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**The impact of party competition: Why unemployment benefits in Italy and Germany diverged after World War II**

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## 1. Introduction<sup>1</sup>

The policies of financial support for the unemployed in Italy and Germany diverged strongly during the phase of welfare state expansion after the end of World War II. Italy developed a very fragmented unemployment benefit system with wide differences in generosity. By contrast, Germany established a three-tier benefit system with more contained generosity differences. This paper explains these two policy paths by highlighting the impact of two very different logics of party competition: centrifugal competition in the Italian case and centripetal competition in Germany (for definitions, see below).

In this way, the paper demonstrates the relevance of party competition for social policy reforms, which is not sufficiently recognized in comparative welfare state research. Only a few and somewhat dispersed studies in this field have analyzed party systems as an independent variable (Ferrera 1993; Kitschelt 2001; Green-Pedersen 2002).

During the phase of welfare state expansion Italy and Germany had widely different party systems. At the same time, both countries were relatively similar in other political, economic, and institutional aspects, not least the dominance of a Christian Democratic party in government. This makes this comparison a particularly suitable setting for studying the different effects of two distinct modes of party competition.

The next section briefly discusses the existing literature on party politics and the welfare state and presents the theoretical approach of this paper. The main part of the paper, first, explains how this comparison is based on a most similar systems design with variation on the independent variable. It, then, analyzes the dynamics of party competition that conditioned the reforms of unemployment benefits in Italy and Germany respectively. Lastly, I will conclude and indicate some implications of this contribution.

## 2. Party competition and reforms of social protection

In comparative welfare state research and comparative political economy political parties are usually seen from the perspective of 'partisan politics' (e.g., Hibbs 1977; Garrett 1998; Korpi 1983; Esping-Andersen 1985). In this approach, parties represent the interests of their core constituencies, which are usually defined in terms of social classes.<sup>2</sup> Therefore, the policy objectives of a party correspond to the economic interests of its social constituency and policy output depends on the relative strength of parties. This strength of parties is usually measured in terms of the partisan composition of government. In this framework it is usually assumed that working class organizations press for more generous and universal social protection.<sup>3</sup>

So, partisan theory assumes a linear relation between social constituencies and parties. By contrast, I argue that the electoral strategies and policy choices of parties depend on the competitive context in which they are situated. This competitive context is largely defined by the presence of other parties. However, the fact that parties are (literally) part of a party system and that their strategies depend on the presence of other parties is not adequately taken into account in the partisan approach.

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<sup>1</sup> This paper draws on my Ph.D. dissertation that I defended at the University of Milan in July 2009 (Picot 2009a). I am grateful to my Ph.D. supervisor Maurizio Ferrera for his advice and support.

<sup>2</sup> Christian Democratic parties are an exception because they are not related to a social class but to a religious group.

<sup>3</sup> The interesting work of David Rueda (2008) revises this assumption by arguing that Social Democratic parties since the 1970s represent mainly labour market insiders. However, his approach remains within the framework of partisan politics.

One recent study that has considered the relation between party politics and the welfare state from a different point of view than the partisan school is Julia Lynch's book *Age in the Welfare State* (2006). She argues that after World War II those occupational-based welfare states in which a programmatic mode of party competition prevailed shifted to more citizenship-based policies while states with particularistic competition did not. Why is particularistic competition related to occupationalist policies and programmatic competition to citizenship-based policies? Lynch offers two reasons. First, fragmented "[o]ccupationally based social insurance programs plainly lend themselves far more than do universal programs to the kind of fine-grained targeting of incentives on which particularistic political competition thrives" (*ibid.*, 65). Second, politicians with particularistic linkages will not support the development of neutral state capacities as these could put at risk their particularistic exchanges. But more universal policies can not be implemented without a certain standard of state capacities. For this reason also more programmatically oriented politicians refrain from promoting more universalist schemes (*ibid.*, 66; see also Skocpol 1992).

Overall, Lynch associates particularistic competition with occupational and, closely related in her argument, particularistic policies (Lynch 2006, 65). At the same time, she defines party competition as particularistic "when politicians offer tangible benefits to selective groups of voters in return for their votes" (*ibid.*, 63). Therefore, she defines particularistic competition in terms of using particularistic policies as an electoral strategy. But, in this way, her independent variable (parties using particularistic policies) is too close to her dependent variable (occupational-particularistic policies).

To resolve this problem, I propose to take one step back and look at the party system and the competitive incentives that it generates. Hence, particularistic and programmatic competition do play a role in shaping policy output, but, other things being equal,<sup>4</sup> their occurrence is a function of the configuration of the party system and, in particular, of the degree of ideological polarization.

Other works that studied the link between party systems and social policy development have been published by Maurizio Ferrera (1993) and Herbert Kitschelt (2001).<sup>5</sup> Ferrera (1993) looks at political competition as one of three broad factors that determine welfare state development: the other two being the socio-economic context (including class) and the institutional-public policy context (*ibid.*, 103-9). He stresses that the mobilizations and inputs from the socio-economic and the institutional sphere have to pass through the arena of political competition. This competition, in turn, has a logic of its own, which makes it partially autonomous from the other two spheres (*ibid.*, 137). Overall, his argument holds that ethnic, linguistic, or religious cleavages as well as ideological polarization hinder the introduction of universalistic policies and favor more fragmented occupational programs. However, while offering important insights, Ferrera's book operates mostly at a macro level. In particular, it does not spell out in much detail how ideological polarization affects policy output.

Kitschelt (2001) has analyzed when different party system configurations encourage painful welfare reforms and when, by contrast, they impede such reforms. He proposes four factors that increase the probability of welfare state retrenchment (2001):

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<sup>4</sup> For other factors that may play a role in determining the degree of programmatic as opposed to particularistic competition see Shefter (1977) and Kitschelt and Wilkinson (2007).

<sup>5</sup> Green-Pedersen (2002) also looks at party systems and the welfare state but in the parliamentary rather than the electoral arena that this paper deals with. Watson (2008) analyses the effects of divisions between leftwing parties and unions but not the party system as a whole.

1. Low credibility of welfare state defending parties, either due to their government track record or due to very radical policy positions.
2. Low electoral trade-offs, i.e. only weak or no rival parties to the immediate left of governing parties.
3. Party organization that favors strategic flexibility, in particular
  - cadre rather than mass parties,
  - policy-oriented parties with few or no clientelist ties.
4. Salience of economic-distributive conflict for party competition.

Although all these factors are plausible and relevant there are two general issues with this framework. The first is that it suffers somewhat from being divided into four factors without specifying a logical connection between them. Arguably, the second factor in this list is the most important. If we look at parties as competing in a political space this aspect stresses that the policy choices of parties are conditioned by the presence of the immediately ‘neighboring’ parties. The other factors that Kitschelt raises add, in my reading, intervening aspects to this basic mechanism of electoral competition.

However, the second problem with Kitschelt’s (2001) framework is that it is difficult to apply to polarized party systems. In these party systems the radical parties are not marginalized due to low credibility as Kitschelt’s first point maintains. Rather, if they are relevant the extreme parties condition the whole structure of party competition. This changes also the role of electoral trade-offs because competition around policy proposals is weakened. Consequently, the question of programmatic versus clientelist orientation is not any more an intervening variable concerning single parties but a system characteristic that results from ideological polarization. This does not imply that in a polarized party system all parties are equally clientelist. Instead, it means that particularistic policy making prevails over programmatic policy-making.<sup>6</sup>

In addition to the works of Ferrera (1993) and Kitschelt (2001), I draw on Giovanni Sartori’s (1976) party system typology. This typology is built on two criteria: the number of relevant parties and the degree of ideological polarization.<sup>7</sup> For this paper the types ‘polarized pluralism’ (more than five parties, high polarization) and ‘moderate pluralism’ (two to five parties and low polarization) are particularly relevant. However, here I concentrate on the degree of polarization and the related concepts of centrifugal and centripetal competition rather than party system types in general.

Ideological polarization can be defined and measured in different ways (Rehm 2007), but the basic idea of the concept is the distance between the two most extreme relevant parties.<sup>8</sup> However, we can also make a qualitative distinction between high polarization (‘polarized party systems’) and low polarization (‘non-polarized systems’). This distinction depends on the presence of relevant anti-system parties. Following Sartori (1976, 133), “a party can be defined as being anti-system whenever it *undermines the legitimacy* of the *regime* it opposes” (emphasis in the original). Sartori stresses that anti-system parties are not necessarily revolutionary parties and may operate within the established rules of the political system. Obviously the de-legitimizing impact of a party

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<sup>6</sup> In the following, I will use ‘clientelism’ for the buying of votes from individuals and ‘particularistic policy-making’ for narrowly defined policies with the aim of attracting votes from groups of voters (sometimes called ‘group-clientelism’).

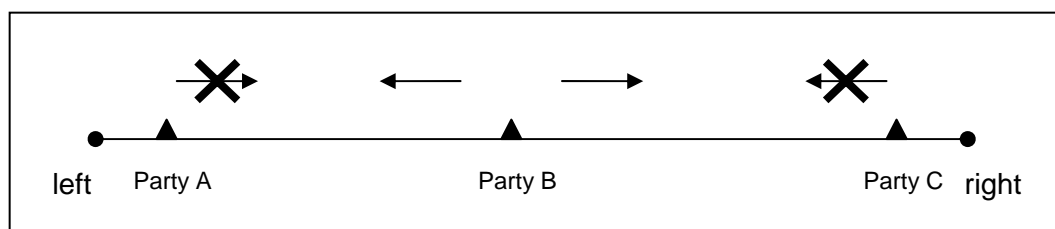
<sup>7</sup> Relevant parties are either those that play a role in government formation (coalition potential) or those that stay out of government but have sufficient blackmail power to change the direction of competition (blackmail potential; Sartori 1976, 122-123).

<sup>8</sup> This use of ‘polarization’ differs from Lehbruch (2000) who uses the term in the sense of bipolarization, i.e. competition concentrating on two poles (or parties).

is hard to determine empirically. Nevertheless, the tendency to de-legitimize can be seen from the basic ideological standpoint and public interventions of a party.

An important specificity of polarized party systems is, then, that anti-system parties do not conform to the normal incentives of policy competition in a given political space. In terms of spatial competition the parties at the extreme ends would have incentives to move towards centre in order to capture votes from the more moderate parties.<sup>9</sup> But the electoral support of these parties is based on rejecting the main structures of the given political and/or economic system. Therefore, moving towards centre would put into question the political identity and support base of an anti-system party. At the same time, the centre parties are still forced to react to the electoral challenge posed by these parties and have to try gaining or, rather, not losing votes towards the extreme ends of the political spectrum. This is the meaning of centrifugal competition: it focuses on voters on the extreme ends of the political space.<sup>10</sup> See Figure 1 for an illustration of centrifugal competition.

Figure 1: *Centrifugal party competition in a polarized party system*



Notes:

- Parties A, B, and C indicate only the most important parties (or poles) of the party system. Polarized party systems usually have at least 5 parties (Sartori 1976).
- The arrows indicate the incentives in terms of spatial competition. The centripetal arrows of party A and party C are cancelled in order to underline that these are anti-system parties that do not respond to these incentives.

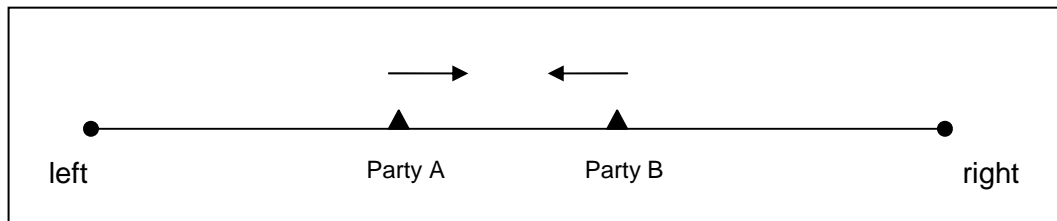
A consequence of the fact that the extreme parties in a polarized system do not move towards centre is that programmatic competition is low. After all, these parties do not compete for voters of the more moderate parties by proposing policies that are closer to the position of these moderate parties. Rather, they will oppose the reform projects of the moderate parties and they are strong enough to block these reforms – either through veto points in the parliamentary process or through their capacity of mobilizing popular protest. Therefore, ideological polarization impedes programmatic competition and significant policy reforms. This shifts policy making to a ‘micro-level’ of small-scaled decisions where party elites reach agreements to their mutual benefit (Cotta 1996). This ‘micro policy-making’ is typically not exposed to public attention and, thus, can take simultaneously to public ideological conflict (Sartori 1982). Moreover, on this micro-level policies can be targeted on specific groups of voters in order to mobilize electoral support. This way of decision making is also used by the anti-system parties in order to achieve benefits for their own followers. So, overall, centrifugal competition has two effects on policy-making: It gives extreme parties a significant influence on policy output and leads to particularistic rather than programmatic policy-making.

<sup>9</sup> On spatial political competition, see the seminal work of Downs (1957) and, as an introduction, Hinich and Munger (1997).

<sup>10</sup> I use the terms ‘centripetal’ and ‘centrifugal’ the same way as Sartori (1976). Different usages can be found in Cox (1990) and Gerring and Thacker (2008).

If, by contrast, polarization is low, i.e. if anti-system parties are absent, all parties conform to the spatial incentives of competition and try to capture votes from their main competitors. This encourages programmatic competition. If, in addition, the party system is bipolar (two parties, more than two parties but two dominant parties, or more than two parties but two pre-electoral coalitions) then competition focuses on voters in the centre of the political space, i.e. it is centripetal (see Figure 2).

Figure 2: *Centripetal party competition in a non-polarized party system*



Notes:

- The parties in the figure indicate only the most important parties (poles) of the party system.
- The arrows indicate the incentives in terms of spatial competition.

As non-polarized party systems facilitate programmatic competition they are more sensitive to the policy preferences of voters. However, they are not equally sensitive to the preferences of all voters but, in particular, the preferences of those voters on which competition concentrates. In a clear case of centripetal competition these are the voters in the center of the political space. But if new parties arise or established parties change their position, the focus of competition may shift. This means that the groups of voters that are particularly targeted in a non-polarized party system can change.

If we summarize these dynamics with respect to their likely effect on the differentiation of social rights in the field of unemployment benefits we can expect that the particularistic competition in polarized party systems leads to targeted benefit programs, which, in turn, implies both a high fragmentation of unemployment compensation and significant differences in generosity. High benefit fragmentation is also likely to be aided by the large number of parties that is typical for polarized systems because small parties may target narrow groups of voters (Sartori 1976). In addition, we said that extreme parties can exert strong influence on policy-making in centrifugal competition. In the field of labor market policy parties from the radical left are likely to be particularly relevant. Hence, the policy interests of these parties and their core supporters will be reflected in the system of unemployment benefits.

In non-polarized party systems, by contrast, programmatic policy making encourages parties to support more comprehensive policy solutions. In addition, the number of parties may matter, which is generally lower in systems with low polarization (with the exception of 'segmented pluralism', Sartori 1976) and, hence, further supports broad-based strategies. However, the preferences of those groups of voters on which competition focuses are particularly taken into consideration by parties. Accordingly, some policy segmentation is likely to emerge, but based on more comprehensive benefits and with more contained generosity differences.

### 3. Party competition and diverging post-war policy paths

#### 3.1. *Comparing Italy and Germany*

During the post-war phase of welfare expansion in which the Italian and the German unemployment benefit systems diverged clearly, the two countries were similar in many aspects that other theories use as independent variables: the welfare state model, the economic models and post-war economic development, the formal political system, and the partisan composition of post-war governments. The most remarkable difference between the two states was that they had highly diverse party systems, that is, the independent variable used in this research. Of course, also regarding the other aspects differences remain. But considering that we need to choose cases that differ significantly in their configuration of party competition and looking at Germany and Italy in the wider context of advanced industrial countries, these two cases are remarkably similar but for their party systems.

Most studies in comparative welfare state research assign both Germany and Italy to the group of Continental (or Conservative or Bismarckian) welfare states (Esping-Andersen 1990; Palier and Martin 2008). Indeed, both welfare states are largely built on occupational principles of coverage and rely heavily on status-preserving cash benefits. Moreover, in both countries these cash benefits but also the structure of the tax system and the lack of family services encourage a male-breadwinner family model (leaving aside more recent changes, especially in Germany).

On the other hand, Maurizio Ferrera (1996) and other scholars have argued that Italy constitutes together with the other South European states a distinct type of welfare regime. The aspects that distinguish these welfare states are: highly fragmented schemes of income maintenance with wide differences in generosity, a departure from occupationalism by introducing National Health Services, a low degree of state penetration in the provision of welfare, and the frequent abuse of welfare programs for clientelist purposes (*ibid.*). However, although some of these characteristics have long historical roots (such as weak state institutions) in Italy they have fully emerged only during the phase of welfare state expansion after the Second World War. Up to the war, both Italy and Germany were in fact purely occupationalist welfare states (Flora 1986; Ferrera 1993).

Also in the field of unemployment benefits themselves the two countries showed very similar paths up to 1945. Up to the First World War in both countries there had been only small and dispersed funds – in Germany run by trade unions and municipalities, in Italy run only by trade unions. Both countries introduced their first national measures in this field during WWI even if these were more fragmented in Italy. Directly after the war both countries put national comprehensive unemployment assistance schemes in place, as a new measure in Italy and as a renewed version of a war-time policy in Germany. The democratic phase between WWI and fascism then saw in both countries the introduction of unemployment insurance, although this happened very soon in Italy (1919) and relatively late in Germany (1927). These two programs were relatively similar in their characteristics. In both countries unemployment insurance did not fare well under fascism. Both fascist regimes tightened their grip on policy administration, redirected unemployment funds towards other purposes, and excluded agricultural workers from coverage. Clearly, both regimes favored employment creation, public works, and assistance schemes rather than rights-based unemployment insurance. However, in Italy

unemployment insurance was by and large retained, while in National Socialist Germany it was transformed into unemployment assistance.

However, one significant difference was that in Italy most of the time there was no secondary benefit (such as unemployment assistance or social assistance) to help those not supported by unemployment insurance. By contrast, in Germany a secondary unemployment benefit was introduced in 1926 (first as a secondary scheme to main unemployment assistance then secondary to unemployment insurance) and in 1924 national legislation established a basic right to local welfare assistance. However, even if relevant, this difference did not anticipate the very different policy developments after WWII, especially the marginalization of unemployment insurance in Italy and the rise of a range of more generous and narrowly defined unemployment benefits. Therefore, the marked divergence between Italy and Germany in this policy field after World War II can hardly be explained by policy legacies or the wider context of welfare institutions. Rather, explaining this divergence constitutes a part of explaining the more general differentiation into two different types of welfare state.

In terms of economic models, Italy and Germany are both strongly regulated and coordinated market economies even if their modes of economic management differ. Germany is the classic case of a Coordinated Market Economy but Italy shares only some of the features of coordinated capitalism (Hall and Soskice 2001). Consequently, some scholars have considered Italy as a Mixed Market Economy (Molina and Rhodes 2007) or as state-led capitalism (Schmidt 2002 Ch. 3). Concerning the labor market, both Italy and Germany have strict employment protection even if protection specifically against collective dismissals is yet higher in Italy. Similarly, skill formation in both countries is characterized by a high share of vocational training. But in Germany this is based on the dual apprenticeship system and in Italy it is mainly company-based. Overall, this indicates that in both national labor markets a mixture of industry- and firm-specific skills prevails, even though the latter skill type is more widespread in Italy (Estevez-Abe *et al.* 2001). As with differences in the welfare state model, keep in mind that some of the differences in economic coordination have emerged only during post-war welfare expansion and, hence, are part of the period under investigation (this applies, in particular, to employment protection).

At the end of World War II, industrialization was more advanced in Germany than in Italy. In Italy 40% of the labor force was still occupied in the agricultural sector in 1951, while in Germany this proportion was only 23% (in 1950; Flora *et al.* 1987). However, both economies experienced rapid economic growth in the following decades that made Italy quickly catch up in terms of industrialization. Consequently, in 1971 only 16% of the Italian labor force were still in agriculture while 42% were occupied in the industrial sector and 37% in services. In Germany the corresponding shares were 8% in agriculture, 49% in industry, and 44% in services (in 1970, *ibid.*). Therefore, differences in economic development had significantly declined. On the other hand, Italy was continuously characterized by stronger regional disparities in levels of economic development than Germany. The Southern regions (*Mezzogiorno*) had consistently lower per capita income and higher unemployment rates than in Northern Italy. So, overall, we do find some structural differences between the Italian and the German economy. Nevertheless, compared to other advanced industrial states both economies have a high degree of coordination in common and both shared similar paths of steep economic growth in the 1950s and beginning of the 1960s.

After the experience of fascism both countries deliberately adopted constitutions with many checks and balances in order to avoid the concentration of political power. Both states have bicameral parliamentary systems, in which government is normally based on party coalitions and the executive is strongly kept in check by parliament. Still, the way in which parliament exerts its constraining role differs. In Germany the lower house usually does not obstruct government plans due to high party discipline. Instead, the opposition often has the chance to block legislation in the upper house when the partisan majorities differ (but only legislation that concerns *Länder* interests is subject to agreement by the upper house; Lehmbuch 2000; Scharpf 1985; Schmidt 1996). In Italy upper and lower house have the same institutional role and power and usually also a similar partisan composition. However, in both houses parliamentary groups can exert substantial control over government policies, especially through the powerful parliamentary committees, agenda setting, and demanding voting rules (Pasquino 2002; Vassallo 2005). Nevertheless, these different workings of parliamentarism have broadly similar constraining effects on the executive.

A more relevant difference in terms of formal political institutions is that Germany since national unification (in 1871) was a federal state whereas Italy was founded as a unitary state (in 1861; Ziblatt 2006). However, the policy field that concerns us here, labor market policy, is one of the few fields in Germany that are centrally administered. Therefore, federalism plays less of a role in this context.

Interestingly, although both national party systems clearly differ there are many parallels in the partisan composition of Italian and German post-war governments. Directly after the war a consensual approach between the political left and the right prevailed, which, however, broke up before the first parliamentary elections in both states. Subsequently, during the formative years of post-war reconstruction, from the late 1940s to the beginning of the 1960s, government cabinets were dominated by the Christian Democratic party in either country. A period of increasing inclusion of the left in government followed. In Italy the Socialist party participated in government, still led by the Christian Democrats, from the beginning of the 1960s and in the end of the 1970s also the Communist party was included in the government majority in parliament. In Germany the Social Democrats entered a coalition with the Christian Democrats in the middle of the 1960s and became the leading party in a coalition with the Liberals after the end of the 1960s.

Seen from the perspective of partisan theory these are striking similarities that should have produced similar policy outputs. They did not and this supports the case that we have to account for the competitive constellation in which government operates. Even the same partisan composition of the executive can produce different results if the dynamic of party competition that it is exposed to differs.

Overall, some structural economic differences between the two countries, especially the economically backward Southern regions in Italy, can not be discarded as factors that potentially influenced policy development. But explanations based on policy institutions, political institutions, partisan composition of government, economic models, or economic development have little to offer in order to explain the strong divergence of unemployment benefit systems in Italy and Germany during welfare expansion. By contrast, the party systems in Italy and Germany after World War II differed markedly. The Italian party system was a clear case of polarized pluralism with centrifugal competition whereas the German party system was a good example of moderate pluralism and centripetal competition.

### 3.2. *Italy: Centrifugal competition and benefit disparity*

In Italy, the anti-fascist alliance (consisting of Communists, Socialists, Catholics and a few other minor parties) that had led the resistance movement and governed the country in the immediate post-war years broke apart in 1947. Soon after, the basic structure of the Italian party system that characterized the following decades emerged. Due to its high number of relevant parties and the wide ideological differences comprised this party system can be categorized as a case of polarized pluralism (Sartori 1976; 1982).

In this party system, anti-system parties were situated at both ends of the political space (on a general left-right axis): the PCI on the far left and the MSI on the far right. The political center was occupied by the DC, which formed, in varying combinations, governing coalitions with a few smaller moderate parties: the Social Democrats (PSDI), the Republicans (PRI), and the Liberals (PLI). The Socialist Party (PSI) had a somewhat intermediate role. In the immediate post-war years it formed an alliance with the Communists on the radical left. But starting from 1956 (Hungarian Uprising), it moved more to the centre-left. The two extreme parties and the DC in the centre formed together a tripolar structure of the party system that generated a centrifugal mode of competition, as defined above.

The dynamics of unemployment benefit reform in Italy from the end of World War II up until the end of the 1970s can be divided into two phases. In a first phase of 'policy neglect', unemployment insurance was extended to the agricultural sector in a separate scheme but benefit levels of both insurance schemes (general and agricultural) were kept at very low flat-rate levels that were losing real value. Instead, government focused on public work programs, labor market administration, and agrarian reform. In a second phase of 'lopsided expansion', mainly the benefits for workers on short-time (*Cassa Integrazione*) were expanded and turned into very generous *de facto* unemployment benefits. Also other more generous benefit schemes were introduced, always restricted to specific occupational groups. At the same time, neither unemployment insurance was expanded nor was anything done about the lack of a minimum income scheme in Italy. Let us look at the political dynamics behind both reform phases.<sup>11</sup>

#### *The radical left and neglect of unemployment benefits*

The fact that unemployment benefits did not play any major role on the government agenda in spite of the post-war economic crisis and high levels of unemployment was conditioned by the position taken by the radical left. From the breakup of the anti-fascist alliance until 1963 the DC governed the country in coalition with the small centrist parties. The DC had won a comfortable majority in the first parliamentary election in 1948. But as early as 1951 and 1952, local elections showed that it was losing electoral support (Ginsborg 1990, 141-142). The left had suffered an electoral defeat in 1948 but soon started to regain votes (see Table 1). Consequently, party competition was acute and was widely perceived in terms of which of two opposing ideological forces would get the chance to fundamentally shape the future of the country.

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<sup>11</sup> For accounts of how unemployment benefits developed in Italy during welfare expansion see Ferrera (1987), Gualmini (1998), Ferrera *et al.* (2006), Vesan (2008), and Ferrera *et al.* (forthcoming).

Table 1: Italian parliamentary election results, 1946-1976

	PCI	FDP/ PSIUP	PSI	PSDI	PRI	DC	PLI	UQ	Mon	MSI	others	turnout
1946	18.97		20.72	1.46	4.37	35.18	6.79	5.28	2.77		4.48	89.08
1948		30.98		7.07	2.48	48.51		3.82	2.78	2.01	2.36	92.23
1953	22.6		12.7	4.51	1.62	40.1	3.01		6.85	5.84	2.74	93.84
1958	22.68		14.23	4.55	1.37	42.35	3.54		4.86	4.76	1.62	93.83
1963	25.26		13.84	6.1	1.37	38.28	6.97		1.75	5.11	1.32	92.89
1968	26.9	4.45	14.48		1.97	39.12	5.82		1.3	4.45	1.51	92.79
1972	27.15	1.94	9.61	5.14	2.86	38.66	3.89			8.67	2.11	93.21
1976	34.37		9.64	3.38	3.09	38.71	1.31			6.1	3.4	93.39

Notes: Party results are % of party list votes for the Lower House (Camera dei Deputati, 1946: Constituent Assembly). Turnout is % of those entitled to vote.

1946: PSI named PSIUP, PLI named Unione Democratica Nazionale, Monarchists (Mon) named Blocco Nazionale della Libertà, Partito d'Azione instead of PSDI

1948: electoral list of PSDI is named Unità Socialista, Monarchists named Partito Nazionale Monarchico, UQ is Blocco Nazionale (joint list with PLI);

1958: Monarchists are sum of two party lists;

1968: PSI together with PSDI: PSU;

1976: others include DP 1.52% and PR 1.07%

Source: Ministry of the Interior.

In this period the radical left approached the problem of unemployment not so much in terms of providing financial help to the unemployed but focused on combating unemployment altogether by creating employment. In its manifesto for the election to the Constituent Assembly in 1946, the PCI proposed to confront unemployment and the economic crisis by setting up “a very vast program of public works in the cities and on the countryside and, above all, the systematic reconstruction of houses”.<sup>12</sup> Moreover, the party demanded a reform of the agrarian sector in order to “make chronic unemployment disappear” (*ibid.*). To be sure, the same manifesto also called for “the introduction of an effective unemployment subsidy” (*ibid.*). However, being listed as one of a series of proposals on salaries and social protection, the point was of minor importance. The emphasis on eradicating unemployment is confirmed by successive party programs of the radical left. Thus, the PSI in 1953 when it was still closely allied to the PCI stated in its manifesto:

In the economic-social field the socialist alternative starts from the premise that it is necessary and possible to provide work to every Italian, a sufficient remuneration to every worker, an adequate assistance to children and to the old, to the disabled and to the mutilated.<sup>13</sup>

So, the objective of an economy without unemployment was at the center of the radical left’s approach to social and economic policies. Moreover, it is significant that the unemployed are not mentioned among the main target groups for social protection – in spite of unemployment still being a widespread problem at the beginning of the 1950s.

<sup>12</sup> *L’Unità*, 8 May 1946, ‘Il Programma del PCI’. The party manifestos were made available in electronic form through a joint effort between the Zentralarchiv für Empirische Sozialforschung (ZA), Wissenschaftszentrum Berlin (WZB), the Vrije Universiteit Amsterdam (VU), and the Party Manifestos Project.

<sup>13</sup> ‘Il PSI agli elettori’, PSI manifesto for the parliamentary election of 1953, provided by the Party Manifestos Project.

More generally, in the perspective of the radical left, the idea of unemployment benefits implied accepting the freedom of employers to lay off workers. Hence, implicitly unemployment benefits were rejected because they were seen as a market-making policy. The approach that the left took to the unemployment crisis in the early years of the Republic can also be seen from the Employment Plan (*Piano del Lavoro*) launched in 1949 by the biggest trade union federation, CGIL, which was closely associated with PCI and PSI. With this plan the union demanded from government to embark on a huge spending programme in three areas: electric power supply, land reclamation for agriculture, and housing. This was intended to create 600,000 to 700,000 new jobs. The CGIL pursued this campaign for the next two and a half years, with many local initiatives that pressed for its implementation (Ginsborg 1990, 188-190). The DC-led government rejected the plan for financial and political reasons.

It is clear that in a situation, in which more than 2 million people were registered as unemployed (in 1951, Ginsborg 1990, 187), the DC had to react to the public proposals of the opposition. More to the point, it had to react in similar terms, that is, by creating work and not by offering subsidies to the unemployed. Consequently, the governmental response consisted mainly of public work programs and agrarian reform (Ferrera *et al.* forthcoming, Ch. 3). Mariuccia Salvati (1982, 401-402) reports how the DC-led executive prepared the legislative proposal for the public work programmes while unions were mobilizing against unemployment and government felt under pressure to make progress on the issue. In a note to the Prime Minister the Minister of Labor rejected explicitly the option of paying transfers to the unemployed. Rather, he wrote, cash benefits should be connected to public work programs and get as close as possible to being a salary (*ibid.*, 401).

Note, in addition, that the polarized competition in the early post-war years created also an intense struggle over the control of institutions. This was reflected in a conflict between the DC-led government and the CGIL over the administration of job placements (Musso 2004, Ch. 10). It also induced the DC to extend its own control over state institutions and resources in order to use them for mobilizing electoral support. In this light we have to understand also why the new public work programs were administered on an incremental basis, controlled by the Ministry of Labour (Ferrera *et al.* forthcoming, Ch. 3; Ginsborg 1990, 162), and the fact that unemployment insurance in the agricultural sector became soon a currency of clientelism (Ferrera 1984, 207-210).

Some authors have interpreted the failure to establish adequate unemployment benefits between the end of the 1940s and the beginning of the 1960s as the result of a weakness of unions and left parties (Regalia 1984; Reyneri 1987). However, a comprehensive system of unemployment compensation was not on the top of the agenda of the radical left. Rather, political attention of the left focused on employment creation and labor market administration. In addition, it is true that the left was weak compared to the years at the end of the war (1943-1948) and compared to the mobilizations of the 1960s and 1970s. But, at least in the first half of the 1950s and in the rural areas, the unions still demonstrated a high capacity of social mobilization and, apart from the electoral defeat in 1948, the PCI actually increased its share of the votes throughout the period. Therefore, it was actually the strength of the radical left that constituted a threat to the DC and that forced it to take into account the popular demands for employment rather than unemployment compensation.

*The radical left and lopsided expansion*

As mentioned, the PSI was closely allied with the PCI during the first years of the Republic. However, in this role the Socialists were perceived as subordinate to the PCI and lacked an independent profile. Therefore, starting from 1956 they tried to occupy consciously the political space between PCI and the social democratic PSDI. This went along with the intention to gain more control over state policies. The DC, on the other hand, was in need of a new coalition partner as in the 1953 and 1958 elections the centrist parties received only a vote share around 50% that the highly proportional electoral system translated into miniscule parliamentary majorities. Moreover, the DC hoped that a coalition with the PSI would isolate and weaken the PCI. From these motivations in 1963 the first government coalition that included the PSI was born. This centre-left coalition prevailed (with a break in 1972-1973) until 1976 (Tamburrano 1990).

The centre-left coalition agreed largely on extending state intervention in the economy. More to the point, DC and PSI had political reasons for expanding social policy based on universalistic principles. As Ferrera points out:

[Welfare universalism] could be presented to the voters as a 'structural reform' of both progressive *and* Western character that would satisfy the demands of the labour movement for renewal and would at the same time reassure the capitalist establishment. (Ferrera, 1993, 264, emphasis in the original)

In other words, this reform project would have had sufficient 'redistributive' appeal for the left-wing voters of PSI but it would not have conflicted seriously with the centrist DC voters. Rather, for the centrist perspective of defending liberal democracy and capitalism this policy strategy promised to integrate workers and left-oriented voters into the system. Precisely, on these grounds the project was rejected by the PCI. Instead, the PCI fought for benefits that were defined on a class basis. This would bring material benefits to its supporters and ensure that these remain in a distinct institutional realm that the PCI and its affiliated organizations could control. Indeed, the role of the CGIL in activating benefit payments from the wage supplementation fund turned unemployment benefit (*Cassa Integrazione Guadagni*, CIG), strengthened the ties between the PCI and its voters.

In addition, it is important to see that the CIG was a complementary policy to strong dismissal protection and that the latter was a primary goal of the radical left at the time. CIG was complementary to it because officially its recipients remained employed even if often they were effectively redundant. So, by supporting this benefit program the policy position of the PCI did not change from demanding employment to demanding financial support for the unemployed, but it shifted from demanding employment creation to demanding employment protection. Once that dismissal protection was pushed through by the left, the firms subjected to this regulation developed an interest in CIG because it provided them with a relatively high degree of labor force flexibility in spite of tight employment regulations and at collective costs (Kreile 1985, Ch. 6).<sup>14</sup>

Yet, how did the PCI manage to push through its policy objectives without participating in government? To begin with, we have to observe that this phase of lopsided expansion of unemployment benefits coincided with a long wave of massive worker mobilizations in Italy. This wave began in 1962 with the renewal of the national contract of the metalworkers that was accompanied by strikes and violent clashes; it reached its peak in

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<sup>14</sup> The CIG is financed only partly by employers' contributions the rest is covered by general revenues.

the years 1968 to 1973 with widespread wildcat strikes and political mobilization in the factories (in particular the so-called 'Hot Autumn' in 1969); and it came to a symbolic end when in 1980 40,000 people, including many FIAT employees and workers, demonstrated in Turin *against* a strike that had blocked the FIAT factories (Ginsborg 1990, Ch. 9; Musso 2002, 229-244).

While these mobilizations seem to support a 'strength of the left' argument it is important to note that during this wave of mobilizations there was no perfect link between a social constituency (the working class) and its political representation (the PCI). On the contrary, the outburst of these mobilizations in 1968 and 1969 was rather the expression of a lack of political representation. The protests were led by factory committees and small political groups and explicitly criticized the major union confederations as well as the PCI, which were regarded as too moderate. The established trade unions soon adapted to this outbreak of activism and managed to get on the top of it. However, in this process the unions liberated themselves from their close association with parties. Hence, the PCI lost some of its close connection with the CGIL. Moreover, small revolutionary groups had popped up that aspired to politically organize social unrest and to replace the PCI as the leading left-wing organization. Although these aspirations were exaggerated as far as organizational capacities are concerned they proved, in addition to the radicalization of the CGIL, that the PCI risked being outflanked on the left. In sum, rather than being the natural representative of working class demands, the PCI had to struggle in order to respond to these demands.

Apart from worker mobilizations that the PCI took advantage of, it could use also its influence on the decision making process in parliament for pushing through its policy objectives. This influence resulted from the available veto points in the parliamentary process (Pasquino 2002) and from elite-level cooperation and package deals. Although the public positions of parties were wide apart, in parliament and often removed from public perception the PCI cooperated with the moderate parties (Cazzola 1972; Sartori 1982, 199-210). As indicated in Section 2, these were actually two sides of the same coin. Ideological polarization prevented comprehensive reform efforts and shifted policy-making to a micro-level where deals could be reached. These deals often consisted of particularistic measures that the parties concerned could use for mobilizing electoral support (Cotta 1996). These 'micro-procedures' also explain the high fragmentation that can be found in the Italian system of unemployment benefits.

Traditional partisan theory would argue that the very generous benefits that emerged over the 1960s and 1970s in Italy were the result of the strength of the left (Regalia 1984; Reyneri 1988). This is basically correct. But if we look more closely this 'strength of the left' did not result from a mechanism of representation that translates the interests of a social constituency into government power. Rather, it resulted from a party system in which extreme parties have the power to block reforms and to negotiate policies that they can use to mobilize electoral support. Moreover, the CIG that the radical left supported is available only for restricted group of workers (employed by industrial firms with more than 15 employees) and even for them it is not available as an individual right (but only after negotiations between firm, trade union, and state). At the same time, other groups of unemployed were left with very low paying benefits (unemployment insurance) or without a minimum income scheme to fall back on. This narrow policy focus of 'the left' contradicts standard assumptions of partisan theory and can be explained with the radical position and the policy interests of the PCI as an anti-system party.

Lynch (2006), on the other hand, maintains that the very low unemployment insurance in Italy was not expanded because this was difficult to finance given the ineffective Italian tax system. And the tax system was ineffective because the DC used it for clientelistic purposes (*ibid.*, 130-1). Moreover, Lynch argues that the PCI never advocated for an unemployment assistance scheme that would benefit the young unemployed because it feared that such a program would be hijacked by DC clientelism (*ibid.*, 132-3). Her argument implies that the Communist Party, which often she calls generically 'the Left', would have promoted more universal policies if not for the clientelism of the DC.

Her assumption on the 'true' policy preferences of the PCI seems to be based on the classic partisanship idea of 'the Left' standing for more generous and universal social protection. However, as set out above, the electoral strength of the PCI was based on representing a fundamental alternative to the political and economic system that was governed by the DC. Demanding comprehensive and generous unemployment benefits would not have represented an alternative to a capitalist labor market but would have implied to accept the existence of unemployment and of employers laying off workers. With proposals of this kind the PCI would have lost radical leftwing voters either to a splinter party or, in the early post-war years, to the similarly radical Socialist Party. Hence, it was primarily centrifugal competition and not the clientelism of the DC that kept the PCI from promoting more universal unemployment benefits.

### 3.3. *Germany: Centripetal competition and comprehensive benefits*

After the defeat of the National Socialist one-party-state the West German party system had to be re-established. In these early years the party system was characterized by a relatively high degree of fragmentation and polarization. However, a process of concentration and de-polarization set in almost immediately (Lehmbruch 2000, 37-44). Between 1949 and 1966 the Christian Democrats (CDU) formed in varying combinations governing coalitions with the Liberals (FDP) and two smaller conservative parties that disappeared after 1961. At the same time, the only relevant opposition party, i.e., having an influence on the direction of competition, was the Social Democratic Party (SPD). Therefore, using Sartori's (1976) rules for counting parties, between 1949 and 1961 there were 5 relevant parties. Whereas after the election in 1961 and up to the 1980s Germany had a very stable three-party system consisting of CDU, SPD, and FDP.

Already during the occupation period (1945-1949) CDU and SPD started to establish themselves as the two main poles of party competition (Lehmbruch 2000, 41). In the early years of West German party competition these two parties were divided by a notable ideological distance. Apart from the initial and short-lived surfacing of ideas of 'Christian socialism' (e.g. in the 1947 manifesto *Ahlsener Programm*) the CDU soon embraced the idea of a 'social market economy' (*Düsseldorfer Leitsätze*, 1949). The way this concept was designed by its founders (Ludwig Erhard, Alfred Müller-Armack, and the theoretical school of 'ordoliberalism'), the 'social' element in this type of economy was to result from a free market that raises the level of welfare for everyone. The state was meant to ensure free competition in the market, but not to intervene in the results of this market. Hence, this was essentially a 'free market' ideology.<sup>15</sup>

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<sup>15</sup> Note, however, that the concept did not necessarily imply a weak state. Rather, in order to protect the 'free market' some ordoliberalists called for a strong and even authoritarian state (Manow 1999).

The SPD, on the other hand, in the early post-war years adhered to the idea of democratic socialism, which implied economic planning and the socialization of core industries. However, over the following years a moderation of both parties can be observed. In the case of the CDU this can be seen mainly from its government policies that did not follow a pure market ideology and often were actually contested by the Minister of the Economy, Ludwig Erhard, and the market-liberal wing of the party (e.g. the pension reform of 1957, see below). In the SPD the subsequent electoral defeats that it suffered in 1949, 1953, and 1957 led to a questioning of its socialist principles. The first signs that the left-wing ideology was being reconsidered can be found in the 1952 manifesto *Dortmunder Aktionsprogramm* and its following revision in 1954, when the policy formula “as much market as possible, as much planning as necessary” was adopted. This revision process culminated in the famous Bad Godesberg party convention in 1959 where a new party program was adopted. In this program the party came out in favor of market economy. Socialisation of industries was not mentioned any more. Quite consciously, the party tried to transform itself from a labor party into a party that appeals to broad sections of the electorate (*Volkspartei* or ‘catch-all-party’). Right in the next election (1961) the SPD increased its vote share by almost five percentage points up to 36% and it continued to gain electoral support in the following federal elections (see Table 2).

Table 2: *German parliamentary election results*

	SPD	CDU/CSU	FDP	DP	GB/BHE	others	turnout
1949	29.2	31.0	11.9	4.0		23.9	78.5
1953	28.8	45.2	9.5	3.3	5.9	7.3	86
1957	31.8	50.2	7.7	3.4	4.6	2.5	87.8
1961	36.2	45.3	12.8			5.7	87.7
1965	39.3	47.6	9.5			3.6	86.8
1969	42.7	46.1	5.8			5.5	86.7
1972	45.8	44.9	8.4			0.9	91.1
1976	42.6	48.6	7.9			0.9	90.7

Note: Party results are % of party list votes (*Zweitstimmen*). Turnout is % of those entitled to vote.

Sources: vote shares: [www.bundestag.de](http://www.bundestag.de); turnout: Federal Statistical Office (2006).

In sum, the centripetal tendency of the West German party system in terms of ideology as well as its concentration on a limited number of parties was evident from the early post-war years onwards. By 1961, the party system was consolidated. Its basic features remained stable up to the 1980s and conformed to Sartori’s (1976) concept of moderate pluralism. It consisted of three relevant parties and ideological polarization was low. On the socio-economic political dimension, the SPD was situated on the centre-left, the CDU on the centre-right, and the FDP to the right of the CDU. In addition, the German party system was structured by a socio-cultural dimension (Benoit and Laver, 2006; Kitschelt, 2003). On this dimension the SPD was situated moderately on the ‘libertarian’ side (which is perceived as left-wing in Germany) and the CDU moderately on the ‘authoritarian’ (right-wing) side. The position of the FDP was split with respect to the two axes. The Liberals were associated with a ‘left’ position on the socio-cultural dimension and a right position on the socio-economic dimension. The additive result of this positioning was that up to the 1980s the FDP was generally seen as in the centre of the

political spectrum and it had the chance to enter a coalition with either of the two big parties.<sup>16</sup>

As mentioned, the main competition in this party system was between the SPD on the centre-left and the CDU on the centre-right. As a consequence, the two dominant parties competed mainly for voters in the centre of the political spectrum. How did this affect the development of unemployment benefits? Right after the war social protection was generally at a modest level. The economic growth and rising occupation that soon set in were by themselves not sufficient to alleviate the needs of all sections of the population. Rather, the rising living standards of consistent parts of society raised the expectations also for those who had to rely on public support (Schmidt 2005, 78-79). Accordingly, there was widespread demand for improving social protection. The two big parties competed over who would meet best this demand and who could claim credit for expanding the welfare state.

The fact that SPD and CDU had to gain voters in the political centre in order to win elections affected the policies they proposed. For the SPD advocating radical reforms such as the socialization of industries was not an option because it would deter voters with more moderate views. The Christian Democrats, by contrast, could not follow the 'free market' logic that pundits close to the party advocated because centrist voters demanded adequate social protection. In addition, the existence of only three parties and, especially, the 'catch-all' character of SPD and CDU had the effect that parties tried to make comprehensive proposals that appealed to broad sections of the electorate. For the two dominant parties, privileging narrowly defined groups was not a winning strategy.

Two minor qualifications have to be added to this prevailing logic of centripetal competition. First, the expansion of social policy was to some extent constrained by the presence of the FDP. Especially the CDU had to avoid losing market-liberal voters to the FDP. The SPD, in turn, had to make compromises when it governed in coalition with the Liberals (1969-1982). Second, to say that both dominant parties focused on the political centre does not mean that we can not distinguish the policies pursued by either of them. The tendency of policy proposals was strongly determined by the logic of competition, but the ideological starting point of each party remained recognizable.

Also specifically in the field of unemployment compensation we can find the effects of the mentioned centripetal dynamic. However, one of the first post-war decisions was conditioned by path dependency. In 1947 it was decided to re-introduce unemployment insurance and unemployment assistance on the basis of the old legislation from 1927.<sup>17</sup> In the social and economic post-war emergency, legislators preferred to fall back on existing legislation instead of designing a new system. Moreover, groups with vested interests in the old systems supported this choice (Clasen 1994, 62). However, this was intended as a provisional solution and a later reform was meant to decide on the post-war unemployment benefit system.

While, obviously, the existence of these policy schemes conditioned subsequent reform decisions, the comparison to the Italian case shows that different paths of development were still possible. As happened in Italy, German political parties could have failed to update and expand unemployment insurance and unemployment assistance and instead could have resorted to discretionary public work programs and generous special benefit schemes for narrowly defined groups of workers. This did not take place. Rather,

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<sup>16</sup> But the logic of bipolar competition forced the FDP to show some continuity in its choice between the two poles (Lehmbruch 2000, 47-8).

<sup>17</sup> For accounts of how unemployment benefits developed in Germany during welfare expansion see Schmid *et al.* (2001), Schmid *et al.* (2005), Schmid and Oschmiansky (2008a; 2006), Alber (1987), and Clasen (1994).

German parties chose to increase the benefit levels of unemployment insurance and unemployment assistance and to make them accessible for a wider range of workers. Hence, both schemes were turned into a stratified but comprehensive system of unemployment benefits to which, later, social assistance was added (as a reform of previous public assistance).

By the time that the major reforms of unemployment insurance and unemployment assistance were adopted (1956) centripetal competition was well under way. In 1952, the SPD still favored to abolish the multi-tiered system of unemployment compensation in favor of a universal scheme. Two years later, it put the governing coalition under pressure by submitting three legislative proposals that aimed at extending coverage and benefit levels of unemployment insurance and assistance.<sup>18</sup> This new policy proposal was much closer to the position of the Christian Democrats and, hence, suitable for attracting voters close to the CDU. The government reacted by putting forward its own proposal that went essentially in the same direction, i.e. maintaining both benefit tiers, but increasing their coverage and generosity. During the parliamentary process government and opposition discussed more specific issues of this draft. In the end, the bill got the consent of all parliamentary parties (Schmid *et al.* 2005, 289-92). This process illustrates how the CDU-led government reacted to competition by the SPD not only by accelerating the reform of unemployment benefits but also by adopting elements of the Social Democratic proposals.

That competition between the two big parties and electoral considerations influenced social policy reforms in this period has been reported also by many observers with respect to the important pension reform of 1957, but without drawing conclusions about the relevance of the party system structure. In fact, that reform followed a pattern similar to the reform of unemployment insurance and unemployment assistance (Schmidt 2005, 79-83; Abelshauser 2004, 194-200).

Schmidt (2005) has argued that after the 1957 pension reform the objectives of welfare state expansion changed. Social policy making was not any more concerned with "combating the most urgent needs" but with an "extension and consolidation of social policy under the sign of the prosperity that had recently been achieved" (*ibid.*, 76). In political terms, this implied that the demands of the most important sections of the electorate and interest groups had been taken care of and that the two catch-all-parties had the chance to promote reform projects that would further consolidate their social consent. In addition to bipolar competition, it is likely that the context of multi-party competition played a role here, i.e. in pushing the major parties to compete also against smaller parties or to avoid the rise of new smaller parties. The introduction, in 1961, of a social assistance scheme that was designed to guarantee a socio-cultural minimum standard of living has to be seen in this light.<sup>19</sup> This reform was adopted only several months before the next parliamentary election. Commentators at the time interpreted the bill as one in a series of "election presents".<sup>20</sup>

Full employment during the 1960s rendered unemployment compensation a low political priority (Schmid and Oschmiansky 2008a). When, however, in 1967 a small but sharp recession briefly augmented unemployment this was immediately perceived as

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<sup>18</sup> Minutes of the Cabinet Committee on Economic Affairs (*Kabinettsausschuss für Wirtschaft*), 15th meeting, 3 August 1954.

<sup>19</sup> In particular, the GB/BHE, the party that represented those expelled from former German territories in the East, presumably played a role. Many of the expellees had to rely on public assistance. Possibly, the CDU tried to absorb the electorate of the GB/BHE, which, in fact, became marginal after the 1961 election.

<sup>20</sup> *Die Zeit*, 12.5.1961, 'Endspurt in Bonn'.

potentially undermining political legitimacy and the replacement rate of unemployment insurance (ca. 44% for average earners) was deemed inadequate. The Grand Coalition of CDU and SPD that had taken office in 1966, quickly approved an increase of benefit levels of unemployment insurance and assistance. The FDP did not contest the fact that benefit levels were raised but considered the rise as too steep. In its role as a right-wing competitor it strengthened the cause of the market-liberal wing of the CDU who also favored a more limited increase. Thus, the original proposal of the Christian Democratic Labor Minister of lifting the replacement rate by 20 percentage points was moderated down to 15 percentage points (Clasen 1994, 95-7).

A similar constraining role, even if modest, was played by the FDP when the Labor Promotion Act (AFG) was adopted in 1969. However, while this bill again expanded unemployment insurance and assistance, the main contested issue was how to finance the active labor market programs that were the core of this reform (from the contribution-based funds of the Employment Agency or from general revenue). Towards the end of the legislative period, tensions within the Grand Coalition had increased and it was not expected to be renewed. Therefore, in the debate on the AFG the imminent election reinforced the position of the market liberal CDU faction that worried about losing market liberal voters to the FDP. This contributed to the adoption of the preferred option of the market liberal wing, i.e. financing through contributions (Mätzke 2004, 30-36).

It would be expected that the subsequent government coalition between Social Democrats and Liberals (1969-1982) found it impossible to reach agreements in the field of social policy due to the high ideological distance on these issues between the two parties. However, as long as favorable economic conditions prevailed the two coalition partners found a *modus vivendi* that enabled the SPD to pursue, within limits, its expansionary course. This compromise was made possible by two factors: First, a division of policy areas allowed the Social Democrats to go ahead with extending social security, which in some cases benefited also the constituencies of the Liberals (self-employed and farmers). But other projects such as an amplification of workers' participation in corporate governance were not tolerated by the FDP (Schmidt, 2005, 91-92). Second, a certain moderation of both sides facilitated cooperation.

When in 1974 unemployment rose again, as a consequence of the economic crisis, it became immediately a political issue. The number of unemployed people rose from a very low level but it rose steeply. The government reacted with three measures in the field of unemployment compensation: it introduced a benefit that secured for three months the wages of workers whose employers went bankrupt (*Konkursausfallgeld*), it raised again the benefit levels of unemployment insurance and assistance, and it made social assistance more generous (Clasen 1994, 124-126). In order to ease people's worries and, at the same time, claim the credit for recent expansions of unemployment compensation the SPD printed a leaflet of more than a million copies that was distributed in front of office buildings and factories. The leaflet asked workers not to be anxious in the face of rising unemployment and reassured them that thanks to recent reforms of unemployment compensation, adopted during SPD spells in government, "the employee in the Federal Republic is better protected than most of his colleagues in other countries of the world".<sup>21</sup> Hence, in the very beginning of the phase of austerity, when the continuation of tight economic conditions was not yet recognized, the governing party reacted in the way that had characterized social policy making in the recent decades: it swiftly met social demands in order to increase electoral consent.

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<sup>21</sup> Cited by *Der Spiegel*, 14.10.1974, "Die armen Schweine und die anderen".

In sum, the way how unemployment benefits were expanded after the Second World War was conditioned by two factors: First, centripetal competition between two dominant parties, on the centre-left and on the centre-right, facilitated policy competition over offering the best social protection for core groups of voters. Second, the fact that competition was dominated by two catch-all parties favoured the introduction of comprehensive benefit schemes. The foundational reforms of unemployment insurance and unemployment assistance were driven by the need of the governing CDU to cover politically relevant social demands that the Social Democratic opposition threatened to exploit for its own electoral purposes. The adoption of social assistance was less salient but helped to stabilize the electoral consent of the Christian Democrats. During the linear expansion of this benefit system the governing parties repeatedly reacted to rising public concern about unemployment by increasing benefit levels. Not to take care of these social concerns would have left either party vulnerable to the other party exploiting the issue. This expansionary path was only to a limited degree constrained by the Liberal party.

#### 4. Conclusion

This paper has made a case for the relevance of party competition to explaining social policy development. Given that Italy and Germany shared a similar partisan composition of government, and relatively similar political, welfare, and economic institutions, their widely different logics of party competition are the key to explaining the marked divergence of unemployment benefit systems after World War II.

In Italy the polarized party system generated a centrifugal mode of competition. This blocked decisive reform efforts and left space only for a particularistic mode of policy-making. Moreover, the radical left had particular power in this polarized system so that its preferences, first, for employment creation and, later, for employment protection shaped the development of unemployment benefits. These became highly fragmented with wide differences in generosity.

In Germany, low polarization and the presence of two dominant parties encouraged a programmatic mode of competition that focused on the voters in the center of the political spectrum. This helped to bring about relatively generous but comprehensive benefit schemes for the standard workers. Social assistance was only expanded after these core groups had been covered.

Obviously, this paper focused on two broad and clearly distinct logics of party competition (centrifugal and centripetal). It may seem not surprising to find an effect on policy output at this level of variation. However, so far even the influence of fundamental differences in political competition such as these is not sufficiently recognized in comparative welfare state research (but see Ferrera 1993). Moreover, the objective of this paper was to make a clear case for the relevance of party competition. Once this relevance is acknowledged, further research can explore more fine-tuned mechanisms. I have indicated in Section 2, how variations within each broad mode of competition may have an impact on policy reforms. In the case of centrifugal competition much depends on the policy interests of the extreme parties. In the case of centripetal competition different spatial configurations can shift the focus on different groups of voters and their policy preferences (see e.g. Picot 2009b).

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