the political determinants of changes in unemployment insurance and sick pay entitlements in affluent democracies, Allan and Scruggs (2004) found there was "almost no clear evidence that systems with greater dispersion of power constrain welfare expansion or retrenchment" (pp. 509). These negative empirical findings concur with theoretical critiques of the argument that veto players potentially increase policy stability (e.g., see Ganghof & Bräuninger, 2006; McGann, 2006).

However, this paper suggests that it is premature to dismiss the importance of veto players for labor market reforms. I argue that the partisan allocation of veto power and cabinet portfolios explains why some parties in parliamentary democracies are more successful than others in translating their policy preferences into policy outputs. In particular, I complement George Tsebelis' influential and elaborate veto player model (Tsebelis, 1995, 1999, 2002) with the assumption derived from the portfolio allocation model of cabinet formation that ministers are agenda-setters within their

jurisdiction (Laver & Shepsle 1990, 1996). Although not incompatible (Tsebelis, 2002, p. 108), veto players and ministerial partisanship are typically treated as alternative explanations for policy outcomes (Boockmann, 2006; Müller & Strøm, 2008). This paper emphasizes that both approaches can be fruitfully combined and tests whether the eclectic model of legislative decision-making sheds light on labor market reforms since the 1970s. The straightforward implication of the synthesis is that ministers should be able to implement their party's policy program if there is no ideological divergence among veto players and that their ability to do so declines as the ideological distance increases.

This proposition is tested with data on unemployment insurance entitlements and employment protection legislation in a panel of 20 advanced industrial democracies from 1973 to 2000. The empirical literature has not paid much attention to the policy consequences of portfolio allocation among coalition parties (Tsebelis, 2002, p. 108; Boockman, 2006, is a notable exception). Moreover, although it is a fundamental proposition of the veto player framework, existing quantitative studies of social policy reforms have neglected the claim that veto players constrain the power of the agenda setter. The conventional statistical approach is to estimate the average impact of government partisanship across different veto player constellations (Allan & Scruggs, 2004; Huber & Stephens, 2001). The blindness towards interaction effects or "conjunctural causation" has long been considered a weak spot of quantitative studies in comparative politics and comparative political economy (Ragin, 1987, p. 64), but in recent years the literature has made considerable progress in understanding and testing interactive hypotheses (see, e.g., Franzese, 2002). Building on this work, I translate the interactive theoretical argument into an interactive statistical model.

The empirical results support the view that veto players constrain labor ministers rather than the null model according to which labor ministers dictate policy within their jurisdiction. However, the

partisanship of the labor minister is highly correlated with the partisanship of the prime minister and that of the finance minister. In fact, they are identical in single-party governments. In effect, when analyzed in isolation these alternative assumptions about the identity of the agenda setter fit the data similarly well. When analyzed together, in the case of employment protection the labor minister appears to be more influential than the prime minister. In the case of unemployment protection it is difficult to disentangle competing assumptions. Regardless of the underlying assumption about agenda control within the cabinet, the central finding is that veto players constrain the capability of ministers, cabinet ministers and prime ministers alike, to reform the status quo in line with their partisan goals.

In the rest of this paper, I first propose a theoretical synthesis of the veto player model and the portfolio allocation model and spell out its key implication (section 2). I then introduce the data and specify the statistical model (section 3). Next, I present the empirical results (section 4). In the last section, I conclude with remarks on the implications of the findings for the study veto players and portfolio allocation.

A THEORETICAL SYNTHESIS:
MINISTERIAL AGENDA SETTING IN A VETO PLAYER MODEL

The analytical framework

Following partisan models of economic and social policy-making (e.g., Boix, 1998; Hibbs, 1977; Huber & Stephens, 2001), I assume that political parties are the central actors in the policy-making process and aim to move the status quo toward their most preferred policy, subject to institutional constraints.[1] Moreover, this paper assumes that political parties have well-defined, single-peaked

preferences over a one-dimensional policy (Tsebelis, 1999). Realistically, even a single policy such as unemployment insurance has multiple dimensions: benefit eligibility, benefit generosity, and benefit duration, etc. However, for simplicity and in order to analyze the available (one-dimensional) data, one can map these different variables onto one underlying dimension that captures the extent of public protection concerning particular labor market risks (e.g., workers' expected monthly income during a spell of unemployment as a fraction of their previous wage).[2]

The veto player literature identifies two types of powerful actors in the policy-making process: agenda setters and veto players. An agenda setter can initiate a policy proposal. A veto player is an actor whose *consent* is needed to change the status quo (Tsebelis, 2002, p. 19). Although veto player approaches in comparative politics share the conception of policy-makers as instrumental actors that are constrained by political institutions, they differ in the identification of veto players and in how they determine veto players' policy preferences (Ganghof, 2003).[3] Some approaches exclusively focus on constitutional veto players and assume that they generally like the status quo (e.g., Huber & Stephens 2001). Alternatively, this paper applies Tsebelis' (1999, 2002) unified theory to labor market policy-making. Tsebelis (2002, p. 159) argues that formal institutions are not directly linked to policy stability. Instead, he disaggregates institutional veto players into partisan veto players and emphasizes the need to measure, not posit, the preferences of policy-makers. Moreover, Tsebelis assumes that each party in a coalition government is a veto player.[4]

It is a core proposition of spatial models of policy-making that control over the legislative agenda is a valuable asset (e.g., see Romer & Rosenthal, 1978). From the set of policies that can defeat the status quo - the so-called winset of the status quo - the actor in control of the agenda chooses the preferred policy output. However, the influence of the agenda setter depends on the constellation of veto players. The power of the agenda setter decreases as the size of the winset of the status quo

decreases. In the limit case, when the size of the winset is zero, agenda control is worthless. The status quo simply cannot be changed. In other words, veto players constrain the room for maneuver available to the agenda setter (Tsebelis, 2002, pp. 33-37).

Ministerial agenda control

The logic of the veto player argument does not depend on the identity of the agenda setter. However, if the relevant parties in the policy-making process prefer different labor market policies, then determining the partisan distribution of agenda power is crucial in order to derive predictions about the extent and direction of feasible labor market reforms. In the literature, however, the distribution of agenda power in parliamentary democracies is a contentious issue. While most scholars agree that the cabinet government lies at the heart of national policy-making (Bergman et al., 2003, p. 177), the identity of the agenda setter within the cabinet is open to debate. This leads some scholars to take an agnostic position: "[…] in parliamentary systems the agenda-setting is done by the government, but we do not know exactly how" (Tsebelis, 2002, p. 3).

Following the portfolio model of government formation and policy-making (Laver & Shepsle, 1990, 1994, 1996), by contrast, I assume that ministers are agenda setters within their jurisdiction. Building on the resources and expertise of their departments, ministers have the capability to develop detailed and implementable policy proposals within their policy area. Similar resources are not available to other actors (Laver & Shepsle, 1996, p. 31). Consequently, ministers, within their area of responsibility, have a considerable degree of proposal power. In line with partisan models of policy-making, it is also assumed that ministers are "reliable" agents of their parties (Laver & Shepsle, 1994, p. 301). In the original formulation, ministerial agenda power is equal to "policy dictatorship" (Laver & Shepsle, 1990, p. 887). From the veto player perspective, however, ministers should anticipate the

potential opposition of veto players when deciding whether and how to propose a reform of the status quo. The underlying premise is that veto players can effectively monitor the policy proposals of ministers. Among others, junior ministers from other parties, strong legislative committees, prime well-staffed prime ministers, and pre-specified meetings of coalition leaders may perform such a watchdog role (Martin, 2004, p. 448; Müller & Strøm, 2008, p. 162). Thus, a minister is conceived as a "constrained optimizer" (Laver & Shepsle, 1994, p. 289) who aims to move the policy toward the party's ideal point subject to the winset circumscribed by the veto players.[5]

Empirical implications

The size of the winset can be approximated with the maximum ideological distance between veto players (Mansfield, Milner & Pevehouse, 2007; Tsebelis, 1999). This approximation is useful because it is often difficult to measure the status quo on the same scale as the policy preferences of parties. If the ideological distance between veto players is zero, the potential for policy change is large. The set of feasible labor market reforms declines as the ideological distance between veto players increases. If the ideological distance is large, policy change is difficult or even impossible. Two closely related hypotheses follow from the interaction between labor ministers as agenda setters and veto players. First, if the ideological distance between the veto players is small, all other things being equal, labor ministers should be capable of implementing their party's policy program. Second, as the ideological distance between veto players increases, the capability of ministers to change the status quo toward their party's preferred policy decreases.

DATA AND METHOD

Empirical strategy

I confront these theoretical expectations with panel data from 20 advanced industrial democracies in the last quarter of the twentieth century.[6] The panel structure of the data allows for the control of time-invariant country-specific and common year-specific heterogeneity and for properly testing hypotheses concerning policy change (Baltagi, 2001, chap. 1). The first oil crisis in 1973 marks the beginning of the observation period. Although it is impossible to establish a precise uniform cutoff across countries, many political economists consider this year a watershed between the post-war era of exceptional growth and welfare expansion and the subsequent period of diminished growth rates and fiscal austerity (Garrett, 1998, p. 129; Rueda, 2005, p. 63).

Measuring labor market policies

The empirical analysis focuses on two specific labor-market policies: unemployment insurance entitlements and employment protection legislation (EPL). Several motives underlie this decision. First, in the portfolio allocation model of Laver and Shepsle (1996) ministers are agenda-setters within their jurisdiction. Thus, in order to study the impact of portfolio allocation among parties on policy it is necessary focus on policy variables that can be matched to specific ministerial portfolios. Second, analyzing two distinct variables allows for the possibility that the role of veto players and ministers varies between policies (Rueda, 2005). Third, the literature on welfare state reform points out that changes in aggregate spending ratios may not reflect discrete policy choices and, compared to entitlements, less precisely indicate the degree of social protection at the individual level (Allan & Scruggs, 2004, p. 498; Korpi & Palme 2003, p. 432). Finally, from the perspective of policy-makers unemployment entitlements and employment protection are two specific but import policies that affect, among others, workers' worries about job security (Anderson & Pontusson, 2007), human capital formation (Iversen, 2005), and macro-economic outcomes (Bradley & Stephens, 2007).

Unemployment entitlements are taken from Lyle Scrugg's well-established Comparative Welfare State Entitlements Dataset (Scruggs, 2004). The *Unemployment insurance net replacement rate* (NRR) measures the fraction of replaced income in the first six months of the unemployment period after the deduction of taxes and social security charges. The NRR used here is the mean benefit entitlement of a married and an unmarried average production worker with two dependent children (for a thorough description of the data, see Allan & Scruggs, 2004). Unfortunately, the variable is only available for 17 of the 20 countries under study (Greece, Portugal, and Spain are missing).

For the purpose of assessing how partisan politics affect the reform of EPL, an indicator should comprehensively measure the strictness of employment protection on the basis of national legislation, not collective agreements, and on how it evolves over time. Conceptually, the *Strictness of EPL* index developed by Allard (2005) comes close to this ideal. Contrary to other indicators used in the literature, the index is solely based on legislative output and covers various aspects of EPL. Based on a modified OECD scheme, the index measures the strictness of legislation covering permanent contracts, temporary contracts, and collective dismissals on a yearly basis. With regard to permanent contracts, the index takes into account procedural inconveniencies, the duration of notice periods, the amount of severance pay, and standards and penalties for unfair dismissals. Furthermore, it captures whether and how legislation limits the use of temporary contracts. Finally, additional regulations concerning collective dismissals are incorporated (Allard, 2005, appendix 1). It is intuitive to interpret the index in terms of average dismissal costs for employers. It was transformed to range between 0 (no legislation or zero dismissal costs) and 1 (strict legislation or high dismissal costs).[7]

[Figure 1 about here]

Because the variable has not been widely used by political scientists, figure 1 gives an overview of the development of the strictness of EPL in the 20 countries assembled in the data set from 1970 to 2000. To ease exposition, countries in figure 1 are grouped by welfare capitalism regime: liberal, continental, or social democratic (Esping-Andersen, 1990). The Mediterranean group is a residual category containing Greece, Portugal, and Spain. On average, most countries increased employment protection until the 1980s. Since then, policy stability in conservative welfare states has been high. This group includes Germany and Italy, where multi-party coalitions and upper chambers may block legislation. By contrast, the social democratic and Mediterranean countries partially deregulated EPL. The policy changes in the Mediterranean countries largely reflect reforms undertaken by single-party governments in Greece and Spain. The strictness of EPL in Liberal welfare regimes is well below that of the other countries throughout the period, although there is a slight upward trend. The reader may wonder why the accession to power of the Conservative Party led by Thatcher 1979 in the United Kingdom did not seem to produce any deregulation of EPL. In fact, the new conservative government reduced the strictness of EPL, although it was already low by international comparison. In Figure 1, the aggregation of EPL within the Liberal countries hides these reforms. Moreover, the Thatcher government radically retrenched unemployment insurance entitlements in a series of cut backs throughout the 1980s. This contrasts, for example, with the German coalition government between the Christian Democratic Party and the Free Democrats. After coming into office in 1982 and winning the 1983 election, the centre-right coalition only agreed on a marginal reduction of the NRR and no significant deregulation of EPL. However, before I can turn to a systematic evaluation of the hypotheses I discuss the measurement of the independent variables.

Measuring policy positions

The partisan identity of labor ministers is identified with the data assembled by Thomas Cusack and his team (Cusack & Engelhardt, 2002).[8] Measuring policy positions of parties is a crucial but controversial task in any empirical application of spatial models. There is no consensus on how policy preferences of parties can be made comparable across time and space. The main disagreements are between scholars praising the merits of position data based on the coding of party manifestos, and scholars preferring aggregated expert judgments of party positions. This debate is relevant because in more than a few cases, expert data and manifesto data place parties differently, and the choice of one indicator over another may decisively influence estimation results (e.g., see Rueda, 2005). In light of the ongoing controversy between proponents of expert data and proponents of manifesto data, two different indicators are used in the empirical analysis to measure policy positions of parties and to calculate ideological distances between veto players.

The first indicator of the *Policy position of the labor minister* is based on the data gathered by the Comparative Manifesto Project (CMP) (Budge et al. 2001). According to the coding scheme, each quasi-sentence in a party's manifesto is assigned to one of 57 pre-defined policy categories. The percentage of sentences a party devotes to each category can be used to calculate policy-specific indicators. Using a variable constructed by Cusack and Engelhardt (2002), the policy position of a labor minister's party *i* in year *t* with regard to economic policy is measured as the emphasis placed on principles of laissez-faire minus the emphasis on categories like social justice, market regulation, and welfare expansion, as a percentage of all categories used.[9] A positive value indicates that a party, in its manifesto, stresses market solutions more than government intervention. The variable was rescaled to range from -1 (extreme left or interventionist) to +1 (extreme right or market radical), and changes at election intervals.

Instead of relying on the coding of party programs, some scholars laud the "collective wisdom" of country experts (Benoit & Laver, 2007, p. 99). The expert indicator is the mean position of the labor minister's party on the left-right dimension in three expert surveys. The variable was also taken from Cusack and Engelhardt (2002). The rescaled variable ranges from -1 (extreme left) to +1 (extreme right). An important caveat is that retrospective expert judgments raise the issue of reverse causality (i.e., inferring ex ante policy preferences from observed behavior). The expert data will be used to check the robustness of the results.

Measuring ideological distance

Veto players are identified in line with Tsebelis (2002). Accordingly, all parties in multi-party coalitions are veto players. Upper chambers are relevant veto players if they are endowed with constitutional veto power and the governing party or coalition does not have a majority at its command. The same holds for heads of state with a constitutional veto right if they do not belong to the governing party or coalition (see Table 1 one for coding details).[10]

Simply comparing the number of veto players over time or space may be misleading because it ignores their policy preferences (Tsebelis, 2002, p. 25). For this reason, *Ideological distance* is computed with both the expert data indicator and the manifesto data indicator of policy positions discussed above. The ideological distance is computed as the distance between the most extreme veto player on the left and the most extreme veto player on the right side of the policy continuum. If there is no upper chamber with formal veto power, ideological distance is the range of coalition parties' policy positions. In Portugal the president is included in the calculation in case of divided government.[11] The calculation is less straightforward if the governing party or coalition needs the support of at least one opposition party in the upper chamber to pass legislation but more than one opposition

party is represented in the chamber. In this situation, using the most radical opposition party in the calculation might underestimate the size of the winset of the status quo. Consequently, a weighted average of the policy position of each opposition party in the upper chamber is used. In this case, the parties' seat fractions are weights.[12] Table 1 provides descriptive statistics for ministerial policy position, ideological distance, and the two dependent variables.

[Table 1 about here]

Control variables

The indicators for policy positions of parties are either time-invariant (expert data) or updated at election intervals only (CMP data). Thus, they are not sensitive to (intra-election) changes in the social, economic, or political context that may shape parties' incentives to reform labor market policies. Consequently, it is appropriate to control for variables that might influence parties' inter-temporal reform calculus. In the literature, several important variables are identified.[13]

The level of the dependent variable in the previous year (Y_{t-1}) captures the idea that the economic reform pressure increases in the level of existing employment protection or unemployment insurance entitlements. Although unions and employers have no formal veto power, they certainly have the motivation and capacity to influence political parties. The neo-corporatist literature links the strength and organizational structure of unions and employer associations to social and macro-economic policy-making (e.g., Garrett, 1998; Mares, 2006). Thus, corporatist wage setting arrangements enable a credible exchange of union wage restraint for social protection provided by the government. *Corporatism* measures cooperation between social partners or lack thereof. It takes

on values from 0 to 5, where 1 stands for low integration between unions, employers, and the state, and 5 stands for high integration.

Unemployment rate is the number of unemployed as a percentage of the civilian labor force. Political economists argue that a government's incentives to cut entitlements increase as the level of unemployment rises. The first difference of this variable (Δ*Unemployment rate*) serves as a proxy for the changing risk of workers to become unemployed and thus demand insurance (Di Tella & MacCulloch, 2002). The *Growth rate of per capita GDP* captures the movement of the business cycle. The *Budget deficit* is measured as a percentage of GDP. Budgetary crises may be used by governments to portray neo-liberal reforms as a necessary evil to save the welfare state.

As the number of old-age transfer recipients increases, the financial leeway for expanding or even maintaining welfare entitlement aimed at the working population declines (Mares, 2006). Demographic change is measured as the percentage of the population that is older than 64 years (*Population over 64*), and the first difference of this variable (Δ*Population over 64*). The first difference is included to capture transitory effects. Globalization is measured as exports plus imports over GDP (*Trade openness*) and the first difference thereof (Δ*Trade openness*). According to the compensation hypothesis, the demand for social insurance and redistribution grows as economies become increasingly exposed to the competition and vagaries of world markets (Garrett, 1998). The efficiency hypothesis, by contrast, claims that global competition trumps national redistributive demands. Furthermore, scholars argue that de-industrialization increases the demand for redistribution (Iversen & Cusack, 2000). *De-industrialization* measures the percentage of the workforce that is not employed in the first or the second sector. Again, the difference is included to capture short-term effects (Δ*De-industrialization*). Finally, the natural logarithm of real GDP per

capita is used as a rough indicator of a country's level of economic development (*Log of per capita GDP*).

The empirical specification

Do veto players constrain ministerial discretion? A basic empirical specification that addresses this question can be written as:

$$\Delta Y_{i,t} = \beta_0 + \lambda Y_{i,t-1} + \beta_1 \textit{Policy position of labor minister (LM)}_{i,t-1} + \beta_2 \textit{Ideological distance (ID)}_{i,t-1} + \beta_3 LM_{i,t-1} \times ID_{i,t-1} + \sum_k \beta_k Controls_{k,i,t-1} + \sum_l \beta_l \Delta Controls_{l,i,t} + u_{i,t}. \quad (1)$$

where i denotes countries ($i = 1,\ldots,N$) and t years ($t = 1,\ldots,T$).[14] On the left-hand side of the equation, the dependent variable is the first difference of the policy variable under study. The first difference is adequate because the theoretical focus is on the reform of labor market policies. On the right-hand side of the equation, $Y_{i,t-1}$ is the level of the dependent variable in the previous year. A negative coefficient estimate of λ indicates that incentives for de-regulating labor market policies increase in the status quo level of regulation. The policy position of the labor minister's party and the ideological distance between the veto players enter the equation independently and interactively. The multiplicative interaction of both variables captures the argument that veto players constrain the power of the agenda setter. Both summation operators are short-hand for the control variables (in levels and first differences) introduced in the last sub-section. u_{it} is the idiosyncratic error term (controls for the panel nature of the data are discussed below). The βs and λ will be estimated.

All level variables enter equation (1) with a one-year lag. The main reason for this lag structure is that the policy indicators capture the implementation of legislation, not its adoption in parliament.

Differenced variables enter contemporaneously. The main theoretical focus is on the conditional effect of the ministerial policy position on labor market policy change. This is the first derivative of equation (1) with respect to the policy position of the labor minister's party:

$$\frac{\partial(\Delta Y_{i,t})}{\partial LM_{i,t}} = \beta_1 + \beta_3 ID_{i,t-1}. \quad (2)$$

β_1 is the effect of the labor minister's position if the ideological distance between veto players equals zero. If there are no veto players, all other things being equal, a right (or left) labor minister should be capable of deregulating (or regulating) employment protection and cutting back (or expanding) unemployment insurance entitlements. Given the measurement of parties' policy positions, partisan theory expects a negative sign ($\beta_1 < 0$). Crucially, the veto player model predicts that the agenda power of the labor minister declines as the ideological distance between veto players increases. Thus, a right (or left) minister's capability to pursue a laissez-faire (interventionist) agenda diminishes as the ideological distance between veto players increases. Consequently, a positive sign of β_3 is expected ($\beta_3 > 0$). Alternatively, the pure form of the portfolio model, where ministers can dictate policy within their jurisdiction (Laver & Shepsle, 1990), implies the null hypothesis $\beta_3 = 0$. To contrast the assumption of unrestrained ministerial agenda power with the veto player hypothesis, it is useful to estimate a restricted version of equation 1 and compare it with the unrestricted model. In the restricted model, veto players are assumed to be irrelevant ($\beta_2 = \beta_3 = 0$).[15]

Estimation issues

Both country and year dummies are included in the specification to control for time-invariant country heterogeneity and common time shocks. This equivalent to a transformation that de-means each observation from its country-specific and year-specific mean (Baltagi, 2001, p. 32). Omitting

countries' geographical, historical, cultural, or institutional idiosyncrasies may bias the coefficients of interest. In comparative political economy such factors are usually plausible alternative hypotheses (Wilson & Butler, 2007, p. 106). Common time-effects, such as oil price volatility, technological change, or policy learning, may also bias the estimators. Thus, estimating equation 1 with full set of fixed effects is a conservative research strategy intended to minimize type I errors. Moreover, if serial correlation is a concern, then the error process is modeled using the Prais-Winsten transformation. Panel-corrected standard errors are computed to deal with panel heteroskedasticity and contemporaneous correlation of the errors across countries (Beck & Katz, 1995).

RESULTS

Veto players and labor ministers

Table 2 shows fixed effects regression estimates for the reform of unemployment insurance entitlements and EPL in affluent democracies between 1973 and 2000. In all models, ideological distance and ministers' policy positions are measured with CMP data. The results support the view that the impact of ministerial partisanship is conditional on the ideological distance between veto players. For both labor market policies under study, the policy-impact of the labor minister's party is estimated more precisely when the veto player variables are included (models 2 and 4) than when they are omitted (models 1 and 3). Moreover, the interaction term has a positive sign, as predicted, and is statistically significant. This indicates that ministers' capability to change the status quo policy toward partisan goals declines as ideological distance increases.

[Insert Table 2 about here]

In the case of the NRR, the labor minister's policy position has a negative and statistically significant ($p < .05$) effect in the restricted specification without the interaction term and ideological distance (model 1). This is in line with the assumption of the original portfolio model (Laver & Shepsle, 1990, 1996). However, in the veto player specification (model 2) the labor minister's impact is nearly twice as large if the ideological distance between veto players is zero, which is the typical situation in countries like Canada, the United Kingdom, and New Zealand until 1996 (recall that NRR data are missing for Greece and Spain).[16] Substantively, model 2 suggests that if a single-party government faces no external veto players, moving the party's position one unit to the right – this is less than the shift from the Labour Party to the Conservative Party 1979 in the United Kingdom – leads to a three percentage point cutback in the NRR, plus or minus a small fraction of a percentage point.

Panel (a) of Figure 2 plots the estimated conditional effect of the labor minister on changes of the NRR.[17] On the horizontal axis, the ideological distance between veto players is varied from the sample minimum to the sample maximum. The vertical axis shows the estimated marginal effect of ministerial position on the reform the NRR. As implied by the veto player hypothesis, the panel shows that labor ministers' capability to implement the policy preferred by their party declines as the ideological distance between veto players increases. A right-ward shift of the labor minister leads to substantial cutbacks only if ideological distance is relatively small. However, marginal adjustments of unemployment entitlements seem to be feasible for a considerable degree of ideological polarization. This result contrasts with findings that veto players do not significantly affect the reform of unemployment entitlements (Allan & Scruggs, 2004; Huo, Nelson & Stephens, 2008).

Regarding the reform of EPL, ministerial partisanship has a significant impact only if its interaction with ideological distance is included (model 4 in Table 2). This is consistent with the view that ministerial agenda power is context-sensitive. Panel (b) in Figure 2 shows that the impact of the

labor minister's position declines as the ideological distance between veto players increases. If the ideological distance is negligible, substituting a left minister with a right minister typically leads to the reduction of EPL. As the ideological distance increases, the capability of a market radical minister to deregulate EPL decreases. Furthermore, the confidence interval intersects 0 when ideological distance ranges from moderate to large. This suggests that policy stability regarding EPL is relatively high. When the ideological distance between veto players exceeds 1, a right-ward shift of the labor minister is associated with the consolidation of EPL. This is at odds with the idea that policy stability should be high if the ideological distance between veto players is very large, and that ministers on the right are in favor of labor market deregulation. It could be a result of logrolling among parties, which is assumed away by the standard veto player model. However, the histogram in panel (b) illustrates that the number of observations for this scenario is small.

[Figure 2 about here]

Robustness and alternative models of agenda controls

Altogether, the evidence summarized in Table 2 and Figure 2 supports the synthetic argument that ministers' room for maneuver depends on the veto player constellation rather than the assumption of ministerial policy dictatorship. However, the question remains whether the results are sensitive to the choice of one position indicator over another or to the peculiarities of the estimation strategy. A further question is how the assumption of ministerial agenda control performs compared to alternative models of executive agenda setting in parliamentary democracies. This sub-section addresses these issues. First, columns 1-2 and 6-7 in Table 3 show that the results are robust when expert data is used in place of manifesto data and the estimation strategy is slightly altered. Further sensitivity analyses produce similar results, but there is no space to show the results here.[18]

Second, alternative models of agenda setting in parliamentary democracies are spelled out in the literature. One alternative assumption is that the prime minister, not the cabinet minister, is the ultimate agenda setter. The underlying argument is that the ability to attach a vote of confidence to a particular bill allows a prime minister to effectively dominate the government's agenda (Huber, 1996). Alternatively, finance ministers are likely to monitor and may have the power to modify the spending proposals of the other cabinet ministers (Hallerberg, 2004). This is a plausible alternative agenda model for the reform of unemployment insurance entitlements, which directly affect spending, but not for EPL. Assuming disciplined parties, the three different assumptions about agenda control have identical implications for single-party governments. Given the frequency of (minority and majority) single-party governments in the countries under study (roughly 50 percent of all country-years), it is not surprising that the correlation between the policy position of the labor minister's party and that of the prime minister as well as that of the finance minister is very high ($r > 0.8$). This suggests that the different assumptions should yield similar empirical results.

Indeed, Table 3 shows that alternative assumptions about the allocation of agenda control in the veto player framework fit the data similarly well. That is, when the competing assumptions are evaluated separately, the substantive effects of the prime minister (model 2) and finance minister (model 3) on NRR reform are comparable to those of the labor minister. The partisanship of the prime minister can also account for changes in EPL conditional on ideological distance (model 8). In order to differentiate between competing assumptions, model 5 and model 9 exclude all countries with a history of single-party governments (Canada, Greece, New Zealand, Spain, and the United Kingdom) and simultaneously analyze all competing models. In the case of the NRR, the labor minister variable is neither significant nor of the expected sign, but none of the competing variables reaches significance, neither individually nor jointly with their respective interaction term (model 5). Regarding EPL, the labor minister variable has the expected sign, contrary to the prime minister

variable, but does not quite reach the conventional significance level (model 9). Jointly, however, the labor minister variable and its interaction with ideological distance are significant ($X^2(2) = 15.29$, $p < 0.001$). Thus, there is some evidence for the assumption of agenda control by the cabinet minister rather than the prime minister. Most importantly, regardless of the agenda assumption the central finding remains unaltered: veto players constrain the power of ministers to pursue their partisan goals.

CONCLUSION

This paper has reexamined how veto players matter for labor market reforms in advanced industrial democracies. Analyzing the reform on unemployment protection and employment protection in a panel of 20 countries from 1973 to 2000, the central finding is that ministers are capable of pursuing their party's program if the ideological distance between veto players is small, but their ability to do so declines as ideological distance increases. This result holds for alternative assumptions of agenda control within the cabinet (by the labor minister, prime minister, or finance minister). Two implications of the findings are worth highlighting.

First, the results suggest that it is premature to dismiss the importance of veto players for labor market reforms. In line with the veto player theory as spelled out by Tsebelis (2002), the evidence robustly support the argument the veto players constrain the room for maneuver that is available to ministers within the cabinet. The finding that veto players matter for labor market reforms stands in contrast to recent quantitative studies (Boockmann, 2006; Allan & Scruggs, 2004), but is consistent with comparative case studies (Huber & Stephens, 2001, ch. 7). This finding implies a qualification of the emerging consensus in the partisanship literature. The partisan complexion of government

continues to matter for labor market reforms since the 1970s, but its impact is contingent on the veto player constellation.

Second, although the synthetic portfolio-allocation-veto model, in which labor ministers are constrained agenda setters within their jurisdiction, performs better than the null model, in which labor ministers dictate policy, alternative assumptions about the allocation of agenda power within the cabinet fare similarly well. Two prominent alternatives are prime ministerial agenda setting and agenda control by the finance minister in matters of spending. Empirically, all three assumptions are quite similar. In the case of employment protection, the labor minister appears to be more influential than the prime minister, but in the case of unemployment protection the results are inconclusive. This mixed finding is consistent with the idea that the autonomy of cabinet ministers within their jurisdiction is greater for policies that are not money-intensive. Thus, further research should pay more attention for which specific policies alternative agenda assumptions are more plausible.

Beyond the obvious limitation to two specific (but relevant) labor market policies, it is important to note that most of the observations predate the "third way" turn of some social democratic parties toward labor market flexibility. Moreover, since the focus was on the impact of veto players and portfolio allocation in the legislative arena, party programs were treated as a black box. Thus, the results do not speak to the process of preference formation and the relative influence of electoral politics, factions, unions, and employers on party policy. Instead, the analysis depends on the measurement of parties' policy preferences. This is a tricky problem. The practical solution requires several auxiliary assumptions unrelated to the theoretical argument. Fortunately, the key results are not sensitive to the choice of one position indicator over another.

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NOTES

1 Unions and employers certainly have a stake in labor market reforms and try to influence parties accordingly. Thus, their influence should be at least partially reflected in parties' policy priorities. Furthermore, the empirical analysis controls for the direct influence of corporatism on reforms. However, the theoretical focus is on the interaction between parties in the legislative arena.

2 Also note that decommodification, Esping-Andersen's (1990, p. 37) core concept of welfare capitalism, is one-dimensional.

3 In the literature, the terms veto point and veto player are largely used synonymously (Ganghof, 2003). I uses veto player throughout.

4 The different approaches are not seen as strict alternatives. Instead, the paper builds on the most explicit approach. Basic assumptions of Tsebelis' veto player model are single-peaked and symmetric policy preferences that are common knowledge to all actors, zero transaction costs, and a one-shot situation (Tsebelis, 2002, chap. 1).

5 Laver and Shepsle (1994, p. 289) acknowledge that ministers are constrained optimizers, but do not model their constraints.

6 The countries in the data set are listed in Table 1. Undemocratic country years for Greece, Portugal, and Spain are omitted. The United States are excluded because in its system of presidentialism the assumptions that parties are unitary actors and the executive dominates the legislative agenda seem heroic. Including the United States, however, does not alter the substance of the results.

7 In substantive terms, a score of 1 means: first, regular workers cannot be laid-off on grounds of capability, they need be notified of their dismissal several months in advance, and have a right to receive a compensation that is worth several months of their salary, increasing with tenure. Second, the use of temporary contracts is severely restricted. Third, rules for collective dismissals apply at fewer than 10 dismissals and entail significant additional costs for companies (e.g., for retraining or additional compensation). A score of 0 virtually means the absence of regulation.

8 In Austria, the equivalent ministry is that of social affairs. In Switzerland, the economics department is in charge of labor market policy.

9 For all the CMP categories and weights used, see the documentation for the variable myrl3 in the Cusack data set (Cusack & Engelhardt, 2002).

10 For practical reasons, the electorate is ignored as a potential veto player, even if the constitution allows for referenda (following Tsebelis, 2002, ch. 7). This is a crude simplification in the case of Switzerland, where most federal laws may be vetoed in a referendum. Although in the period under study the four main parties jointly participated in government in order to reduce the risk that their legislative proposals are challenged at the polls, cuts in the NRR were vetoed by voters 1997.

11 In the case of Portugal, an auxiliary assumption is made because its first president after the transition to democracy, António Ramalho Eanes (1976-1986), was an independent. Position data for him are lacking. Retrospectively, his position is proxied with that of the Democratic Renewal Party (PRD), which he co-founded in his second term.

12 This is the ideological centre of gravity of the opposition parties in the upper house (Cusack & Engelhardt, 2002). Although theoretically less compelling, an alternative indicator based on the number of veto player produces similar results.

13 The following variables are based upon OECD data assembled in the Comparative Political Data Set I (Armingeon et al., 2006): Unemployment rate, ΔUnemployment rate, Growth rate of per capita GDP, Population over 64, ΔPopulation over 64, Budget deficit (Swiss data before 1990 are from the Swiss Federal Statistical Office), De-industrialisation, ΔDe-industrialisation. Trade openness, ΔTrade openness, and Log of per capita GDP are from the Penn World Table 6.1 (Heston, Summers & Aten, 2002). Corporatism is taken from Siaroff (1999).

14 The panel is unbalanced because of missing data. Most missing observations result from the variables ministerial policy position, ideological distance, and their interaction.

15 The parameter β_2 is the effect of the ideological distance between veto players if the party of the labor minister is situated exactly in the middle of the policy continuum (i.e., with a policy position at 0). There are no theoretical priors for the inclusion of this variable. It is included in the specification to avoid the assumption that its coefficient is necessarily zero.

16 Moreover, when expert data is used ministerial partisanship is significant only in the interactive specification. This also supports the view of constrained proposal power.

17 Conditional effects plots were produced with the Stata syntax provided by Kam and Franzese (2007, appendix B).

18 For both dependent variables, the policy position of the labor minister's party and the interaction term have the predicted sign are significant ($p < .05$) if each country is excluded in turn (full fixed effects model) with the exception of Greece (in the EPL model LM is only significant at 10%). Moreover, the results are robust if a linear trend variable is included and the analysis is restricted to the period since 1980, although the effect of ministerial partisanship on NRRs is attenuated.

Table 1

Measures of veto players, ministerial partisanship, and labor market policies, 1973-2000

	Upper chamber with veto power	Head of state with veto power	Policy position of labor minister's party (CMP)		Ideological distance between veto players (CMP)		Unemployment net replacement rate (Scruggs 2004)		Strictness of employment protection legislation (Allard 2005)	
			Mean	SD	Mean	SD	Mean	SD	Mean	SD
Australia	Yes	No	-0.07	0.64	0.80	0.48	0.45	0.04	0.14	0.08
Austria	No	No	-0.38	0.35	0.48	0.45	0.63	0.06	0.46	0.05
Belgium	Until 1995	No	0.19	0.62	0.70	0.43	0.64	0.03	0.42	0.10
Canada	No	No	-0.24	0.34	0.00	0.00	0.68	0.04	0.15	0.11
Denmark	No	No	-0.15	0.61	0.52	0.44	0.72	0.06	0.36	0.09
Finland	No	No	-0.73	0.28	0.71	0.19	0.58	0.11	0.39	0.09
France	No	No	-0.36	0.48	0.36	0.31	0.61	0.11	0.51	0.10
Germany	Yes	No	-0.27	0.50	0.72	0.51	0.67	0.02	0.54	0.06
Greece	No	No	0.09	0.48	0.00	0.00			0.62	0.20
Ireland	No	No	-0.21	0.36	0.26	0.38	0.54	0.10	0.25	0.05
Italy	Yes	No	0.32	0.36	0.61	0.30	0.21	0.14	0.70	0.05
Japan	Yes	No	0.15	0.70	0.15	0.21	0.61	0.05	0.31	0.03
Netherlands	Yes	No	0.05	0.34	0.38	0.21	0.79	0.16	0.45	0.05
New Zealand	No	No	-0.27	0.25	0.05	0.13	0.48	0.04	0.14	0.00
Norway	No	No	-0.39	0.40	0.18	0.39	0.68	0.04	0.55	0.01
Portugal	No	Yes	0.06	0.22	0.18	0.15			0.72	0.04
Spain	No	No	0.00	0.27	0.00	0.00			0.62	0.11
Sweden	No	No	-0.34	0.36	0.29	0.51	0.81	0.06	0.64	0.10
Switzerland	Yes	No	0.08	0.38	1.11	0.30	0.72	0.16	0.17	0.09
United Kingdom	No	No	0.24	0.52	0.00	0.00	0.41	0.13	0.27	0.04
Total			-0.11	0.51	0.37	0.45	0.60	0.17	0.42	0.20

Notes: veto power was coded according to Tsebelis & Money (1997), Lijphart (1999, p. 212), and Bergman et al. (2003, p. 119).
Ministerial policy position and ideological distance were computed from the data of the Comparative Manifesto Group (CMP) (Budge et al. 2001) in Cusack & Engelhardt (2002).

Table 2

Panel regression estimates: ministers, veto players, and labor market reforms, 1973-2000

	(1) ΔNRR	(2) ΔNRR	(3) ΔEPL	(4) ΔEPL
Labor minister$_{t-1}$ (LM)	-0.017*	-0.030*	-0.003	-0.014*
	(0.004)	(0.005)	(0.005)	(0.005)
Ideological distance$_{t-1}$		-0.002		0.004
(ID)		(0.005)		(0.006)
LM$_{t-1}$×ID$_{t-1}$		0.027*		0.022*
		(0.006)		(0.006)
Net replacement rate$_{t-1}$	-0.573*	-0.569*		
(NRR)	(0.027)	(0.026)		
EPL$_{t-1}$			-0.256*	-0.261*
			(0.032)	(0.030)
Corporatism$_{t-1}$	0.063*	0.069*	0.037*	0.040*
	(0.010)	(0.012)	(0.009)	(0.009)
Unemployment rate$_{t-1}$	-0.011*	-0.010*	-0.002	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)
ΔUnemployment rate$_t$	-0.006*	-0.005*	-0.002	-0.002
	(0.002)	(0.002)	(0.002)	(0.002)
Trade openness$_{t-1}$	-0.001*	-0.001*	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
ΔTrade openness$_t$	-0.001	-0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)
Log (GDP per capita)$_{t-1}$	-0.112*	-0.115*	-0.089*	-0.085
	(0.044)	(0.041)	(0.044)	(0.044)
GDP growth$_t$	0.002*	0.002*	0.001	0.000
	(0.001)	(0.001)	(0.001)	(0.001)
Population over 64$_{t-1}$	0.008*	0.008*	-0.000	-0.000
	(0.003)	(0.003)	(0.003)	(0.003)
ΔPopulation over 64$_t$	-0.014	-0.010	0.012	0.014
	(0.017)	(0.019)	(0.008)	(0.008)
De-industrialization$_{t-1}$	0.018*	0.016*	0.001	-0.000
	(0.002)	(0.002)	(0.001)	(0.001)
ΔDe-industrialization$_t$	0.014*	0.013*	-0.001	-0.002
	(0.002)	(0.002)	(0.002)	(0.002)
Budget deficit$_{t-1}$	-0.000	-0.001	-0.000	-0.000
	(0.001)	(0.001)	(0.001)	(0.001)
Error correction	Yes	Yes	No	No
Countries	20	20	17	17
Observations	0.418	0.420	0.258	0.273
R^2	391	391	469	469

Notes: Country dummies and year dummies are included but not shown. LM, ID, and LM*ID are measured with CMP data. Panel-corrected standard errors in parentheses. NRR = Unemployment insurance net replacement rate (Scruggs 2004). EPL = strictness of employment protection legislation (Allard 2005).
* p<0.05 (two-sided test)

Table 3

Sensitivity analysis

	(1) ΔNRR	(2) ΔNRR	(3) ΔNRR	(4) ΔNRR	(5) ΔNRR	(6) ΔEPL	(7) ΔEPL	(8) ΔEPL	(9) ΔEPL
Labor minister$_{t-1}$ (LM)	-0.026*	-0.029*			0.034	-0.017*	-0.014*		-0.041
	(0.007)	(0.004)			(0.044)	(0.008)	(0.005)		(0.032)
Prime minister$_{t-1}$ (PM)			-0.031*		-0.024			-0.013*	0.027
			(0.005)		(0.051)			(0.007)	(0.032)
Finance minister$_{t-1}$ (FM)				-0.031*	-0.035				
				(0.005)	(0.041)				
LM$_{t-1}$×ID$_{t-1}$	0.059*	0.027*			-0.035	0.032*	0.022*		0.051
	(0.014)	(0.005)			(0.041)	(0.016)	(0.006)		(0.027)
PM$_{t-1}$×ID$_{t-1}$			0.032*		0.028			0.012*	-0.033
			(0.005)		(0.047)			(0.006)	(0.024)
LM$_{t-1}$×ID$_{t-1}$				0.029*	0.025				
				(0.006)	(0.038)				
Position data	Expert	CMP	CMP	CMP	CMP	Expert	CMP	CMP	CMP
Error correction	Yes	No	Yes	Yes	Yes	No	Yes	No	No
Countries	17	17	17	17	14	20	20	20	15
Observations	391	391	390	389	318	469	469	468	468
R^2	0.417	0.378	0.423	0.423	0.486	0.266	0.273	0.266	0.277

Notes: Full fixed effects estimation including all control variables listed in Table 2. Panel-corrected standard errors in parentheses.
NRR = Unemployment insurance net replacement rate (Scruggs 2004). EPL = strictness of employment protection legislation (Allard 2005).
* $p<0.05$ (two-sided test)

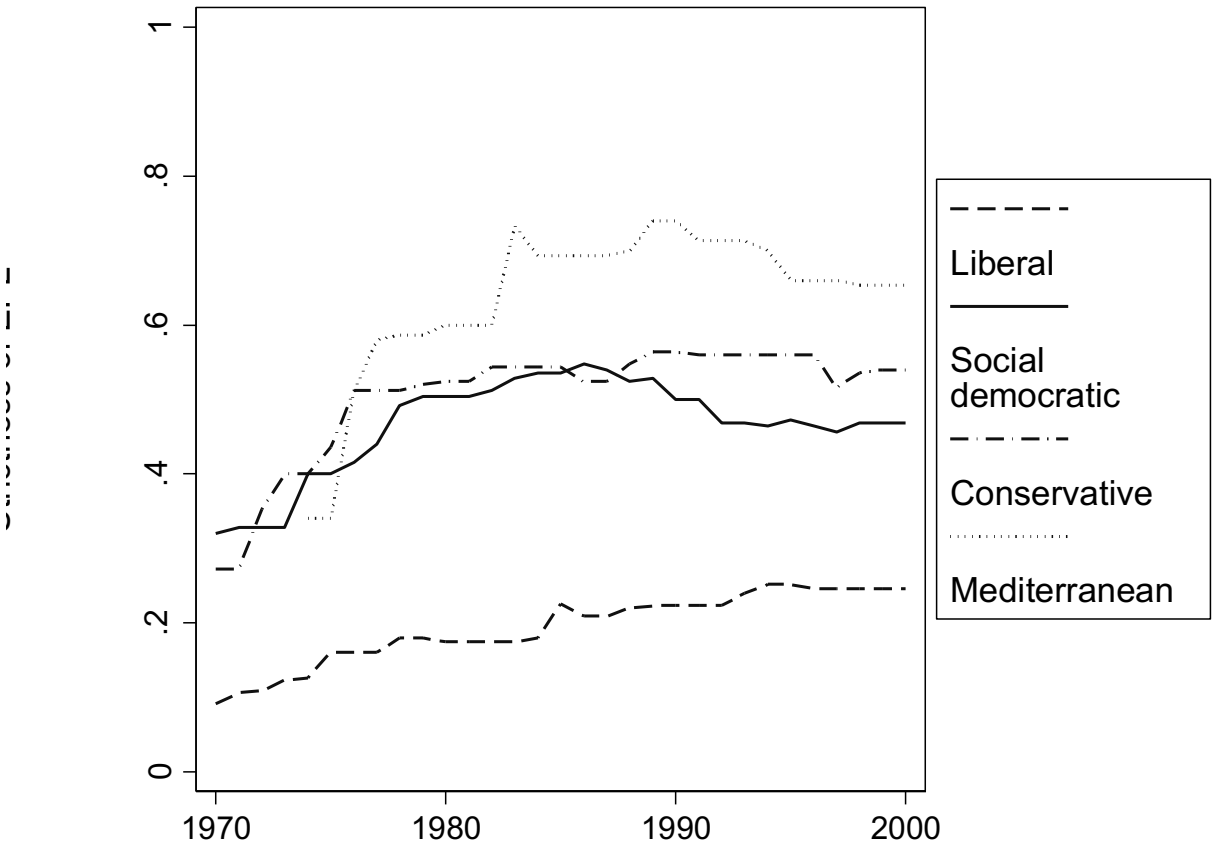

Figure 1: The strictness of employment protection legislation (EPL) by welfare state regime. The variable from Allard (2005) was re-scaled to range from 0 (no legislation) to 1 (strict legislation).

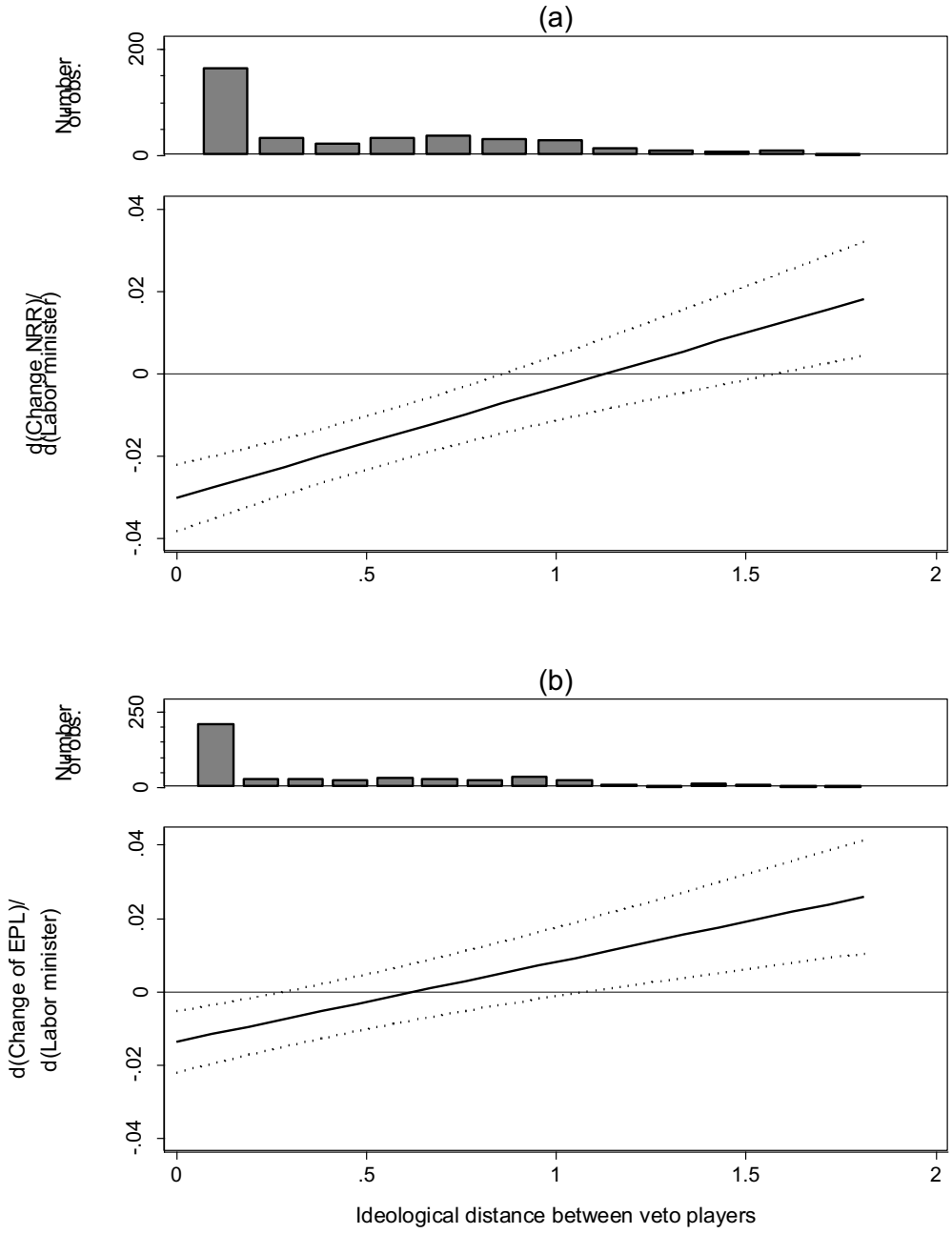

Figure 2: The marginal impact of ministerial policy position on labor market reforms (solid), with a 95 percent confidence interval (dotted), as a function of ideological distance.