HOUSEHOLD CAPITALIZATION: HARNASSING THE POWER OF FINANCIAL MARKETS FOR SOCIAL WELFARE PROVISION

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ABSTRACT OF THE DISSERTATION

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This dissertation explores the development and consequences of an approach to welfare provision characterized by household reliance on financial markets for managing risks, an approach I term household capitalization. Using a comparative case study of the Netherlands and Germany, I identify the factors that facilitated or hindered the integration of households into financial markets in light of welfare retrenchment. I argue that pension institutions provided the necessary structural and sociological foundations and aligned the interests of relevant actors for a path toward household capitalization. Through analyses of microdata collected from existing election studies and a novel survey instrument, I assess the consequences of this regime on political behavior and preferences. While financial engagement appears to reduce support for public provision in the abstract, I find limited evidence of a wholesale turn away from the state. Finally, using cross-sectional data, I evaluate the dynamic relationship between capitalized alternatives and welfare generosity. The results indicate that high levels of capitalization can reduce welfare generosity in some cases, whereas high levels are associated with increased generosity in others. The results of this dissertation demonstrate that, despite encouraging household participation in markets through financialized asset accumulation
and debt, the state will continue to play a leading role in addressing social risks for the foreseeable future.
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Table of Contents

Abstract..................................................................................................................ii
Acknowledgements..................................................................................................iv
Dedication..................................................................................................................vii
List of Tables...........................................................................................................ix
List of Figures..........................................................................................................xi
Chapter 1: Introduction............................................................................................1
Chapter 2: A Theory of Household Capitalization....................................................14
Chapter 3: Dutch Trajectory of Household Capitalization........................................52
Chapter 4: German Trajectory of Austerity without Appeasement..........................78
Chapter 5: The Politics of Financial Market Promotion: Preference Change and Electoral Responses to Retrenchment.................................................................105
Chapter 7: Household Capitalization and Welfare Generosity Across Time and Space .........................................................................................................................171
Chapter 8: Conclusions............................................................................................193
Appendix ..................................................................................................................204
References................................................................................................................211
List of Tables

Chapter 2
Table 2.1 Model of Divergent Welfare State Trajectories……………………………29

Chapter 3
Table 3.1 Growing Centrality of Homeownership to the PvdA’s Platform………………71

Chapter 4
Table 4.1 Declining Concern of the SPD with Homeownership……………………97

Chapter 5
Table 5.1 Determinants of Dutch and German Respondents’ Change in Ideology…..125
Table 5.2 Determinants of Dutch and German Respondents’ Change in Income Distribution Preferences……………………………………………………………127
Table 5.3 Election Outcomes following Retrenchment Reforms in DEU and the NLD…………………………………………………………………129
Table 5.4 Determinants of Vote Switching away from Social Democrats in the NLD and DEU ………………………………………………………………………131
Table 5.5 Determinants of Respondents’ Change in their Self-Reported Probability of Voting for Social Democrats in the NLD and DEU……………………………………133

Chapter 6
Table 6.1 Dutch Survey Descriptive Statistics……………………………………146
Table 6.2 German Survey Descriptive Statistics……………………………………148
Table 6.3 Financial Sector Engagement’s Effect on Individualism and Support for Markets……………………………………………………………………………160
Table 6.4 Dutch Household Capitalization and Support for Public Provision……….163
Table 6.5 German Household Capitalization and Support for Public Provision……….164
Chapter 7

Table 7.1 Long and Short Term Effects of Financialized Pension Alternatives on Public Pension Generosity……………………………………………………………………………183

Table 7.2 Long and Short Term Effects of Housing Prices on Welfare State Generosity……185

Table 7.3 Long and Short Term Effects of Housing Price Growth on Public Pension Generosity …………………………………………………………………………………..187

Table 7.4 Long and Short Term Effects of Housing Price Growth on Unemployment Generosity …………………………………………………………………………………189
List of Figures

Chapter 2

Figure 2.1 Theory of Political Behavior under the Condition of Pure Austerity…………...46
Figure 2.2 Theory of Political Behavior under Household Capitalization…………………47
Figure 2.3 Ansell’s (2019) Model of the Anti-Redistribution Cycle……………………………49

Chapter 3

Figure 3.1 The Ideological Evolution of the PvdA during the Late Twentieth Century…57
Figure 3.2 The Growth of Dutch Financial Markets Since 1980……………………………61
Figure 3.3 van Ewisk’s (2005) Illustration of the Growing Importance of Equities for Pensions …………………………………………………………………………………62
Figure 3.4 The Strengthening of Dutch Institutional Investors as Indicated by AUM....63
Figure 3.5 Dutch Housing Prices and Debt during Household Capitalization Implementation …………………………………………………………………………………73

Chapter 4

Figure 4.1 The Ideological Evolution of the SPD during the Turn of the Twentieth Century…………………………………………………………………………………83
Figure 4.2 German Pension Assets as a Percent of Gross Domestic Product…………86
Figure 4.3 The Growth of German Financial Markets Since 1975…………………87

Chapter 5

Figure 5.1 Evolution of Dutch and German Respondents’ Views of the Causes of Need…………………………………………………………………………………………117
Figure 5.2 Change in Dutch Respondents’ Ideological Self-Placement during Reforms…………………………………………………………………………………………118
Figure 5.3 Change in German Respondents’ Ideological Self-Placement during Reforms…………………………………………………………………………………………119
Figure 5.4 Evolution of Dutch Preferences for Income Distribution during Reforms….119
Figure 5.5 Evolution of German Preferences for Gov Involvement in Income Distribution during Reforms

Figure 5.6 Change in Dutch Respondents’ Ideological Placement by Party

Figure 5.7 Change in Dutch Respondents’ Income Distribution Preferences by Party

Figure 5.8 Change in German Respondents’ Ideological Placement by Party

Figure 5.9 Change in German Respondents’ Preferences for Government Involvement in Income Distribution by Party

Chapter 6

Figure 6.1 Dutch and German Views of Capitalization Policies by Level of Financial Engagement

Figure 6.2 Dutch and Germans’ Degree of Individualism by Level of Financial Engagement

Figure 6.3 Dutch and German Views of Government Support by Level of Financial Engagement

Chapter 7

Figure 7.1 Relationship between the Change in Pension Investments in Equities and Public Pension Generosity

Figure 7.2 Relationship between the Change in House Prices and Change in Welfare Generosity

Appendix

Figure A.1 Dutch and German Household Debt

Figure A.2 Dutch and German Stock Market Capitalization
Chapter 1: Introduction

Homeowners across the United States were outraged when President Trump’s tax policy reduced the amount of property taxes that many American households could deduct from their tax returns. The new limits on how much property taxes could be deducted left them owing thousands when tax season came around. The expectation that property and mortgages receive highly favorable tax treatment has been instilled in generations of Americans who own or aspire to own homes. However, in many contexts, this type of policy would seem foreign. Why would the government encourage debt and give favorable tax rates to those who own property, those who are theoretically least in need?

In countries like the United States, there is an expectation that the federal government will take steps to encourage homeownership and wealth accumulation among households. Not only is there an expectation that they will, but there also is a common view that they should. In countries with high levels of household capitalization like the United States, household’s balance sheets are highly reliant not only on financial markets but on government to make financial markets more accessible and their risks more manageable. This traditionally has taken the form of government policies that support homeownership. Common programs include those that benefit first-time homebuyers, reduce the tax burden of property ownership, and allow households to deduct the interest they pay on their mortgages.

While policies promoting household financialization have long been prevalent in the United States, some other advanced economies turned to such policies more recently as their welfare states came under pressure. As macroeconomic conditions deteriorated in
the late twentieth century, many advanced economies faced pressure to reform post-war welfare state institutions. Many states responded to such pressures simply with austerity measures. But for countries that sought to reduce costs on the state without sacrificing the financial wellbeing of voters, another approach was available: household capitalization. In such a regime, the government pursues policies that aim to enable and encourage households to rely on financial markets to manage social risks through a combination of short and long-term borrowing, the accumulation and investment of capital in financial markets, and the means to invest in large assets on which they can rely in times of crisis.

In this dissertation, I seek to shed light on why some countries have exploited the ability for financial markets to act as a pillar of social support for households, while others have resisted subjecting households to the mercurial nature of markets. This presents a significant puzzle as some countries that have resisted the turn to markets have faced challenging fiscal conditions (e.g., high unemployment, aging populations, and slowed growth) and could have relieved pressure on their welfare states by offloading of some responsibility for social provision to private financial markets.

In addition to the potential relief a turn to markets could have provided, a growing body of literature demonstrates the negative effect that households’ use of private, often financialized, forms of social insurance have on levels of support for public provision of social insurance. I build on this literature by exploring how public opinion has evolved where financial markets were used as a tool of social provision and by measuring the effect of a turn to financial markets on the generosity of the welfare state.
In the following chapters, I argue that, facing economic constraints, Social Democrats in some contexts made the calculated choice to tap into financial markets in order to cut government spending on social programs while offering a sort of compensation to voters in an effort to moderate the resulting electoral backlash and reorient voters away from the state for managing households’ risk. I demonstrate that this occurred specifically in contexts where existing institutions laid the necessary structural and sociological foundations. The consequences of households’ participation in financial markets for public policy support is most significant in contexts where government encourages reliance on markets. Ultimately, welfare states in which financialized alternatives exist are more likely to see the generosity of public welfare state programs decline.

Financ(ializ)ing the Welfare State

Following the rapid growth of the post-war period and the transition from an industrial to a service-based economy, wealthy countries experienced slowed economic growth during the latter part of the twentieth century (Ferrara and Rhodes 2000). As a result, taxes and contributions failed to keep up with funding requirements of generous welfare programs leading to increasing burdens on government budgets. Demographic trends, characterized by aging populations; increased life expectancy; and declining fertility rates, presented additional challenges (Vasileios 2019). The evolving nature of work, changing family structures, and need for economic flexibility further added to the unsustainability of post-war institutions (Häusermann 2010). Occupational trends and the ability to hire cheaper labor from within the European Union challenged the strength of unions and affected their ability to maintain favorable policies as their political position
weakened (Pontusson 1995; Schulze-Cleven 2018). These pressures led to retrenchment efforts and neoliberal reforms across advanced welfare states. Reforms that were implemented in most, if not all, advanced countries included increasing the retirement age, focusing unemployment policies on activation, and strengthening the connection between pension benefits and pension contributions (Ferrara and Rhodes 2000; Häusermann 2010).

As states were facing fiscal stress and implementing welfare reforms, policymakers in a number of countries were liberalizing financial sector regulations and even encouraging household participation in financial markets. The concurrence of trends led to a proliferation of literature on the use of financial tools and services as de facto welfare state replacements (Crouch 2009; Krippner 2011; Rajan 2011; Soederberg 2014; Ansell 2014, 2019; Wiedemann 2021, 2022). At its most basic, this argument states that short term credit and the ability to invest in long-term assets such as housing can provide substitutes of sorts for welfare state programs such as unemployment insurance and pensions. Financial reforms have expanded the number of households who can access quick liquidity in the form of credit card loans and home equity loans to smooth consumption or even finance education and achieve a sense of economic security through homeownership in case of unemployment, disability, or retirement. In addition, reforms loosened the regulations on how much households can borrow thus deepening households’ reliance on short term credit and investments in accumulating housing wealth.

The most prominent literature in this area has focused on the role of housing in providing a source of privatized insurance. The intention to promote market options in
place of social provision has been well documented in both the United States and United Kingdom cases as Thatcher and Bush sought to promote homeownership to undermine public welfare provision with their “Right to Buy” and “Ownership Society” campaigns (Ansell 2019, 171). In addition, housing liberalization has been identified as a way to spur consumer demand and achieve higher growth (Schwartz 2009).

The notion of financial access providing a quasi-insurance function extended to the broader credit market with many noting that the extension of short-term lending has become a form of ‘privatized Keynesianism” (Crouch 2009). In this model, individuals from all income tiers can access all types of credit in order to finance day-to-day consumption, social investments, and fill gaps due to low levels of social provision (Crouch 2009; Soederberg 2014; Wiedemann 2021, 2022; Annarelli 2021). Scholars have found that economic inequality has been linked to greater borrowing in contexts with right-leaning governments and majoritarian electoral institutions (Ahlquist and Ansell 2017). Recent work incorporates the observation that high indebtedness levels have been found across all types of welfare regimes. The findings suggest that permissive credit regimes combined with the existence and growth of a “social policy short-fall” has led to increasing indebtedness across a variety of welfare contexts (Wiedemann 2021). Differences in welfare regimes explain not only the differences in levels of non-mortgage debt (Annarelli 2021), but also the distribution of all types of debt (Wiedemann 2021).

Beyond the direct use of credit, financial markets have been used to achieve other social welfare goals. This has been most prominent in the area of pension capitalization (Häusermann 2010). There has been a consistent trend in occupational pensions characterized by a movement from defined benefit to defined contribution plans. Defined
benefit plans consist of a predetermined benefit level based on years of work and one’s salary, while defined contribution plans are related to asset accumulation (OECD 2016). Increasingly, the benefits that one can expect from their defined contribution plans are linked to stock market performance. This trend has been paired with incentives for individuals to invest in voluntary pension schemes (Rodrigues et al. 2018; Bridgen 2019).

Another area in which financial markets are increasingly filling the role of government provision is in the area of higher education. States such as Portugal and the United Kingdom did not charge fees until the 1990s and, ever since, these fees have grown considerably (“Higher Education Funding: United Kingdom” 2020; The Ministry of Science, Technology and Higher Education 2006). The literature on the politics of student loan debt, however, remains limited.

While the political science literature has highlighted the various ways that financial markets have come to play a role in private welfare provision, the conversations have often occurred in isolation. I seek to bring these related literatures together in order to illustrate the interconnected nature of households’ reliance on different types of financial goods and services and to highlight how policymakers outside of Anglo-market contexts also have sought to harness financial markets for social insurance purposes in ways that parallel the approach of their American and British counterparts. Therefore, in the section that follows, I develop the concept of household capitalization as a type of welfare regime and, in Chapter 2, I provide a theory of its development and consequences which cuts across traditional welfare state typologies.
Key Concept

This dissertation is centered on the concept of *household capitalization*. I define *household capitalization* as the existence of or movement toward a policy environment characterized by government *encouragement* of household engagement with financial markets for the implicit or explicit purpose of managing risk over the life span, especially when encouraged as an alternative to publicly managing said risks. In this formulation, household capitalization is something that varies across countries. Since policies that produce household capitalization are implemented at national level, I consider it a regime that incentivizes a particular approach to the management of household budgets for all in its jurisdiction. This is not to say that all households are equally engaged with or reliant upon financial markets. Even in highly capitalized environments, there may be households that have limited engagement with markets resulting from insufficient resources, uneven access, or differing preferences.

The concept of household capitalization does not imply that governments completely withdraw from the provision of social services and let private markets determine entirely the distribution of resources. The government remains heavily involved in contexts characterized by high levels of household capitalization. As discussed in the introduction, governments play an active role in encouraging the growth of and the level of household engagement with financial markets. Typically through the tax structure, the government supplements household incomes to increase the attractiveness of taking on debt and making investments, especially in areas that serve as private insurance. In addition, through tax provisions and legal frameworks, such as
bankruptcy, governments mitigate the potential financial consequences of limited social support and high reliance on credit to address social risks.

Thus, a context characterized by household capitalization has properties that make it distinct from both entirely “free market” environments and from social market economies. In an ideal-type free market environment, government would play no role in addressing social risks. Job loss, sickness, aging, education, and housing provision would all be the responsibility of households. There would be no policies to encourage certain behaviors such as asset accumulation and no policies to reduce the burden of participating in financial markets such as tax deductions or favorable bankruptcy proceedings. In a social market economy, which is typically what comes to mind when we think of many European countries during the late twentieth century, governments play an active role in addressing risks. Policies addressing job loss, sickness, aging, education, housing, among other areas provide high levels of stability through state administered or highly regulated healthcare, unemployment, disability, housing, and education. Thus, asset accumulation attained through financial channels (e.g., housing and retirement investments) for the purposes of addressing social risks are not foundational elements of households’ balance sheets.

Therefore, the defining property of household capitalization is an approach to social policies that encourages households to rely on financial markets for economic stability. Markets are still able to set prices as governments do not seek to alter supply and demand dynamics. This is in contrast to social market economies in which certain necessities may not be publicly provided, but they are heavily regulated to fundamentally
alter the price setting mechanism that characterizes capitalized contexts. Two examples here are housing and healthcare.

In capitalized contexts, homeownership is very important; however, the government does not alter the price of homes to make them more widely available. Instead, adjustments are made to financing mechanisms and tax outlays to have the effect of making mortgage debt more manageable. In contrast, in social market economies, policymakers build social housing or implement strict renters’ protections and rent controls to ensure quality and affordability. Similarly, in healthcare provision, healthcare is provided privately through work, out-of-pocket costs or, most frequently, both. Healthcare providers are able to determine costs as the government does not get involved on that front. In these contexts, healthcare costs tend to be quite high leading to insufficient savings in the case of health savings plans or inadequate coverage in the case of job-related or individually purchased health insurance. To accommodate this reality, capitalized contexts have favorable tax policies and bankruptcy proceedings which provide a level of government support that do not shield households from markets but make the financial consequences more bearable. Healthcare in social markets typically is either publicly provided or is highly regulated and not subject to market prices (e.g., caps on drug prices, requirement to be non-profit).

To wrap up the discussion of household capitalization as a concept, noting the full spectrum of the term may prove helpful. At one end of the spectrum, we have a high level of household capitalization. This context looks like high levels of homeownership, financed through accessible mortgages and supported by government programs such as favorable taxation and government-backed insurance schemes. It looks like a high level
of retirement investments. This may take the shape of personal investment accounts with highly favorable tax treatment to encourage private provision of retirement income or capitalized funded pensions in which benefits are dependent on financial market returns which the government works to increase. It also includes accessible credit markets that can be used in the short-term to cover costs related to healthcare, disability, unemployment, or volatile earnings or in the long-term to cover the costs of education. Finally, it includes tax policies that compensate for spending on healthcare and for debt taken out to fund education and, if all else fails, bankruptcy proceedings that are favorable to the borrowers (e.g., debtors keep primary residences and get a clean slate).

On the opposite end of this spectrum, contexts with low levels of household capitalization do not have policies that encourage asset accumulation through homeownership or pension savings. This is not required as an ample social safety net exists to provide during periods of unemployment, sickness, and for retirement, and policies exist that shield households from market forces in areas such as health insurance and housing. Thus, the accumulation of assets is not a central concern of households nor is it something that policymakers seek to incentivize through favorable tax policies. Bolstering financial markets, while important for economic competitiveness, is not a necessity so that workers have sufficient investment returns on their pensions. In addition, households do not require the same access to credit markets to fill in these gaps, leading to relatively limited debt and, accordingly, relatively unfavorable bankruptcy proceedings.
Research Puzzle and Plan for the Dissertation

In the dissertation that follows, I seek to understand both the causes and consequences of household capitalization. I am particularly interested in the implementation of household capitalization policies in generous welfare states and whether that has led these contexts on a trajectory toward more Anglo- or liberal-type welfare state environments. In other words, I answer the following questions. Why did some contexts implement household capitalization policies, while other contexts did not? Did the greater integration of households with financial markets lead to a change in public opinion? Has welfare generosity declined because of these household capitalization policies and their potential impact on attitudes and preferences?

In the chapter that follows, I review the relevant literature and offer a two-part theory of the causes and consequences of household capitalization. In part one of my theory, I lay out the important institutions and actors that can either facilitate or stifle the implementation of a household capitalization regime. I demonstrate that states can take two main trajectories away from the status quo. One is the path of household capitalization. The other is the path of pure austerity politics. I then theorize about how public opinion and political behavior will diverge and spell out the consequences for welfare state durability. I test this theory in the following chapters by qualitatively and quantitatively comparing the trajectories of the Netherlands and Germany.

In Chapter 3, I begin my assessment of the first part of my theory. Specifically, I present the case of the Netherlands in which I demonstrate how the flat-rate pension system inadvertently led to the development of a context ripe for household capitalization. The creation of independent pension funds and the decision by labor
leadership contributed to the growth of the financial sector. Just as importantly, it created the historical path that would allow for financial markets to be viewed as an appropriate forum for the provision of social insurance and social goods.

I then turn to the case of Germany in Chapter 4. I demonstrate that Germany took the trajectory of pure austerity, which I also refer to as austerity without appeasement. Germany took this path not because of a lack of political will to implement policies that would both deepen markets and more fully integrate households into these markets, but because existing institutions were not conducive to this path. The earnings-related pension system in Germany precluded the development of pension funds that would end up heavily investing in the stock market. As a result, financial markets remained relatively underdeveloped and the historical path necessary for social provision through financial channels never was paved.

In Chapter 5, I begin testing the implications of part two of my theory. I compare the evolution of political attitudes and preferences in Germany and the Netherlands during the period of divergence. I look at the period during which the Netherlands encouraged household capitalization while reducing welfare benefits to see if individuals became less supportive of the welfare state. I then look at the period in Germany during which unsuccessful attempts to engage in capitalization policies led to plain retrenchment policies, in other words austerity without appeasement. I draw on electoral studies from this time period to test if electoral backlash was moderated in Netherlands relative to Germany as household capitalization offered a form of compensation for retrenchment.

In Chapter 6, I test the implications of the divergent trajectories for modern attitudes and policy preferences in each context. Using original survey data, I provide an
overview of aggregate-level views and support for a range of social policy areas across the Netherlands and Germany. I then test the individual level effects of one’s degree of engagement with the financial sector, one’s homeownership status, and one’s reliance on capitalized pensions on attitudes and social policy preferences.

The final substantive chapter is Chapter 7. I test whether financialized alternatives to publicly provided social policies are associated with declines in public generosity of relevant welfare policy areas in both the long-term and short-term. For this test, I rely on time-series cross-sectional data from the late twentieth century to today across numerous advanced welfare states, aiding in the generalizability of findings. Finally, I conclude in Chapter 8. I review where the literature had left off and show where I have made contributions. I wrap up the chapter by offering several paths forward for future researchers.
Chapter 2: A Theory of Household Capitalization

In this chapter, I offer a theory of household capitalization. In the previous chapter, I defined household capitalization as the existence of or movement toward a policy environment characterized by government *encouragement* of household engagement with financial markets for the implicit or explicit purpose of managing risk over the life span, especially when encouraged as an alternative to socializing said risk. This theory provides a framework for understanding how some contexts, even those with a history of labor solidarity (i.e., a strong sense of common interests among labor), became highly capitalized, while other contexts failed to use financial markets as a tool of welfare provision. I illustrate how institutional arrangements implemented during the immediate post-war period contributed to the formation of actors’ preferences, to the distribution of political power, and to the development of structural conditions favorable to household capitalization. In addition, in the latter part of this chapter, I theorize about the consequences of household capitalization for political behavior and welfare state generosity.

The institutional arrangement critical to this theory is the structure and regulation of pensions. Specifically, where independent pension funds contribute to large pools of labor’s savings, we are more likely to see household capitalization. In the following sections, I discuss how the existence of sizable pension funds create institutional pathways that make household capitalization a viable policy choice, shape the interests of relevant actors to be consistent with the expansion of financial markets, and contribute to mature financial markets that have the capacity to accommodate policymakers’ visions for household capitalization.
While the institutional arrangements are an important causal factor, it is the behavior and decisions of relevant actors that have led to household capitalization. The role of actors’ interests in shaping welfare state outcomes has become more prominent as the literature has moved away from purely structural or institutional factors to explanations incorporating both agency and structure (Mahoney and Thelen 2010). Many cite the interests of labor and employers in facilitating compromises and, thus, shaping the trajectory of welfare state institutions (Hall and Soskice 2001; Iversen and Soskice 2001; Mares 2003). With that said, actors’ interests are unlikely to be the sole drivers of institutional change as their interests often are endogenous to institutions as existing arrangements tend to generate feedback effects (Pierson 2004; Häusermann 2010; Sheingate 2014). Therefore, our theory of welfare state development acknowledges the role of actors in shaping welfare state outcomes, but special attention is paid to the way in which institutions distribute power, shape interests, and structure the economy ultimately culminating in disparate institutional trajectories.

**Institutions**

The institution central to the success of household capitalization is the historical structure of pension provision. Specifically, where occupational pension funds resulted from negotiations between labor and employers and were made compulsory by the state, we are more likely to see a successful trajectory toward household capitalization. Occupational pension funds are pension funds that are managed and administered independently of the state and typically are kept outside of the firm to protect workers’ interests (Anderson 2019). Statutory pensions are pensions funded through employer and employee contributions to the state via taxes and typically are administered by the
national government. Occupational pension funds developed where the statutory pensions were insufficient to maintain income in retirement (Anderson 2019). This is typical of contexts with Beveridge pension systems, which have flat-rate, universal benefits focused on worker solidarity rather than status maintenance (Haverland 2001). In contrast, Bismarckian pension systems focus on status maintenance in retirement. Bismarckian pension systems are characterized by more generous statutory benefits as retirement income is earnings-related (Haverland 2001). Where pensions were historically generous and earnings-related, demand for a supplementary pension was limited. As a result, occupational pension funds never played a meaningful part of retirement income during much of the twentieth century (Anderson 2019).

Private occupational pensions are critical to the development of household capitalization as they introduce to the economy large pools of capital looking for investment. Statutory pensions historically have been funded using a pay-as-you-go (PayG) system of financing. This system of financing involves relying on current employer and employee contributions collected via payroll taxes to fund the pension entitlements of current retirees. Unlike statutory pensions, occupational pensions are private and funded (Hinrichs and Lynch 2010). Funded in this case means that there are sufficient assets from contributions to cover all current and future liabilities. Because of this funding system, pension funds were sitting on large pools of capital. To ensure that funds grew alongside developments in the economy (e.g., inflation), pension funds have been a source of credit in the domestic economy since their inception. Until the late-twentieth century, these funds mostly invested in fixed income assets such as bonds and loans (van der Zwan 2017; Anderson 2019). It was not until the final two decades of the
twentieth century that these funds became a critical part of what we know as financialization.

The literature finds that the existence of a significant occupational pension tier facilitates successful transition to fully privatized and highly financialized pension provision (Brooks 2002; Anderson 2019). In fact, pension fund management decisions, in some cases, have been behind the financialization of pension provision (Anderson 2019). Pension funds increasingly turned to equity markets in order to benefit from the higher returns because fixed income investments tend to be less risky but have lower returns (Anderson 2019; van der Zwan 2017). In the process, occupational pensions were no longer just capital funded, but also highly capitalized meaning that they became reliant on financial market returns.

While there were important implications of this funding approach for the development of financial markets, there are just as important institutional consequences that have paved the way for household capitalization more generally. Occupational pension funds’ reliance on financial markets for securing social benefits paved the way for a welfare state in which financial markets could be legitimately seen as vehicles through which social goals are attained. Simultaneously, the long history in Bismarckian schemes of a generous statutory pension; the meager role played by private, funded pensions; and the virtually absent role of financial markets all have made it difficult to introduce not only an emphasis on capital markets but also private forms of social welfare such as funded pension schemes.

The institutionalist literature demonstrates how decisions about institutional arrangements tend to have consequences far beyond the original decision and long into
the future. A central concept exemplifying this idea is path dependence. Pierson (2004) defines path dependence as the way that “dynamics triggered by an event or process at one point in time reproduce themselves” (11). Path dependence is driven by feedback effects and increasing returns. Positive feedback effects result from the fact that switching from a trajectory becomes more expensive the longer the arrangement is in place (David 1985). Positive feedback effects are highly related to institutions’ propensity for increasing returns, which result from the large set up costs, coordination effects, and adaptive expectations (Pierson 2004). The innate stickiness of institutions tends to be intensified in politics. The central role of collective action, the coercive power of institutions which shape behaviors and expectations, the ability of political authority to exacerbate power differences, and the limitations to change that result from a lack of competition and from the sociological processes that determine appropriate action all contribute to this special characteristic of politics (Pierson 2004).

These features of political institutions are clear in the case of pensions and their consequences for household capitalization well into the future. Private occupational pension funds’ engagement in external investment activities during the mid-twentieth century solidified their role as a key source of liquidity for firms, the government, and even households. As financial markets evolved and firms turned to equity markets as cash equivalents, so too did the investment strategy of pensions evolve. Reinforced by the allure of higher returns, occupational pension funds contributed to deepening financialization. The booming markets of the late-twentieth century further reinforced the new institutional trajectory in which financial markets took on a social insurance function and served to maintain household consumption in retirement years. This trajectory,
driven by the social partners’ co-management of pension funds, expanded opportunities for social provision through financial markets by contributing to their development, making this approach to social welfare socially appropriate. The management of household finances over the life span through the use of financial markets was now on the menu of policy options. This option proved an attractive one to policymakers feeling hamstrung between fiscal pressures and households’ demand for income growth and maintenance over the life course.

The institutional literature also provides insight as to why policymakers in more generous Bismarckian systems were not able to draw on this approach to social provisions. First, it is extremely difficult to establish private occupation pension funds as a main pillar of the pension system when generations of workers have almost entirely relied upon statutory pensions for old age security. Workers have paid into the system, expecting that the system will provide them with the security that they have helped provide to others. Over generations, the expectation that the state is responsible for income maintenance during unemployment, disability, and retirement becomes more deeply ingrained. Therefore, a turn to private occupational pensions, especially financialized occupational pensions, is not something that would be deemed appropriate. This limited the options for policymakers as there was no precedent for the provision of social welfare through financial markets. The different decisions over pension provision demonstrate how political decisions at one point of time can limit the possible policy options on later policy “menus” (Pierson 2004, 12).
Relevant Actors

While the sticky nature of institutions is important to explaining why household capitalization was a viable policy option in some contexts but not in others, institutions on their own are not deterministic. Even within institutions, actors possess the agency to promote change or to protect the status quo. It is true that institutions tend to distribute power and influence whether progressive or conservative forces prevail. Nonetheless, understanding the interests of key actors and their role in the facilitation of or resistance to household capitalization is critical. In this section, I make assumptions about the relevant interests of three actors: labor, Social Democratic Parties, and financial institutions. I theorize how the interaction of these actors, their relative political strength, and their context-specific interests contributed to differential outcomes across contexts with and without a history of private occupational pensions.

Labor

I assume that labor’s interests will vary across contexts. Across all contexts, I assume that labor will be against welfare reform efforts that reduce the generosity of benefits. Labor, here, specifically refers to workers who are unionized and in the private sector. These are fair assumptions as unionized workers tend to be “insiders” and to benefit most from existing institutional arrangements (Rueda 2007). Because existing social welfare arrangements in coordinated economies arise out of the negotiation between these “insider” labor organizations and the associated employer organizations, the chipping away of generous welfare arrangements will be understood as a direct attack on the power of organized labor and therefore vehemently opposed.
While some existing literature has argued that labor leadership will be resistant to financial liberalization due to the potential for deradicalization (Trumbull 2014), I do not assume that organized labor will share a singular preference across all contexts. Instead, I anticipate that resistance to the expansion of financial markets into the everyday lives of households will only be pronounced in those contexts in which deepening financial markets do not serve the material interests of the social partners. In contexts with funded pensions, I assume that labor’s interests will diverge with the literatures’ expectations that labor will be resistant to policies that make household budgets dependent on financial markets. I argue, due to the reliance on financial market performance for the growth of occupational pensions, pension funds with large investments in equity markets will be supportive of efforts to deepen financial markets. In the context of retrenchment, I anticipate that this preference will only intensify as the occupational pension tier will be of growing importance for retirement income. Therefore, where occupational pension funds align the interests of labor with the goal of deepening financial markets, I anticipate no resistance from labor in terms of household capitalization.

*Social Democratic Parties*

Another set of critical actors in the literature on welfare state change and financial market expansion are Social Democratic Parties. With regard to parties’ interests, we can make the assumption that the primary interest of all parties is to win elections and win by margins significant enough to facilitate control of government. Therefore, I expect that parties will engage in strategies that best further this main goal. Here, I am focused on the choices made by center left Social Democratic Parties. Following World War II, Social Democratic Parties maintained a competitive coalition consisting of industrial workers as
well as “public sector employees, urban professionals, and agricultural laborers” (Benedetto et al. 2020, 931). During the mid-twentieth century, these parties could be counted on to represent labor’s interests and, in turn, relied upon union solidarity and influence to deliver critical votes (Kitschelt 1994; Pontusson 1995; Häusermann 2010; Walter 2016). However, due to structural shifts, there has been a decline in industrial union strength, specifically the strength of private sector unions.

Pontusson (1995) argues that post-industrial production causes changes in production size and industrial restructuring leading to a decline in unions. He finds that Social Democratic Party strength is inversely related to the proportion of the labor force in private nonindustrial employment, which has been steadily increasing with the growth of the service economy. Other scholars also have emphasized the changing focus of the parties from economic dimensions to cultural ones, which has managed to split labor. They argue that incorporating issues that fall along the libertarian-authoritarian dimension (e.g., minority rights, environmental protections, privacy) has caused some traditional supporters of left parties to move to the right (Kitschelt 1994; Häusermann 2010). However, recent literature has found little support for this assertion as rightward movements in policies actually hurt Social Democrats’ vote shares (Abou-Chadi and Wagner 2020).

In addition, all parties have been faced with difficult distributional choices as economic conditions changed toward the end of the twentieth century. As previously mentioned, welfare state arrangements enacted in the immediate post-war period were becoming increasingly unsustainable in light of stagnating wages, slowed growth, and an aging population among other things. This put left parties in an especially difficult
position, as they had to balance ensuring long-term fiscal solvency (made even more urgent by the implementation of the single currency) with their role as champions of a robust welfare state. Therefore, in addition to structural changes making prioritizing unions a less attractive strategy, left parties were becoming increasingly constrained by the need to rein in certain elements of the welfare state.

The literature suggests that there have been several instances in which left parties chose to prioritize fiscal considerations over labor’s demands, undermining the traditional role of left parties in advanced economy contexts. Kitschelt (1994) goes as far as concluding that “traditional social democratic policies ought to no longer be pursued, because they cannot be successfully implemented in the socioeconomic and cultural environment of advanced capitalism” (7). He views focusing on blue collar workers as a losing strategy for left parties. This shift in focus away from traditional left constituencies and towards an embrace of greater market-competition and deregulation has been a topic of critical debate. Recent findings are mixed about whether left parties offer any meaningful programmatic distinctions relative to the prescriptions offered by pro-market parties of the center and the right (Boix 2000; Mandelkern 2016; Bremer 2018). The prototypical example of the failure to do so is embodied by “Third Way” politics. Benedetto et al. (2020) define this as an approach by Social Democrats “emphasiz[ing] regulating markets, supply-side economic management, balanced budgets, and social liberalism and environmentalism” (931).

I assume that when Social Democratic parties are faced with a voter base in decline and poor economic conditions, they will be inclined to modernize through a turn away from the welfare state. Social Democrats tend to have more credibility in the area of
welfare state policymaking and, therefore, should have an easier time pushing through reforms. In addition, I anticipate that Social Democratic parties will seek to offer compensation for these efforts, which I argue they will do through the promises of financial liberalization. Compensation in the form of income security or job guarantees are incompatible with a move toward more flexible labor markets and reducing government spending. Therefore, the available alternative in a rapidly financializing global capitalist economy is the promise of asset accumulation through investment and easy access to liquid credit markets for immediate cash.

Financial Institutions

The final group of relevant actors is financial institutions. Financial institutions include central banks, the insurance industry, banks, and investment firms. While I anticipate that each group has relatively similar interests across contexts, I expect that their power will vary greatly across countries depending on the history of financial markets. As global financialization intensified, I make the safe assumption that central bankers looked favorably on policies that would improve their countries’ competitiveness in global markets. In their view this tends to entail deepening equity markets, deepening consumer credit markets, and the deregulation of riskier financial tools. While central banks have the ability to provide expert guidance to policymakers considering liberalizing reforms, the adoption of liberalizing policies still involves political decisions which emerge from the competition between relevant organized interests.

I assume that investment firms will be the institutions most aligned with the goal of deepening financial markets. More developed equity markets provide new asset classes with potentially higher returns, which is beneficial to investment firms especially asset
managers who seek to diversify investments. Therefore, deepening financial liberalization expands the scope of investment activities and thus increases profitability. However, these investment firms will be weak where equity markets are not well developed. This brings us back to the structure of pension systems. Pension funds “are typically seen as a driver of financialisation processes, whereby the financial industry has increasingly become the lead sector... and led other industries to adopt shareholder value (Engelen 2003; van der Zwan 2014)” (Naczyk and Hassel 2019, 13). As a result, I expect that greater pension assets will be related to deeper equity markets and the emergence of investment firms as powerful interests. However, where pension fund development is limited or where pension funds for legal or other reasons have limited investments in equity markets, I expect investment firms to be weaker and thus having a harder time pushing through deeper financialization.

In addition, the literature on the politics of pension privatization discusses the critical role of insurance companies, specifically in contexts where occupational pension funds are not as important for retirement income or where they are internally managed (Röper 2021b). Where occupational pension funds are internally managed by firms, insurance companies can provide safe guarantees of benefit entitlements over the lifespan. In line with the findings of Röper (2021a,b) and Naczyk and Hassel (2019), I expect that insurance companies will be opposed to pension financialization but have ambiguous preferences toward other aspects of household capitalization, as these companies may benefit from deepening financialization as home insurance expands in the context of a highly leveraged mortgage market.
Finally, I anticipate that banks will look favorably on financial liberalization for the purposes of household capitalization. In a deregulated credit environment, commercial banks can engage in more profitable lending practices and offer novel consumer services that also have the potential to boost returns. Commercial banks will be especially supportive of deepening consumer credit markets in an environment of developed equity markets as they play a smaller role in providing capital to firms in such contexts (Lapavitsas 2009).

**Structure**

Finally, the existence of private pension funds has been linked to the development of an economic environment conducive to household capitalization. Namely, pension funds have been cited as a primary causal factor in the deepening of financialization globally. Braun (2022) discusses the term “pension fund capitalism,” which refers to the way in which large pools of labor’s capital tends to lead to a push for new and riskier investments as “the supply of pension savings in search of investment outstrips demand for financing from the non-financial sector” (Braun 2022 73, 74). Thus, the presence of large pools of capital seeking new investment channels are conducive to household capitalization as they provide the necessary liquidity for households to take out large loans.

In addition, pension funds’ investments in equity markets have contributed to the development of deeper markets as large amounts of pension assets have been the financial backbone of more developed markets such as the UK and US equity markets. “By 1990, pension funds held as much as one third of equities quoted in American and British stock markets (Davis, 1995, p. 181)” (Naczyk and Hassel 2019 4). Therefore, the
advanced financial infrastructure in markets with private occupational pensions, especially those invested in equities, will be conducive to the introduction of new instruments such as MBS and other debt securities derived from greater household utilization of financial tools and services.

**Theoretical Model**

Based on the existing literature and the assumptions outlined above, I present a visualization of my theory in Table 2.1. It illustrates that whether countries moved toward a trajectory of household capitalization resulted from the interaction of two dimensions. The first dimension is whether funded occupational pensions were implemented in the post-war period. As I demonstrated above, this critical institutional decision has had consequences for the interests and relative power of actors, the development of favorable structural conditions, and the range of policy choices from which policymakers can choose. This dimension is critical to determining the relative power of financial interests, as occupational pensions served to strengthen the positions of investment firms and banks who could sell their vision for deeper financial markets as a public good. At the same time, this dimension was also important in shaping labor’s interests to be in line with deeper financialization as occupational pension performance had become dependent on equity investment returns. The second dimension of the model is whether Social Democratic parties maintained a high level of commitment to labor, and thus existing welfare state arrangements, or defected from their historical commitment to both labor and the welfare state.

To briefly reiterate, many Social Democratic parties were suffering electorally and faced a shrinking voter base. This led parties across a variety of contexts to take a
“third way” approach around the turn of the twenty-first century. Whether Social Democratic parties took this new approach was determinant of whether the status quo was maintained. Since Social Democratic parties were historically viewed as the most competent party on social policy issues and faced little resistance from other major parties, many of which were in favor of the welfare retrenchment, they were highly effective in getting reforms passed. Thus, if their commitment faltered, the respective welfare state fell into one of the two reform conditions.

The two reform conditions are household capitalization and austerity without appeasement. Under household capitalization, we see policymakers turning to financial markets as a tool of welfare provision while actively rolling back the welfare state. Policymakers pursing this regime elucidate policy goals that effectively integrate household finances over the lifetime with developments in financial markets. By highlighting the potential for asset accumulation under a highly financialized welfare regime, policymakers are able to offer a form of compensation to voters for the reduction in public provision. Governments support this regime with policies that offer fiscal incentives for wealth accumulation and that deregulate financial markets which provides greater access to credit for households. This credit can then be used for investments, consumption smoothing, and large purchases. As a result, I theorize that policymakers are able to moderate the negative consequences of retrenchment, an assumption I expand upon below.

The other reform condition is austerity without appeasement. Austerity without appeasement is characterized by policymakers implementing welfare retrenchment, but not offering compensation in the form of expanded opportunities for financial market
engagement. This reform condition is what one might traditionally think about when discussing austerity politics. Budgets are tightened through cuts to benefits, and households must learn to adjust spending and expectations in line with these conservative budgetary reforms. Due to the lack of compensatory policy accompanying the retrenchment, I anticipate that there will be more severe backlash to welfare state reforms in these contexts. Again, this is an expectation I expand upon below.

Table 2.1 Model of Divergent Welfare State Trajectories

<table>
<thead>
<tr>
<th>Center-Left Party’s Commitment to Labor</th>
<th>Household Capitalization</th>
<th>Austerity without Appeasement</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Post-War Introduction of Funded Occupational Pension</td>
<td>Yes</td>
</tr>
<tr>
<td>Status Quo</td>
<td>Under the status quo, traditional post-war arrangements are kept in place. Labor insiders benefit from generous agreements. Households depend on wage growth to maintain and improve their standard of living. While financial markets may play a role in funding occupational pensions or even firm activities, there is no attempt by policymakers to deepen households’ interaction with financial markets.</td>
<td>Netherlands 1980s; Anglo countries pre-1980s; Germany 80s – 90s</td>
</tr>
</tbody>
</table>

Anglo countries, Nordic countries Germany 2000s, France 1990s/2000s, Italy

To summarize, Table 2.1 depicts the theoretical explanation to my initial question. Why did some countries pursue a policy of household capitalization in the context of fiscal strain while others did not, despite the potential benefits? I argue that contexts with a history of occupational funds possessed fertile ground for this type of regime, as there were institutional precedents for relying on financial markets for welfare provision, more developed financial markets, and a cross-class coalition of actors with material interests in deepening the financial sector. Therefore, if Social Democratic policymakers felt it
necessary to engage in retrenchment due to real or imagined structural pressures, they were able to provide a type of compensation through expanded financial market access. This provided relief in the immediate term through the promises of wealth accumulation and welfare substitution in the longer term as the benefits of household capitalization were realized thanks to asset booms and easy credit access. In contrast, in those contexts with no history of occupational pension funds, the expansion of financial markets into the everyday financial life of households was not on the policy menu. Welfare retrenchment, therefore, occurred along a typical austerity trajectory. Budgets were tightened at the governmental and household level and expectations were adjusted.

The context representing the capitalized context in this dissertation is the Netherlands, while the context representing the non-capitalized austerity without appeasement condition is Germany. To demonstrate the causal processes leading to the disparate trajectories highlighted in Table 2.1, I perform a comparative case study of Germany and the Netherlands. For more details on the qualitative methods and cases, I have included a methodological note in the Appendix to Chapter 2.

I now turn to answering the remaining questions with the second part of my theory. In the following section, I ask if household capitalization has worked. In other words, did household capitalization (i.e., the use of financial markets as a form of compensation and tool of social provision) result in more moderate political backlash to retrenchment in the near term and preferences for less state involvement in the long term? To answer this question, I briefly review the literature on political behavior and offer my theory of moderated backlash under household capitalization.
Household Capitalization, Political Behavior, and Welfare State Development

In the previous section, I offer a theory answering the question: why did some countries pursue household capitalization while others did not, despite the potential political benefits of reorienting the electorate away from reliance on the state and toward reliance on markets?

In the remainder of this chapter, I present a theory of political behavior under household capitalization, which addresses the overarching question: did turning to financial markets work? In other words, did household capitalization reorient the electorate away from the state for social security and help to soften the electoral blow of retrenchment efforts? Did this policy approach result in lasting changes in the attitudes and preferences of the electorate? Importantly, was household capitalization successful in facilitating welfare state retrenchment?

Prior to answering each of these questions, I first must establish where the literature stands based on existing insights from the field of political behavior. I bring together two related but distinct literatures within this subfield both of which focus on the relationship between voters’ preferences and the welfare state. The first is the literature on political behavior in the context of private alternatives to the welfare state. The second is the literature on the electoral and attitudinal consequences of welfare state retrenchment.

Preferences in the Context of Private Welfare Alternatives

Since the literature on financialized alternatives to the welfare state is relatively limited and the literature on financial alternatives is rooted in earlier literature looking at private forms of welfare (i.e., asset-backed welfare), I begin with the literature on voter
preferences in response to private welfare alternatives. In an early study on political behavior and public versus private provision, Taylor-Gooby (1982) argues that there is considerable ambiguity in public opinion about welfare provision. He finds that two seemingly contradictory things are true: public provision for universal goods have high levels of support and individuals view private alternatives to the welfare state as something that are desirable and should be accessible. The ambiguity in opinions result from the notion of deservingness, with those programs that support less deserving constituents having less support.

The literature finds that irrespective of notions of deservingness, specific policies have less public support where private alternatives exist. Zhu and Lipsmeyer (2015) find that a mix of micro-level factors such as level of unemployment risk and institutional-level factors such as privatization contribute to the social policy preferences of individuals in the realm of healthcare. The authors find that individuals at a high risk of unemployment in privatized environments are less likely to support increased government spending on healthcare. In contrast, those same high-risk individuals are slightly more likely to support increased government spending (on healthcare) in less privatized contexts. The mechanism that they cite is the additional cost. In privatized environments, those who have a high risk of unemployment do not benefit from the additional social spending on healthcare as their healthcare is likely provided through their employer and feel that they are paying for other people’s care while in their own precarious position. In contrast, those who are worried about unemployment in public contexts view greater spending on healthcare as beneficial as it will reduce their individual costs especially if they were to become unemployed as the burden is shared.
among all income and risk levels. The implication for the literature is that a movement
toward greater privatization and increasing levels of risk are likely to contribute to
decreasing support for publicly provided programs.

With regard to education, Busemeyer and Iversen (2014) argue that the
availability of private alternatives largely shapes the politics of welfare support. They
draw on Iversen and Soskice’s (2006) theory of coalitions in order to argue that
proportional representation systems forge a coalition between the middle class and lower
class in support of the welfare state, leading to the crowding out of private options and
increasing funding for the public provision of goods. In contrast, majoritarian systems
lead to a coalition between the middle class and higher class, which results in the
development of private options that reduce the cost of and the level of support for the
public provision of education. In closing, the authors note that opting out “either by
purchasing private alternatives or by gaining exclusive access to superior public services,
is likely to increasingly shape the politics of many policy areas” (Busemeyer and Iversen
2014, 28).

In a more recently published article, they expand on this sentiment. The
theoretical starting point is that there are two worlds: a world before private alternatives
(BPA) and a world after private alternatives (APA). In the BPA world, there is middle
class buy-in to the public provision of social insurance and goods. In the APA world,
divisions between the upper and middle classes emerge undermining the cross-class
alliances that gave way to robust welfare states. In the latter world, only minimal poverty-
relief remains. The results of their empirical tests suggest that higher income groups tend
to be more supportive of social spending for low-income groups rather than universal
benefits. In addition, in their cross-country analysis, the findings illustrate that contexts resembling the BPA world are not characterized by differences in preferences for unemployment insurance across income groups, while states resembling the APA world have income groups with divergent preferences (Busemeyer and Iversen 2019).

These results present somewhat conflicting views. The earlier study by Taylor-Gooby (1982) indicates that private alternatives can make those programs that provide for the “less deserving” lose support. However, the more recent findings by Busemeyer and Iverson (2019) suggest that universal programs are the first to lose support in a context of privatized alternatives, leaving only minimal poverty support remaining.

While not a private alternative to any specific policy, per se, housing has long been identified in the literature as a form of quasi-insurance. The literature on the relationship between housing and the welfare state began in the late twentieth century with the observation that less generous societies tended to have higher levels of homeownership. The literature evolved to discuss the apparent trade-off between homeownership and welfare state provision (Conley and Gifford 2006), which eventually gave way to questions by political behavior scholars about the effect of homeownership’s potential social insurance function on individuals’ attitudes, ideology, and voting. Ansell (2014) finds that rising housing prices contribute to a decrease in support for redistribution and to the election of right-wing governments, as housing wealth functions as a quasi-social insurance. This form of “self-insurance” reduces the demand for publicly provided insurance, especially since the public provision requires tax payments which increase the cost of homeownership. André and Dewilde (2016) concur with Ansell’s (2014) findings but argue that this relationship is conditional. The authors argue
that homeownership is associated with less support for redistribution, but that this decline in support is specific to highly financialized contexts. In contrast, both tenants and owners are supportive of redistribution in non-financialized contexts (André and Dewilde 2016). Homeowners in financialized contexts are distinct from those in non-financialized contexts as housing acts as a hedge against uncertainty since it can be used as collateral for additional credit in financialized environments. Thus, they state that homeownership in financialized contexts, “has become an investment product, as well as an indicator of individual achievement (Beer et al. 2011)” (11).

A recent challenge to the existing housing literature suggests that expanded homeownership is not necessarily a winning strategy for right parties. Hadziabdic and Kohl (2021) argue against much of the existing literature which, up to this point, has asserted that homeownership leads to a movement to the right ideologically and to voting for more conservative parties. The authors argue, contrary to the existing literature on homeownership, homeownership is a gradual process of anticipation leading up to the purchase of a house, and the reaction to becoming an owner moves individuals toward the Social Democratic Parties rather than toward conservative parties. The reason for this is the “embourgeoisement” of the left. This has occurred as traditional left, working-class constituencies have shrunk as more educated, higher income constituencies tending to favor socially left policies with more conservative economic interests have grown. This suggests that Social Democratic Parties could in fact expand liberalization, while maintaining competitiveness electorally. Thus, there is evidence that ideological change may occur without necessarily shifting political allegiances.
Given the findings that financialization is a decisive factor in whether homeownership leads to more conservative economic attitudes, it is logical that the political behavior literature progressed to explore the role of credit availability in shaping welfare state attitudes. Wiedemann (2021) finds that those with high levels of unsecured debt for consumption smoothing tend to become more supportive of the welfare state, while those who access credit markets with the expectation of a return on investment tend to be less supportive of redistribution. In recently published work looking across US states, Wiedemann (2022) also finds that indebtedness tends to increase support for the welfare state in less generous environments. Both of Wiedemann’s (2021, 2022) findings are explained by relative risk levels. While unsecured debt increases feelings of insecurity, a negative risk, debt taken out for investment purposes is viewed as a positive risk, which is associated with decreased support for the welfare state (Wiedemann 2021). Accordingly, in a comparison of individuals with high levels of unsecured debt across high and low generosity environments, those in low generosity environments were more likely to express a preference for greater redistribution (Wiedemann 2022).

Finally, a developing literature theorizes about the consequences of engagement with not only housing and credit markets, but also direct engagement with the stock market. Together these findings help us develop expectations about the implications of household capitalization as a regime. Margalit and Shayo (2020) investigate the effect of stock market engagement on attitudes toward markets and ideological leanings and suggest some implications of these attitudes on welfare state preferences. They find that investment experience leads to a shift to the right on socioeconomic values and a more positive view of moves toward pension privatization. These shifts in ideology and
preferences occur through exposure to markets, meaning that greater familiarity with markets leads to a higher degree of trust in financial institutions. The authors argue this is important as previous literature has shown trust in financial institutions to be negatively related to preferences for redistribution.

The behavioral literature on private welfare state alternatives demonstrates a tension between market engagement and support for the welfare state. I now turn to the literature on electoral behavior as a response to retrenchment, so that I might bring these literatures together to develop expectations regarding how integrating household finances and financial markets might moderate the relationship between retrenchment and voter backlash.

*Electoral Backlash in a Context of Retrenchment*

The final decades of the twentieth century marked a change in welfare state policymaking. Whereas the post-war period saw welfare state expansion, these final decades witnessed efforts to reduce the size and the generosity of the welfare state in many contexts. This turn toward more conservative fiscal policy was hypothesized to be overwhelmingly unpopular. The idea that retrenchment would be a losing strategy for parties was championed most fervently by Pierson in his “New Politics” approach (Pierson 1996). In the new politics perspective, retrenchment is a distinct process from welfare state expansion, which makes it more costly politically. This is due to two main reasons. First, there is a difference between expanding and retracting the welfare state. When you retrench programs, the losses are immediate and acute while the benefits are less concentrated and spread over the longer term. This dynamic contributes to the negativity bias inherent to humans, a trait which causes individuals to feel losses to a
greater degree than gains. Secondly, when a robust welfare state exists, interest groups with strong attachments to programs become embedded in the political landscape. The fact that these groups fear losses to their benefits creates active and organized political constituencies.

Pierson’s (1996) new politics perspective has implications for the political behavior literature. Namely, it implies that retrenchment will almost always be unpopular and will cause electoral losses for parties if they were to engage in reforms. The decision for many parties to engage in welfare reforms led to the development of the political behavior literature testing, and often challenging, the assumptions of Pierson’s theory. The literature begins with a relatively simple question: does welfare state retrenchment cause backlash? Early findings argue that social policy does not merit any type of special backlash, but rather low performance ratings in the area of social policy leads to lesser chances of voting for the incumbent government as is the case in several policy areas (Giger 2010). In addition, social policy only mattered to voters in less than half the contexts, a finding that presents a clear break with the new politics assumptions (Giger 2010).

Subsequent literature finds that that retrenchment is unpopular only among groups for whom welfare is salient and in relation to more universal policies, specifically pensions and healthcare (Giger 2012). Similarly, Giger and Nelson (2013) find that voters do not necessarily punish parties for engaging in retrenchment, especially if economic concerns are of high priority. These authors argue that backlash will vary by group because voters hold ambiguous positions on the welfare state. Respondents may view redistribution as positive, but also see the welfare state as damaging to the economy. This
group is called conditional believers. Those who view redistribution as positive and do not see the welfare state as a burden on the economy are unconditional believers. This is the group that the authors hypothesize and find are most likely to punish parties for engaging in retrenchment. Overall, they conclude that retrenchment is only something that is punished by a minority of voters.

The literature finds that personal views of the welfare state are not the only inputs that contribute to political behavior in the context of retrenchment. Another critical variable is the type of communication and campaign strategies that parties employ. This conditional approach is one that quickly gained steam in the literature. Armingeon and Giger (2008) find that retrenchment only leads to vote loss if it is a major campaign issue for all parties and if the parties are in office for a short period (which they use as a measure for slow implementation). Therefore, if welfare is a non-issue and parties are in office for a long period allowing them, theoretically, to slowly implement welfare reforms, then there should not be punishment.

Even if retrenchment is not on the agenda, Elmelund-Præstekær et al. (2015) find that communicating retrenchment is important to moderating any potential backlash. They find that “governments are (only) punished for welfare state retrenchment if they obfuscate, and the severity of the punishment depends on the opposition’s decision to attack or not to attack the government” (443). Similarly, Wenzelburger (2014) finds that blame avoidance strategies are in the forefront of politicians’ minds when it comes to retrenchment efforts. He also finds that these strategies, in fact, are effective in reducing negative backlash.
The literature also distinguishes the effects of retrenchment across different political parties. Schumacher et al. (2013) clarify exactly which parties are punished for welfare state retrenchment and to which parties voters turn when punishing the retrenching parties. The authors argue that voters do punish parties for engaging in retrenchment; however, they only punish parties that have a positive welfare image (i.e., parties that were associated with continual expansion during the post-war boom). In addition, they find that voters turn to pro-welfare parties that are in the opposition when punishing governing parties that engage in retrenchment. Since individuals are loss averse, they turn to whoever will stop additional loss. Pro-welfare parties often are not thought of as competent in other areas so they don’t benefit as much from, for example, improving economic conditions. At the same time, they give up issue ownership which effectively leads them to seem as though they provide little value to voters. Giger and Nelson (2011) find that not only do right parties not suffer electoral losses for welfare retrenchment, but religious parties and market-liberal parties are able to credit claim and actually gain votes.

Turning back to left parties, Horn (2021) questions whether retrenchment really is a “losing game.” He argues that the costs for left parties are more enduring because of the “brand dilution” and because (going back to Giger and Nelson 2013) there is a greater share of “unconditional supporters” in left parties relative to right or religious parties, which tend to have “cross-pressured voters.” They theorize that left voters do not come around and support left parties after retrenchment even if the economy improves because these unconditional voters didn’t see the welfare state as a problem for the economy in the first place. In contrast, right voters or conditional voters fall under the “economic
compensation” argument in which they see the connection between reducing the welfare state and the improvement in the economy in the long term. He states, “Right parties recover at election t2 and t3, whereas left losses grow and consolidate” (Horn, 2021, p. 1506).

Finally, Ahrens and Bandau (2022) seriously depart from the literature with their most recent findings. The authors call into question the degree to which changes in welfare policy really affect party popularity and electoral share. Many voters use partisanship as a cognitive short-cut when voting rather than focusing on specific policy areas and, citing Slothuus and Bisgaard (2021), therefore voters will actually update their preferences to match their party. They hypothesize that retrenchment by left parties, under low fiscal pressure and near elections, with use of visible policy changes and with high clarity of responsibility will lead to the greatest backlash. They do find that high clarity of responsibility and visible policy cuts do have electoral consequences, but they counter this with pension retrenchment having a positive coefficient under several specifications. Overall, they conclude that retrenchment does not necessarily result in improved or worsened electoral fortunes.

The literature on the electoral consequences of retrenchment efforts has presented varied and, at times, contradictory findings. Despite this, a few key findings do emerge. First, electoral consequences to retrenchment will be most likely to occur if left parties implement these reforms and if there are cuts to universal policies such as pensions. Communication of retrenchment is a beneficial strategy, especially if the opposition decides not to launch a counterattack. Finally, the more concerned with economic conditions, the less likely voters are to demonstrate electoral backlash.
Many of these articles demonstrate that whether or not backlash occurs to retrenchment efforts is dependent upon a number of conditional factors. I add to these factors by introducing the moderating effect of household capitalization in light of retrenchment. I hypothesize that engaging in a policy of household capitalization, while clearly communicating the need for reforms, can ease or even negate the backlash faced by Social Democratic Parties. I argue that a policy of household capitalization moderates backlash for two reasons. First, it offers an alternative to welfare programs and a compensation of sorts. Second, as discussed in the behavioral literature on market alternatives, it can reduce overall support for the welfare state.

Household capitalization presents a welfare alternative that reorients individuals away from the state. In addition, it provides an immediate, tangible alternative to the welfare state that has potential for bigger returns for the future. The expansion of credit to secure mortgages provides households and individuals with access to a high-value asset in the immediate term and that comes with the anticipation of significant returns and security in the longer term. Similarly, the deepening of equity markets along with the turn from fixed to equity investments offers the promise of relatively higher year over year growth in pension assets. Finally, the expansion of consumer credit moderates the demand for wage and benefit growth as it offers immediate liquidity. In sum, household capitalization addresses a main point of the new politics literature, which is that the benefits of welfare cuts tend to be dispersed and long term. Expanding credit and investment opportunities, especially in periods of high growth during market expansion, creates immediate and concentrated benefits, even if those benefits are not yet realized
but are clearly communicated (e.g., accumulated housing equity and accelerated growth in pensions).

Household capitalization not only presents a special form of compensation that relies to a much lesser extent on state outlays, it also serves to reorient households away from state provision while linking their financial wellbeing to market performance. This fact brings us back to the literature on market alternatives and political behavior. Private alternatives may or may not change welfare state preferences; however, the literature has demonstrated that specifically financialized alternatives may. A central aspect of household capitalization in practice is housing and pension wealth accumulation achieved through financial channels. The literature has suggested that homeownership, specifically in financialized contexts, causes a change in preferences for less redistribution while engagement with the stock market increases trust in markets which is associated with a decline in one’s preference for redistribution. Finally, the expansion of consumer credit which may be used to finance education, secure transportation, or fill budgetary gaps is also associated with less support for redistribution in high generosity contexts. Therefore, household capitalization not only presents a type of immediate compensation for retrenchment, but also serves as a vehicle through which attitudes and preferences can be changed. This change is in the direction of lesser support for state intervention according to the literature.

Through these highly interconnected processes, I expect that household capitalization has the potential to alter the dynamics of welfare retrenchment undertaken by left parties. I expect that by pursuing a policy of and communicating the benefits of this integration of household finances and financial markets, left parties can moderate or
even negate the backlash to welfare state retrenchment. Simultaneously, left parties can
generate a reorientation of their base toward market provision and away from public
provision through the attitude changes that result from financialized housing, household
budgets, and even pensions. Thus, rather than left parties undergoing
“embourgeoisement” to cater to the desires of their higher income and highly educated
base, left parties can actually serve as the catalyst of the “embourgeoisement” process
affecting first their agenda and eventually their base. In other words, they can
indoctrinate households into markets through the integration of welfare provision and
financial markets, a process described by Belfrage (2017) as subversive neoliberalism.

My argument contributes to the literature by testing whether the use of a specific
type of welfare privatization — household capitalization — serves to re-orient voters to
markets and decrease support for the welfare state. The political behavior literature has
not yet explored the potential of turning to financial markets as an electoral strategy of
compensation and blame avoidance. In addition, while the literature on policy
preferences has suggested that different elements of this regime (e.g., financialized
housing and use of credit) reduce support for redistribution, few have looked at the
impact of household capitalization as a regime across specific policy areas. Finally, I
spell out the consequences of household capitalization on the generosity of relevant
welfare state policies. Even if the literature is correct that private alternatives and
financialized alternatives to welfare state programs reduce support for redistribution, they
have offered little insight about whether this shift in preferences leads to less generosity
in the provision of these programs.
In Figure 2.1, I present the model of political behavior under the condition of austerity without appeasement. I expect a reaction in line with the existing literature. Thus, if a left party makes visible policy changes, especially to universal policies, there will be significant backlash. In this environment, Social Democrats’ only strategy is to communicate the welfare cuts. Even then, the literature suggests that long-term consequences may arise. Thus, the pattern looks like fiscal strain leading to welfare state cuts. Perhaps not in the immediate term if communicated correctly but in the long term, electoral backlash ousts the party from power. This backlash serves as a warning to politicians about the electoral risks of cutting benefits, leading to limited policy change in the future. As a result, structural issues driving fiscal pressures may not be adequately addressed leading to continued pressures to reform.

Looking from right to left, Figure 2.1 illustrates that in contexts where austerity is pursued without appeasement, policymakers’ only response to reform pressures is to engage in welfare state retrenchment. Retrenchment here is not accompanied by the expansion of financial options or the promises of future compensation in the form of wealth and easily accessible credit. Thus, voters feel these cuts acutely and know they require adjustments to their standards of living in the present and into the foreseeable future. As a result, voter backlash occurs as the retrenching parties are voted out of power. This serves as a warning to parties that retrenchment is politically risky leading to policy paralysis and, ultimately, continued pressures for reform.
Figure 2.1 Theory of Political Behavior under the Condition of Pure Austerity

I expect the implementation of household capitalization policies to alter the dynamics outlined in Figure 2.1. Figure 2.2 demonstrates exactly how I think these policies will alter behavior and the associated political outcomes as it contains my model of behavior under household capitalization. In light of fiscal pressures, I expect that retrenchment will be pursued. However, the political feasibility of meaningful programmatic reforms will be dependent, in part, on the ability of Social Democratic parties to communicate the benefits of market provision. By implementing a policy of household capitalization, parties can communicate immediate and long-term benefits of engaging with growing financial markets and begin the process of orienting their base toward markets. Both the anticipation of future benefits and the actualization of integration with financial markets serve to moderate the reaction to backlash and, eventually, reduce support for welfare state programs all together.
Figure 2.2 Theory of Political Behavior under Household Capitalization

**Household Capitalization**

Looking from left to right on Figure 2.2, where policymakers pursued household capitalization, they responded to reform pressures by both expanding financial market access and eventually engaging in welfare state retrenchment. I argue that both retrenchment and financial market expansion resulted from the pressures to improve economic conditions. By expanding financial markets, policymakers reduced support for state provision and improved the favorability of markets in two ways. First, they set off a process of integrating households’ wellbeing with financial market development. As more households became homeowners; as retirement assets grew thanks to booming markets; and as households came to rely on credit for consumption and investments, they find that they have alternatives to public provision and their self-interests become increasingly tied to growing financial markets and less state involvement. Second, by expanding financial access and championing the benefits of a regime of household capitalization, policymakers sold a dream (i.e., promises of wealth accumulation, better
pension returns, and a stronger economy) which entailed the rolling back of the state and the bolstering of markets. This had an immediate effect of reorienting voters toward markets and away from the state. These two processes both serve to moderate the backlash to retrenchment.

This brings us to our final step in the model. The moderated backlash that results from the effects of financial market expansion means that voters do not punish policymakers electorally for engaging in welfare state retrenchment. A nonrestrictive policy environment results, opening space for more flexible policy decisions. In particular, the permissive policymaking environment facilitates further welfare state cuts. Simultaneously, feedback effects occur as deepening investments in markets contributes to further changes in preferences, potentially turning even “unconditional believers” into “conditional believers.” Thus, left parties can both engage in retrenchment without fearing severe electoral backlash and contribute to the “embourgeoisement” of their base.

Unlike in the original politics of left parties, under the politics of household capitalization, voters do in fact reward left parties for improved economic conditions as their constituency’s integration in markets creates more favorable attitudes toward markets and aligns their self-interest with the performance of housing, equity, and credit markets. The transformation of the interests of left voters contributes to a deepening reliance on markets, reduced support for the welfare state, and a generally permissive policymaking environment that facilitates the chipping away of the welfare state. The theoretical model for capitalized contexts builds on and empirically tests the implications of Ansell’s (2019) anti-redistribution cycle, developed from the housing literature.
Generally speaking, I expect there to be a cycle in which ever-deepening household capitalization continually shapes preferences so that a context has a particularly pro-market orientation. This orientation facilitates continued welfare retrenchment as the electoral consequences of retrenchment are moderated by declining reliance on and support for public provision. This moderated backlash signals that an open policy environment exists allowing for further welfare retrenchment.

From these models of behavior, I distil a number of hypotheses which I will test throughout the final three chapters of the dissertation. I test these hypotheses using the cases of the Netherlands and Germany, which are two relative generous contexts that both engaged in welfare state retrenchment under Social Democratic leadership. The difference, however, is that the Dutch Social Democrats played a critical role in integrating household finances with markets while, in Germany, no such compensation or alternative vision was offered beyond austerity. In chapter 5, I test the idea that presenting household capitalization as an alternative can serve as a vehicle for preference change and reduce electoral backlash to retrenchment. My specific hypotheses are:

*Hypothesis 1*: Voters in contexts implementing household capitalization policies will be more likely to move to the right politically than in contexts that have not implemented household capitalization policies.
Hypothesis 2: Social democratic voters will be more likely to shift to the right in capitalized contexts relative to other voters in capitalized contexts and relative to Social Democratic voters in non-capitalized contexts during periods of retrenchment.

Hypothesis 3: Social Democratic Parties will face less electoral backlash against retrenchment if household capitalization is pursued alongside retrenchment.

In Chapter 6, I then test whether household capitalization contributes to more individualistic views, greater support for markets, and less support for overall redistribution and welfare state policies. Using an original survey I test the following hypotheses:

Hypothesis 4: Greater engagement with financial markets will increase the favorability one feels toward pro-homeownership policies, stock-market deregulation, and credit expansion.

Hypothesis 5: Greater engagement with financial markets will be associated with a more individualistic ideology.

Hypothesis 6: Greater engagement with financial markets will lead to less support for welfare state programs, with the greatest reduction in support in those policy areas with capitalized alternatives (e.g., pensions).

Finally, in Chapter 7, I test if welfare state supporters’ worst fears are confirmed. Specifically, I test if there is a relationship between the level of capitalization and retrenchment of the welfare state. In Chapter 7, I test the following hypotheses using time-series cross-sectional data at the country level:

Hypothesis 7: In a comparison of countries, those with greater reliance on equity markets for pension funding will be more likely to reduce public pension generosity.

Hypotheses 8: In a comparison of countries, those with capitalized housing regimes will be more likely to reduce the amount of public provision for unemployment, pensions, and housing.
Conclusion

In this chapter, I presented my two-part theory in which I develop expectations that provide insight into the development of household capitalization as a policy regime in advanced countries and the consequences of household capitalization on voters’ behavior and the generosity of the welfare state. I test the model presented in Table 2.1 in Chapters 3 and 4 of this dissertation which consist of a comparative case study of the Netherlands and Germany. I then turn to the latter implications of my theory in the final three chapters. In each, I test a set of hypotheses derived from my model of political behavior under household capitalization versus austerity without appeasement using existing macroeconomic data and large survey data as well as an original survey launched in the Netherlands and Germany.
Chapter 3: Dutch Trajectory of Household Capitalization

In this chapter, I outline the development of the Netherlands into a highly financialized economy. Specifically, I demonstrate how early developments in the structure of the welfare state paved the way for policymakers to implement a regime of household capitalization. The story of household capitalization begins with the structure of Dutch pensions, which took the form of a multi-tiered system. The turn of the second tier of the pension system to equity markets facilitated the strengthening of financial interests and incentivized financial market innovation. With occupational pensions creating an institutional precedent for the use of financial market as a tool of social provision, policymakers were quick to tap into financial markets as economic conditions deteriorated.

Policymakers’ openness to financial market development as a tool for managing households expectations came together with the ambition of financial institutions and policymakers to increase the competitiveness of Dutch financial institutions in the context of globalization. Recognizing the opportunities created by developed financial markets and the growing pool of pension fund capital seeking new investment channels, policymakers made homeownership a central policy goal. This served to reduce reliance on state provision of housing, create debt that could be used to make domestic financial markets more competitive, and integrate households into credit markets. In addition, policymakers saw the growth of financial markets as a solution to demographic challenges that would require adjustments to pension funding. By basing benefits on market performance, the government may be able to prevent cuts in the best-case scenario or distance themselves from unpopular decisions in the worst-case scenario. The
result is a household capitalization regime characterized by high levels of households’ reliance on debt for securing housing, transportation, and education; on equity markets for securing retirement income; and on liquid credit markets for smoothing consumption.

The chapter is structured around the key institutions and actors discussed in the previous theory chapter. I begin by briefly introducing the political and structural context in which welfare reforms were enacted. I then detail the way in which the Dutch emphasis on occupational pension funds were able to structure the preferences and relative power of agents as well as create an economic environment conducive to a regime of household capitalization. Finally, I illustrate that household capitalization resulted from the Dutch Social Democrats’ desire to individualize risk which began with housing and moved to further reliance on privatized pension provision in combination with widespread interest in innovating and expanding already relatively developed financial markets. As a result, the new agenda that was implemented in the Netherlands during this time mirrors the developments that occurred in liberal market economies a decade earlier, leading the Netherlands down a trajectory of household capitalization and away from the status quo policies that characterized the previous decades.

The Dutch Context in the Late-Twentieth Century

The Dutch economy experienced a post-war boom similar to other Western European economies. During this boom, the Dutch welfare state developed into a highly generous state, with a particular emphasis on workers’ rights and workers’ social benefits. However, the post-war boom eventually cooled off by the late 1970s. The Dutch economy experienced slowed growth along with increasing competition from abroad. There was growing consensus that the highly generous welfare state, forged during a
period of unprecedented growth, was putting a strain on the Dutch economy. The deficit was 3.8% in 1970 and 7.2% in 1980. The share of taxes and social charges as a percent of GDP was 47.3% in 1970 and 57.2% in 1980. Unemployment in 1983 was 9.7% (Visser and Hemerijck 1997). The inflation rate was well above 6% for most of the 1970s and reached a peak of over 10% in 1975, while growth was rapidly slowing (OECD 2021, World Bank 2022a). Thus, from end of the 1970s through the 1980s, the Dutch economy was characterized by “a vicious cycle of high wages and protection for insiders and increasing unemployment for outsiders” (Rueda 2007, 129). Much of this was driven by the generous unemployment and disability insurance that resulted in a significant number of working aged individuals relying on benefits (Visser and Hemerijck 1997).

Social Democratic parties historically have aligned themselves with a pro-welfare state, pro-labor orientation. However, after being out of power for most of the 1980s, the Dutch Social Democrats, the Partij va de Arbeid (PvdA), no longer could ignore the negative perception of the welfare state and of organized labor on the performance of the Dutch economy. I argue that after being out of government for the majority of the 1980s and recognizing the discontent around the dismal economic conditions, the Social Democratic Party in the Netherlands distanced itself from the interests of organized labor in order to promote a new agenda. Once given the opportunity to join the governing coalition, the PvdA was able to show its commitment to a new agenda characterized by reducing the burden of provision of social goods and social insurance on the state. In addition, they were a critical part of turning social provision over to financial markets, thus helping to achieve two simultaneous goals: reduced public spending and greater financial competitiveness.
Throughout the 1970s and 1980s the persistently high wages and high unemployment created tension among the social partners and Social Democrats. Originally, the high wages for workers covered by collective bargaining agreements and the resulting high levels of unemployment were addressed by encouraging wage moderation and incorporating outsiders into the labor market during the 1980s (Visser and Hemerijck 1997). However, as the decade went on, economic problems persisted as the social partners increasingly relied on the social insurance programs (i.e., unemployment and disability) as a way to facilitate market clearing. Individuals who could no longer be as productive as they previously were and those who could not find jobs at the same wage level were eligible for disability. By 1985, the number of individuals who were employed per social benefit recipient (e.g., unemployed, retired, disabled) was 2.9 to 1, a large increase from the ratio in 1970 of 14.8 to 1 (Visser and Hemerijck 1997). This was incredibly problematic as the sickness pay was the responsibility of the employers for only the first year, after which it became a burden on the state (Visser and Hemerijck 1997).

While many of the reforms that occurred during the 1980s did seek to reduce benefits, they were led by a center-right coalition which dominated the political landscape throughout the period (“Center-Left Coalition Is Set for Netherlands” 1989). In 1989, Queen Beatrix requested that a center-left cabinet be formed under the leadership of Rudd Lubbers (“Center-Left Coalition Is Set for Netherlands” 1989). Under this center-left coalition, the PvdA’s significant shift away from labor became clear. From the beginning of the center-left government, moderating labor’s wage demands was the primary goal (Rueda 2007). This emphasis evolved to become a focus on the reduction of
social insurance benefit levels as these were viewed as a deadweight on the economy. The generous social insurance institutions incentivized drawing on benefits rather than finding work in the case of unemployment or disability. As the ratio of workers to dependents continued to decline, funding these institutions became increasingly burdensome on the shrinking workforce.

Both the Dutch Christian Democratic Party (CDA) and the PvdA agreed that the Dutch social insurance institutions required reform. In 1993, a committee chaired by Flip Buurmeijer, a member of the PvdA, was created in order to study the use of disability and social insurance over the previous decade (Visser and Hemerijck 1997). The result of this committee inquiry was the Buurmeijer Report. The report found that there had been a heavy reliance on social insurance policies, bordering on misuse (Visser and Hemerijck 1997). The main takeaway of the report is summarized by Eleveld and van Vilet (2013) as follows:

This report revealed how the corporatist organization of unemployment and disability schemes had encouraged welfare dependency, instead of reintegrating unemployed and disabled workers into paid employment. The report advocated the transfer of responsibilities of trade unions and employers organizations to the state. (pg. 5)

In other words, Visser and Hemerijck (2013) argue this report created space for corporatist “disengagement,” which they describe as marginalizing the interests of the social partners in order to create a freer policymaking environment. At the end of the day, the misuse of the generous system of social insurance, decades of struggle over wage moderation, and declines in union strength led the PvdA to reduce benefit levels against the preferences of labor, despite their historical partnership.
The transformation of the PvdA during this period was part of a broader, related shift in their perspective on the desirability of market distribution over state intervention not just to determine the distribution of wages and income but to manage social risks. The notion of a “risk shift” from collective institutions to individual households has been documented by Hacker (2006) in the context of the United States. Eleveld and van Vliet’s (2013) summarize how the Buurmeijer Report mirrors this logic: “the report argued for the introduction of market processes in the social security system and an increased emphasis on incentives and disincentives instead of rights and obligations” (5).

Figure 3.1 The Ideological Evolution of the PvdA during the Late Twentieth Century

As the PvdA took a leadership role in criticizing the social partners and calling for welfare retrenchment, the party simultaneously championed financializing reforms that would serve to mold households’ financial decisions around their access to financial
markets. Welfare state changes took the form of reductions in unemployment benefits, a reorganization of disability and sickness insurance, privatization of social housing and the encouragement of homeownership, and deepened reliance on capitalized old-age benefits. Simultaneously, steps were taken to liberalize financial markets in order to facilitate these reforms which could off-set benefit cuts and make the cuts more palatable. Examples of such steps included the loosening of restrictions on housing lending, the deregulation of securities markets to facilitate the packaging of housing liabilities into potentially profitable securities, and the loosening of bankruptcy procedures in light of the expanded role consumer credit over individuals’ lifecycles.

The simultaneous welfare retrenchment and liberalization of households’ access to and reliance on financial markets developed into the household capitalization trajectory witnessed in the Netherlands. As I outline in the theory chapter and discuss in the subsequent chapter, this option was not available to all policymakers. Rather, the ability to engage with financial markets as a tool of provision was conditional on the structure of pensions. In the following section, I review the structure of Dutch pensions and highlight how it served the development of household capitalization.

The PvdA was not alone in the desire for an increased role for financial markets. Policymakers from Sweden to Germany have championed the greater use of financial markets in social provision with mixed success. The question that looms, then, is why was the Netherlands successful in this turn to financial markets? I argue the key to this story is the structure of occupational pensions and investment decisions that were made along the way which served to align the interests of labor and regulators alike. In this story, a critical role was played by Wim Kok, a labor leader with a keen interest in
financial markets (Kendall 1978). Kok served as a labor leader before joining and then leading the PvdA, eventually serving as the Minister of Finance under the third Lubbers administration (1989 – 1994) and then as Prime Minister (1994 – 2002).

**Pensions Structure in the Netherlands and Financial Market Development**

In this section, I detail the structure of the Dutch pension system with a particular focus on the emphasis on the second tier, the occupational tier. Due to specific regulations in the Netherlands, this tier took the form of a pool of savings held outside of the control of one’s company. These factors are critical in explaining how Dutch pension structures facilitated financial market development and created conditions favorable to a regime of household capitalization.

The pension system in the Netherlands is based on a three tiered or a three pillared system (Haverland 2001). This means that retirees rely on retirement income from three different sources: the state, their occupational fund, and their private savings. The first pillar in the Netherlands is what is known as a flat-rate public pension (Haverland 2001). It is called flat-rate as workers who fulfil the work requirements all receive the same benefit; it is not earnings dependent (i.e., workers who earn more money receive higher benefits). This pillar usually is financed through a pay-as-you-go system, which means that taxes pay for pension benefits (Barr 2001). The second pension tier is the occupational tier, which typically relies on employee and employer contributions to company or sector specific pension funds. The third pension tier is the voluntary pillar, which relies on individual savings and investment behavior.

The second pension pillar, the occupational pillar, is critical to the development of household capitalization in the Netherlands. The existence and regulatory framework
relating to this pillar is key to understanding why conditions were favorable to growing financial markets in the Dutch context. The literature has established that occupational tiers arose in contexts with public pension institutions that were “flat-rate” to compensate for the often-inadequate benefit levels for higher earners (Anderson 2019; Haverland 2001). The occupational pillar is typically designed as an earnings-related scheme. In the Netherlands, this pillar is organized at the sectoral level, and there are statutory (i.e., legal) requirements for companies to participate. As a result, over 90% of workers are covered by occupational pension schemes (van der Zwan 2017). A feature of the Dutch pension system key to the development of Dutch financial markets is the regulation of pension fund management. Dutch policymakers passed regulation in the 1950s mandating that pension funds be held “externally,” meaning that they should be held outside of the employer’s control (Haverland 2001; Anderson 2019). This law developed in response to the bankruptcy of a major company resulting in the loss of pension savings for all employees (Anderson 2019).

Since pension funds had to be externally held, they existed as independent funds with co-management of investment decisions by employers and employees (Haverland 2001; Anderson 2019). In effect, pension funds introduced large pools of capital into the Dutch economy seeking investment opportunities. Originally, some of the capital was invested in insurance companies and some was invested in fixed assets such as government bonds, mortgages, and loans (Anderson 2019; van der Zwan 2017). These were relatively safe investments and also reflected the lack of financial development in the Netherlands.
Implications for Dutch Financial Markets

There were no regulations on the type of investments in which funds could invest. While the law stipulated vague guidelines such as investing in a ‘solid manner’ (van der Zwan 2017 571), it did not bar explicitly investments in risker financial products.

Figure 3.2 The Growth of Dutch Financial Markets Since 1980

Therefore, when they witnessed the rapid growth of equity markets in the US and UK during the 1980s, fund managers considered the benefits of changing investment strategies from safer investments to equities. Anderson (2019) states that union representatives were originally hesitant toward the investing in equities but came to support investing in the stock market due to the potential for higher returns.

The decision to invest in equity markets was key to the development of Dutch financial markets. In Figure 3.2, one can trace the development of stock market capitalization to levels that rivalled U.S. stock market capitalization (US stock market capitalization was roughly 150% of GDP in 1999) (World Bank 2022b). During the same period, pension fund assets increased from 70% of GDP in 1991 to 120% of GDP in
1999, at the top of the stock market boom” (van Ewisk 2005, 333). Van Ewisk (2005) attributes much of this growth in pension fund assets to the greater investments in equity markets. In Figure 3.3, he demonstrates the growth in the proportion of pension fund assets that were invested in equity markets. In the early 1990s, only around 10% of Dutch pension fund assets were invested in equities, by 2000 the percent of pension fund assets invested in equity markets was over 40%.

Figure 3.3 van Ewisk’s (2005) Illustration of the Growing Importance of Equities for Pensions

There are two major consequences of this change in pension fund investment vehicles. First, the influx of pension fund assets into equity markets contributed to the overall development of financial markets and institutions. We see this by looking at the deepening of capital markets, evidenced by the growth in stock market capitalization (see Figure 3.1). In addition, we see the growing strength of financial institutions that occurred during the same period.
Figure 3.4 The Strengthening of Dutch Institutional Investors as Indicated by AUM

Figure 3.4 illustrates the strengthening of the economic position of investment institutions over the course of the 1990s. Assets under management (AUM) by investment institutions more than quadrupled throughout the decade from roughly Euro 30 billion AUM to over Euro 120 billion AUM. This growth served to center the importance of the financial sector to the Dutch economy, but also led to the championing of investment-oriented financial institutions’ interests by central authorities.

Implications for Labor

In my model, I assume that financial institutions typically will be in favor of looser regulations and will adapt their lending and financial market activities according to regulations. In addition, I argue that there will be limited impediments to these changes in contexts where labor will benefit from financial market growth. With a growing share of Dutch pension capital being in capital markets, labor has a material interest in the growth of the financial sector broadly and in the deepening of capital markets specifically.
Whether the growing interests of Dutch labor in capital markets was widespread among the rank and file or emanated from leadership alone, I cannot say. However, evidence exists that labor leadership pursued a strategy that was in line with the future strategy of the PvdA, which can crudely be described as facilitating labor’s wellbeing through participation in growing financial markets rather than through traditional channels such as wage growth. In 1978, New York Times columnist, Jonathan Kandell, wrote a brief piece about the young, unusual labor leader heading the Dutch Federation of National Trade Unions (Federatie Nederlandse Vakbeweging) (FNV), Wim Kok.

As the head of the FNV, Kok held a liberal stance toward cross-border capital movements, an unusual position for a labor leader during this time. He supported the decisions of a number of Dutch multinational companies to invest in the US because of the perceived opportunity for better returns (Kandell 1978). This support stemmed from the heavy investment of Dutch pension funds in these multinationals and, thus, rooted in labor’s material interests in higher returns (Kandell 1978). The idea that foreign investment and liberal capital flows were to be looked upon favorably due to the potential benefits for greater asset accumulation that ultimately served labor foreshadowed the regime that was to be implemented under Kok as the Minister of Finance and then as Prime Minister.

Wim Kok expressed other notable ideas while served as the head of the FNV. He suggested, that in exchange for wage restraint and the support for multinational companies’ foreign investments, companies should have to provide labor additional compensation from company profits (Kendall 1978). He envisioned that companies would pay this compensation in the form of shares, commonly known today as stock-
based compensation (Kendall 1978). Kok’s ideas during this time largely reflect the logic of financial markets that was adopted years later. At the time, this effort (rightly) drew backlash from the more radical wing of the labor movement some of whom felt that sacrificing wages for higher returns on investment and for company shares was an effort to trick ‘workers into accepting less pay’ (Kendall 1978). As the financialization literature argues, credit access performs a wage-substitution function as advanced economies saw wages stagnate (Rajan 2011; Tridico 2012; Soderberg 2014).

Management also worried that providing excess profits to labor through company shares would result in unions “gain[ing] control of their companies’ equity” (Kandell 1978). Today the literature on pension fund capitalism demonstrates that managements’ fears about union control over company decisions were unfounded (Braun 2022).

The vision of Kok as the head of the largest labor federation in the Netherlands demonstrates that even before the 1980s, which brought about the growth of capital markets and a turn to equities, labor leadership supported free-flowing capital and labor compensation through equities as long as it could be viewed as beneficial to labor.

Whether or not this was just an attempt to facilitate wage moderation or whether Kok and other leaders thought this liberal economic approach was beneficial, I cannot say. However, what is clear is that once labor’s financial interests did become aligned with financial sector growth due to their heavy investments in equities, there would be little reason for labor to stand in the way of further deepening financial markets.

As a result, the relationship between financial institutions on the one hand and policymakers and regulators on the other is characterized by a one-way informational track. This relationship demonstrates that policy during the 1980s and 1990s was driven
by a desire to make Dutch financial institutions and the Dutch economy more
internationally competitive, to develop a liquid mortgage market that would promote the
goals related to economic self-sufficiency, and to participate in the innovative new
investment strategies pioneered in US markets that could booster pension funds returns
while keeping investments in the domestic economy.

In the 1980s, regulators liberalized the Dutch financial sector. Hilbers (1998)
argues capital controls were relatively liberalized in the Netherlands, but during global
deregulation steps were taken to be fully liberalized. This involved removing restrictions
on capital movement and allowing for foreign entities to issue shares through Dutch
capital markets. Dutch regulators wanted for Dutch firms to not only participate in
financial globalization but also be competitive within the global economy which required
a liberalization of domestic markets (Hilbers 1998). Hilbers (1998) argues the decision to
deregulate finance across the board resulted from the notion that “liberalization would
result in better allocation of financial resources” (7). Given that these deregulatory moves
helped to open global markets to Dutch financial institutions and to improve the
competitiveness of Dutch institutions in international markets, these moves served labor’s
interests. While one might assume that these moves would be met with backlash from
labor, Kok’s position on securing optimal investment channels for pension funds suggests
that there was little resistance on the part of labor.

The mix of support for increased global competitiveness and for the development
of a financial sector conducive to pension fund growth led to further deepening of
financialization through the 1990s. After Basel I was implemented at the EU level, which
tightened rules related to capital requirements (“History of Basel Committee” 2014), the
Dutch Central Bank played a critical role in ensuring compliance on one hand but still expressed a strong interest in maintaining a structure that would allow Dutch banks to remain competitive in the international environment (Thiemann 2018). As a result, “in the mid-1990s, the DNB developed regulations for securitization transactions in close dialogue with Dutch banks on a case-specific basis” (Thiemann 2018, 183). These case-specific regulations culminated in the 1997 Memorandum on Securitization. Thus, in working toward uniform regulations for securities markets, the DNB relied heavily on the knowledge and opinions of banks and investment institutions. Banks, however, were not the only source of information about securities markets sought out by regulators. The DNB also communicated with financial regulatory authorities in countries with highly developed securities markets. In particular, the DNB was in conversation with the Federal Reserve in the United States and the Financial Service Authority in the United Kingdom (Thiemann 2018). This led to regulatory decisions relating to securitization that were so lenient that even Dutch Banks were shocked (Thiemann 2018).

Why would the DNB be so lenient to the extent that even bankers were surprised? Well Albers et al. (2011) and Thiemann (2018) both argue for some form of “cognitive capture.” Accord to Albers et al. (2011), because politicians were not strongly opinionated about securitization, they readily accepted the narrative provided by financial institutions which of course were interested in the expansion of banking activities this would allow. Thiemann (2018) demonstrates that regulators’ information was limited to that provided by banks. I, however, argue the open embrace, perhaps even encouragement, of greater securitization should be viewed in light of the broader goals
being championed by the Dutch government during the 1990s and originally suggested in Kok’s concern with pension fund returns as early as the 1970s. Thiemann (2018) states:

This specific position by the Dutch Banking regulator on ABCP conduits was in line with the very supportive stance toward securitization in general, as its capacity to enhance the credit supply enormously on the one hand to provide securities of high quality to pension funds and investors on the other hand was seen in a positive light (Interview, banking manager, December 6, 2011). (pg. 185-6)

An enhanced credit supply and an expanded selection of high quality, higher return investment vehicles were looked at favorably, I argue, because they were critical to achieving the primary social goal of the government at the time, which was to reduce households’ reliance on the state for provision. It is crucial these decisions are understood in the context of the broader changes in resource provision during this time. In the following section, I outline the active role policymakers play in enacting welfare state reforms that contribute to the perception by regulators that liberalized financial markets were necessary for attaining social goals traditionally pursued through the state.

Social Democrats’ Adoption of Household Capitalization

Thus far, I have demonstrated the way in which institutions, namely the structure of pensions, served to strengthen financial actors and financial markets and how ideas about the beneficial effects of financial markets on welfare provision contributed to the adoption of rather radical regulatory reforms. In addition, I have demonstrated that the PvdA’s commitment to maintaining the welfare state faltered during the period under study. In this section, I demonstrate how the convergence of these trends led to the development of a regime of household capitalization under PvdA leadership. In effect, I elucidate a central argument in this dissertation, which is that the Dutch government, and the PvdA specifically, went beyond the reduction in benefits over the next decade; they
encouraged households to access credit provided by financial deregulation in order to build up households’ assets as a social good and fostered greater reliance on financial markets for social provision. I demonstrate this by looking at two policy areas central to developing a regime of household capitalization: housing and pensions.

To begin, the pursuit of a household capitalization regime is illustrated by the politics of housing in the early 1990s. Housing was made a central issue of the new centrist grand-coalition government elected in 1989, which was led by Prime Minister Rudd Lubbers of the Christian Democratic party, Christen-Democratisch Appèl (CDA) and Minister of Finance Wim Kok of the PvdA. During this period explicitly, the centrist government with a center-left Minister of Finance encouraged homeownership through mortgage lending as a way to, first, reduce reliance on the state for homeownership provision and, second, integrate voters’ interests with asset growth, specifically asset growth through financial market participation.

This is apparent in the 1993 Housing Memorandum for the Nineties, which marked a clear ideological break with previous policies. During most of the late-twentieth century, housing in the Netherlands was understood to be a public good that the government should have a role in ensuring as it would produce a number of positives for society (Boelhouwer and Priemus 1990). Much of these subsidies were being spent on households that could afford to rent or buy homes at market prices. A measurable goal of the memorandum, thus, was to reduce the number of higher income households in social housing by 20,000 per year over the next decade (Boelhouwever and Priemus 1990). The memorandum shifted the notion from government should provide quality housing as a
social good to government should only be tasked with providing quality housing to those who otherwise could not afford it (Boelhouwever and Priemus 1990).

The Memorandum communicated the desired change in the role of government and the changing expectations for households to provide for themselves. Throughout the document, the language emphasizes personal responsibility and greater reliance on markets as “key concepts in this context are deregulation, decentralization and self-sufficiency” (Boelhouwever and Priemus 1990, 107). In addition, the goals of the document are not limited to reducing the number of households reliant on public housing but also encouraged, in particular, an increase in the number of owner-occupied dwellings. This signals that the goal was not just to effectively privatize the rental sector, but to encourage asset accumulation through financial channels.

The Memorandum stated the goal of increasing the homeownership rate from 43% to 55% of dwellings over the decade (Boelhouwever and Priemus 1990). The analysis by Boelhouwever and Priemus (1990) suggests that homeownership in this document is largely viewed as a societal good in a way that parallels the way that subsidized housing was discussed two decades earlier. In 2000, the shifts in the perspective on housing and in the expectations for households were reaffirmed by a subsequent memorandum on housing, “People, Wishes, Housing,” which states the goal over the next decade was to increase the proportion of owner-occupied housing to 65% (Ronald and Dol 2011).
Table 3.1 Growing Centrality of Homeownership to the PvdA’s Platform

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1945 - 1964</td>
<td>0</td>
</tr>
<tr>
<td>1965 - 1984</td>
<td>1</td>
</tr>
<tr>
<td>1985 - 1999</td>
<td>4</td>
</tr>
<tr>
<td>2000 - 2012</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Author's calculations based on Sebastian Kohl (2018)

As the housing memorandums make clear, first in 1990 and again in 2000, expanding homeownership was a high priority to both parties. Figure 3.4 shows the number of times the PvdA took explicitly pro-homeownership positions in its party manifestos from the mid-twentieth century to the early twenty-first century. For forty years after the war, the PvdA had taken a pro-homeownership stance only one time in their party manifesto. However, the centrality of homeownership to the PvdA’s platform changed during the 1980s. From 1985 to 1999, pro-homeownership positions were taken four times in party manifestos and increased to five times in the 12-year period between 2000 and 2012. This illustrates that the pro-homeownership policies pursued by the PvdA were not a consequence of their partnering with center-right or liberal parties, but rather were central to the Party’s social and economic vision for the turn of the century.

In order to expand homeownership, loosening lending standards and financial incentives are important. Policy makers developed a program that would incentivize banks to participate in the mortgage market and reduce the risks of individual households. In 1993, the Dutch government created the National Mortgage Guarantee program (NMG). If homebuyers pay a small insurance fee, the Dutch government will insure their mortgage. In effect, “the government, thus, assumes the risks of households and financial institutions stemming from mortgage debt” (Vandevyvere and Zenthöfer 2012, 10). The
NMG program creates incentives for banks and households to participate in the mortgage market by reducing the level of risk in doing so.

In addition, changes to the regulation of loan amounts served to encourage greater borrowing. During the 1990s, the loan-to-income (LTI) and loan-to-value (LTV) ratios were relaxed, which allowed for individuals to borrow more for the purposes of homeownership (de Haan and Mastrogiacomo 2020). The average LTV in the Netherlands rose to over 100% in 2000 and continued rising to a peak of 120% in 2010 (Vandevyere and Zenthöfer 2012). This means that by the 2000s borrowing more than the price of the house was routine in the Netherlands. In addition, regulators deregulated the LTI ratio in the 1990s by allowing the consideration of both incomes in dual-income households when making decisions about credit worthiness. This obviously increased the amount that could be borrowed, even if the LTV ratio had not been relaxed.

Finally, as previously discussed, there was a concurrent push for greater securitization. This was passed with little trouble in 1997. Regulations favorable to the development of securities markets freed-up additional credit for domestic borrowers and facilitated the creation of new investment vehicles in which pension funds could invest. This furthered policymakers’ goals given that the average mortgage was nearing the total cost of the house and rising. If policymakers wanted housing prices to grow at a pace consistent with an average LTV ratio of 100%, ensuring liquid credit markets was absolutely critical. As Table 3.1 and Figure 3.5 illustrate, the PvdA’s commitment to homeownership only deepened with the growth of housing prices. Despite the already steep growth in real home prices which doubled over the nineties and in housing debt which increased by over a third between 1995 and 2000, the Social Democrats reaffirmed
their commitment to financialized homeownership in their follow-up housing memorandum for the 2000s under the leadership of Prime Minister Wim Kok.

Figure 3.5 Dutch Housing Prices and Debt during Household Capitalization Implementation

During this time of expanded homeownership, policymakers were keenly aware of the demographic shifts that were occurring as the post-war baby boom generation inched closer to retirement, which spelled trouble for pensions. With the lagging economy and growing dependency ratio, funded pensions were to become increasingly important. By creating a regulatory framework that ensured a robust securities market, policymakers were not only able to maintain liquid credit markets for housing purposes,
they also could engage in reducing the generosity of the first pillar, public pension generosity, as better returns on the second pillar, pension schemes, compensates for the reductions in benefits.

Several reforms to the pension system not only tightened eligibility, but also shifted the burden of pension expenditures (Elefeld and van Vilet 2013). Since the pension system in the Netherlands is tiered, funded pensions have long been a part of old age provision. However, reforms have resulted in an increasing burden on households to provide for old age through increased contributions to defined benefit plans, decreased replacement rates, and further emphasis on mandatory pension schemes and voluntary pensions (Elefeld and van Vilet 2013; Wiß 2019). In the early years of the 2000s, Dutch pensioners could expect about 50% of their retirement income to come from the first, statutory pension tier (van Ewisk 2005). However, as of 2017, this number has decreased to less than 30% (Gérard 2022). Additional reforms furthered the reliance on financial markets, specifically, by not only tying funded pension performance to stock market developments, but also changing the calculation of defined benefits from a fixed interest rate to market value (Wiß 2019). As a result, pension income has become increasingly reliant on financial market performance as the occupational tier has surpassed the statutory tier in importance (van der Zwan 2017; Gérard 2022).

Given this trend, it makes sense that policy makers in the Netherlands sought to foster innovation in the financial sector. The turn to equities for higher pension returns led many pension funds to look abroad for investment opportunities as Dutch equity markets, while experiencing growth, were insufficiently developed to provide the type of investments fund managers were looking for. In 1989, this led the Lubbers government to
threaten to pension funds with taxation on excess assets if the “pension funds would not adjust their investment strategies to the government’s political agenda” (van der Zwan 2017, 573). The government needed the liquidity from pension funds in order to see through their policy of expanded homeownership, but also needed to ensure that pensions were in a financial environment characterized by a high variety of investment vehicles and consistent growth. In order to achieve expanded homeownership and continued housing growth as well as a highly financialized pension regime both of which take pressure off the state for provision, financial deregulation was critical. According to the Dutch Central Bank, “growing demand among institutional investors for securities which provide higher yields than T-bills and other triple-A-rated sovereign bonds” contributed to the push for greater securitization (Aalbers et al. 2011, 1785).

The intimate link between the liberalization of housing, the push for the deregulation of secondary markets, and the need for new investment vehicles for the increasingly important occupational pension funds is evident when looking at the results of these reforms. As of 2006, the Netherlands had “the largest capital markets relative to GDP in the OECD, surpassing the UK and US” (Engelen et al. 2010). Over two-thirds of total SPV liabilities in the Netherlands were in residential mortgages (Euro 210 billion in RMBS out of a total of Euro 270 billion) (Aalbers et al. 2011). The high level of concentration of RMBS in Dutch securities markets demonstrates the fact that policymakers were supportive of liberalization as a tool for generating greater credit liquidity for homeownership, regulators saw an opportunity for a more competitive financial sector, and financial institutions (including institutional investors) recognized the opportunity for greater returns. Partially as a result of the successful development of
Dutch financial markets, the Netherlands has the highest ratio of pension fund assets to GDP of all the OECD countries (OECD Data 2022d). In addition, occupational pensions have successfully overtaken public pension provision in importance to requirement income (Gérard 2022).

Household capitalization can be seen in other areas as well. For example, one area in which financial markets are taking a greater role while public provision takes a step back is in the area of higher education funding. In 2015, education grants were defunded and made only available to the students with low household incomes (Dutch News 2021). As a result, the total amount of student loan debt doubled between 2015 and 2021 to Euro 24.4 billion (Dutch News 2021). While this amount pales in comparison to the debt held by those who have attended institutions in the US and the UK, the Netherlands presents a notable divergence in the individual cost of education when compared to other European countries.

**Conclusion**

In this chapter, I argue that Dutch policymakers sought to use financial markets to compensate for cuts in social provision. I demonstrate that they were successful in this endeavor due to the historical structure of pension institutions. Specifically, the development of independent pension funds in the middle of the twentieth century, and funds’ decision to invest in capital markets did three critical things. First, it spurred financial market growth and empowered financial market actors. Second, it linked the material interests of labor with financial sector development. Finally, it laid the groundwork for financial markets to be viewed as an appropriate means through which social provision could be secured.
I demonstrate how policymakers turned to the promises of financialized homeownership as a way to reduce the financial burden of social housing and encourage private social insurance. Seeing the opportunities for more competitive markets, Dutch regulators and policymakers supported securitization of the new influx of mortgage debt as it provided a new and profitable channel for pension fund investments. This was important as subsequent pension legislation further reduced the generosity of the first pillar of the Dutch pension system, the public pillar, increasing the importance of the occupational tier.

Since this critical period of financial market expansion, the Netherlands has become a highly financialized economy. This is made apparent by the size of the financial sector relative to the overall economy and by the record levels of household debt and pension assets held by households. Before discussing whether this trajectory toward high levels of household capitalization has been conducive to altering households’ preferences and ultimately furthering welfare retrenchment, I present an explanation of why some contexts did not follow this same path. In the following chapter, I demonstrate the German path to pure austerity politics and illustrate how the structure of pensions were critical in precluding the development of a household capitalization regime.
Chapter 4: German Trajectory of Austerity without Appeasement

In the previous chapter, I argued that policymakers and regulators pursued a regime of household capitalization. I argue that this regime was pursued with the intent of increasing the reliance of households on financial markets as a site of welfare provision, in the context of welfare retrenchment reforms. Dutch policymakers were able to capitalize on the decision of Dutch pension funds to invest in capital markets, which aided in financial market development and provided a historical pathway toward reliance on financial markets for welfare.

In this chapter, I provide insight as to why German policymakers did not implement a regime of household capitalization, ultimately leading to limited integration of households with financial markets. I argue that, despite the efforts of policymakers and some interests, the historical institutions necessary to develop a household capitalization regime were not present in the German context. In particular, the structure of German pensions aided little in the development of the German financial sector and distributed power in such a way that undercut the attempt to integrate households with financial markets.

The sections in this chapter are as follows. In the first section, I detail the German political and economic context around the turn of the twenty-first century. I then review the critical institutions and highlight the implication of these structures for the development of labor’s interests and financial markets. Finally, I discuss the retrenchment reforms enacted in the early 2000s and the failure of policymakers to pursue household capitalization in conjunction with those policies. The failure to
introduce households to financial markets ultimately leads to a trajectory away from the status quo and toward austerity without appeasement.

**German Context for Reforms**

The German economy also experienced a period of decline toward the end of the twentieth century. Between the mid-1990s and the mid-2000s, there were several notable trends that concerned policymakers and voters alike. GDP growth remained below two percent for most of this period (World Bank 2022a). The unemployment rate surpassed eight percent for most years and reached a peak of over 11% in the mid-2000s (World Bank 2022c). While not large, the government fiscal balance was consistently negative during this period despite comparative countries experiencing a surplus (OECD Data 2022a). As in the Netherlands, labor unions in Germany had secured very generous benefits and strong job protections for workers during the post-war economic boom. Despite turning to the historically pro-labor German Social Democratic Party, *Sozialdemokratische Partei Deutschlands* (SPD), unions were not able to overcome the push for reforms in light of these conditions.

While the transition to a post-Fordist economic system negatively affected labor unions elsewhere, German labor unions were in a strong position in the 1970s as they were seeing still independent victories. In fact, the German Trade Union Confederation’s (DGB) membership peaked in 1981 as it had over 7.9 million members. The high level of membership remained consistent until the 1990s (Silvia 1992). However, these arrangements also were starting to decline. The 1985 Employment Promotion Act increased labor flexibility by deregulating hiring and non-traditional work (Thelen 1991). “By 1999, coverage under sectoral collective agreements (Flächentarifverträge) was
down to 44 percent of all workplaces and 65 percent of all employees in Western Germany” (Behrens et al. 2003, 26). In addition, ‘opening clauses’ allowing for “company specific negotiations” were becoming more common, furthering the decentralization of bargaining (Behrens et al. 2003, 26). Industry-level bargaining also was becoming more difficult with increasing Europeanization and globalization (Behrens et al. 2003). Economic liberalization at the European level allowed for manufacturers to hire labor outside of Germany, thus laborers who were not covered by collective bargaining contracts, contributing to a further reduction in labor solidarity (Schulze-Cleven 2018). Therefore, labor in Germany was becoming increasingly side-lined not only due to membership, but also the chipping away at institutional and legal victories secured during the previous decade.

Historically, the German labor movement organized itself “on the principle of non-partisanship, formal neutrality with regard to political parties” (Silvia 1992). This was made possible in large part due to the fact that much of labor unions’ rights were codified in Germany’s legal framework (Howell 2001). Therefore, they did not have to rely exclusively on any party for favorable legislation. Due to the legal and economic developments of the 1980s and 1990s, German unions found themselves in need of allies. They were in good company as the SPD had been on the political margins for much of the 1980s and, by the early 1990s, was seeking to repair the relationship with labor. In the early 1990s, the new general secretary Björn Engholm took several steps that “suggest[ed] that the SPD and the German labor movement [were] coalescing around a new organizational framework developed by the activist wing of the German labor movement” (Silvia 1992, 49). Part of this was appointing as federal business manager
Karlheinz Blassing who worked as an aide for Franz Steinküler, a former IG Metall president (Silvia 1992). Engholm even went as far as communicating the need to learn from the initiatives of IG Metall to make the SPD more competitive (Silvia 1992).

The mutual reliance between labor and the SPD for political capital helped to foster a closer relationship throughout the 1990s, as the German Trade Union Confederation, DGB, campaigned for the SPD for the first time ever in 1998, a major departure from their previous stance of neutrality (Jacoby and Behrens 2016). Unions abandoned their long practice of political neutrality following a failed attempt in 1995 and 1996 to develop an ‘Alliance for Jobs’ package in conjunction with the center-right Kohl government (Howell 2001). Therefore, labor had hoped that a Social Democratic-led coalition in power would be more conducive to favorable legislation. This logic and the unions’ resulting campaign for the SPD helped to put the Social Democrats in power for the first time since the 1970s and led to the first-ever Red-Green (i.e., Social Democrat and Green Party) coalition in 1998 (Zohlnhöfer 2004).

This strategy appeared to be working at first as Walter Riester, former vice president of I.G. Metall, was appointed the new SPD Minister of Labour (Howell 2001). In addition, Oskar Lafontaine was appointed Minister of Finance. Lafontaine represented the SPD old guard. He was in favor of higher wages and greater social spending to spur demand (Zohlnhöfer 2004). Soon after being elected, the SPD worked to roll back the welfare cuts that had been implemented under the Christian-liberal coalition. During the 1980s and 1990s, the Christian-liberal coalition engaged in some unpopular reforms including reducing replacement rates for pensions, increasing payments for healthcare, cutting sick pay, and passing some liberalizing reforms such as reductions in worker
protection and privatization (Zohlnhöfer 2004). The SPD campaigned on overturning these unpopular reforms, especially those relating to the welfare state, which helped to secure electoral victory (Zohlnhöfer 2004).

It was clear that the SPD was prioritizing the interests of labor, which had been critical to the party’s electoral success. However, by 1999, internal party conflict led to the resignation of Lafontaine, as Chancellor Gerard Schröder was reported to have abdicated himself of responsibility for the consequences of Lafontaine’s economic policies (Zohlnhöfer 2004). Lafontaine sought to enact policies that would cater to the unions; however, Schröder was concerned with the economic consequences in light of high unemployment and low economic growth. Lafontaine was soon replaced by Hans Eichel who represented the SPD faction that sought to modernize the party’s approach (Zohlnhöfer 2004). Only a few months after Eichel took over as Finance Minister, he proposed an austerity package, which was passed the following year (Zohlnhöfer 2004). It was clear to labor that the SPD would not be the partner they had hoped for. In fact, the SPD during this period began embracing a neoliberal approach to policymaking (Howell 2001).

Figure 4.1 illustrates the SPD’s sharp turn toward conservative policymaking after winning the 1998 election. When the Party was out of power, they stayed on a consistently leftward ideological trajectory. Maintaining a more left position when in the opposition was easy as the Social Democrats would not be blamed for poor economic conditions and could use voters’ discontent with reforms against the party in power. However, once in power this changed as Chancellor Schröder became increasingly
concerned with the performance of the German economy and less concerned with maintaining a close relationship with unions.

Figure 4.1 The Ideological Evolution of the SPD during the Turn of the Twentieth Century

In 2001, Riester introduced a pension reform package which was quite similar to the reforms which were previously enacted by the Christian-liberal coalition and subsequently repealed by the Social Democrats (Zohlnhöfer 2004). Originally, these reforms were drafted to be defined contribution plans, meaning that they would be funded pensions like pensions in the Netherlands and the final benefits would be dependent on savings and investment performance rather than a predetermined level agreed upon by the social partners (Naczyk and Hassel 2019). This formulation would help to reduce the pressure on the state by building independent and occupationally-related pension wealth and to deepen financial markets (Röper 2021; Naczyk and Hassel 2019).
The original approach to social provision outlined in the Riester reforms sounds remarkably similar to the logic behind Dutch reforms; however, this form of the package failed to pass. The Riester reforms that eventually were passed did not rely on fund performance alone but set regulations that required minimum guarantees, which disincentivized investing these funds in riskier vehicles such as equities (Röper 2021; Naczyk and Hassel 2019). The question that emerges is: why was the turn to financial markets unsuccessful in the German context? Naczyk and Hassel (2019) and Röper (2021) argue that the power of insurance companies and mobilization by labor were critical to blocking this formulation of the reforms. I argue that the historical structure of pension institutions was critical to the successful mobilization of both interests against pension financialization, having the opposite effect of pension structures in the Netherlands which served to create a pathway for greater financialization and ultimately a regime of household capitalization.

**Critical Institutions: German Pension Structure**

The structure of pension institutions was critical to facilitating the development of a household capitalization regime in the Netherlands and to stifling the development of such a regime in Germany. While Dutch pension provision relied heavily on private occupational funds whose assets were held outside of firms and frequently invested in capital markets, German pension provision was reliant on the first pension tier which is the statutory or state-administered pension tier. In this section, I discuss the structure of German pensions and its relevance for household capitalization. I demonstrate how institutional arrangements forged in the immediate post-war period were critical in shaping actors’ interests, distributing power among actors, and conditioning the financial
environment so that a regime of household capitalization was off the menu of policy options.

The structure of German pensions historically has been characterized as a Bismarkian system, meaning that the statutory or state-administered pension benefits are earnings-related (Haverland 2001). The earnings-related benefits of the first, publicly administered tier is a key differentiating factor between Germany and the Netherlands. The Dutch publicly administered pension tier is flat rate meaning that all who qualify get the same level of benefits regardless of earnings. Due to the generosity of the earnings-related statutory pension scheme in Germany, there was limited demand for supplementary pension schemes (Haverland 2001). As a result, occupational pensions and individual pensions played a relatively minor role in German pension provision. The level of private pension assets as a percent of GDP in Germany is very low staying under four percent of GDP until 2004 (OECD Data 2022e).

Even though occupational pensions in the German system played a minor role in pension provision during the twentieth century, they did exist. However, the rules governing occupational pensions in Germany were in stark contrast to those governing occupational pensions in the Netherlands. While Dutch policymakers enacted legislation barring employers from controlling pension assets, German policymakers enacted tax legislation that encouraged companies to not only keep pension assets within the firms, but to keep them as book reserves (Haverland 2001). This allowed German companies to use their employees’ pension savings as investment capital for the company (Haverland 2001). As a result, German financial markets did not benefit from large pools of capital
seeking investment channels, and German companies had limited incentives to seek capital market funding.

Figure 4.2 German Pension Assets as a Percent of Gross Domestic Product

Both the very low accumulation of private pension assets and the benefits of maintaining occupational pensions as book reserves served to limit the development of German financial markets. Figure 4.3 demonstrates the relatively limited depth of German capital markets. Figure 4.3 is scaled to be comparable with Figure 3.2, demonstrating the stifled growth of German financial markets. Despite an upward trajectory in the mid-1990s, market capitalization peaked at 60 percent of GDP around 2000 and levelled off. Without pension funds seeking new and more profitable investment channels and without companies seeking capital market funding, German financial development was incredibly limited.
Implications for the Financial Sector

German investment institutions lacked power relative to more established financial sectors because of the underdevelopment of capital markets and the unimportance of financial sector development to securing workers’ retirement income and to economic competitiveness more generally. Around the turn of the twenty-first century, German financial institutions expressed their interest in enhancing the position of the German financial sector in the global economy. However, as Röper (2021) and Naczyk and Hassel (2019) argue, other more entrenched interests, namely the insurance industry, stifled this development.

Deutsche Bank published a paper in 1995 outlining a path for developing German financial markets (Naczyk and Hassel 2019). The plan called for revising the occupational pension system. By switching from a pension reserve system to a pension fund system, German financial markets might be able to catch up to its neighbor, the Netherlands, and Anglo-economies that had benefited from their pension systems. Naczyk and Hassel (2019) state:
Together with other stock exchange professionals (Mattern et al. 1997; von Rosen 1997), Breuer regularly argued that the lack of equity-oriented, domestic pension funds was “one of the reasons why Germany has no equity culture” (FAZ 1994), and that it constituted “one of the most serious” problems affecting the competitiveness of German capital markets (Reuters 1994). (pg. 8)

This approach to expanding capital markets elicited backlash from insurance companies, which were a powerful force in the German context. Insurers were not against deepening financial markets, but they were against orienting pension funds toward equity markets as it threatened their business model which was an insurance-based model with predetermined benefit levels (Röper 2021b; Naczyk and Hassel 2019). When pension legislation was put on the agenda by the Schröder administration in late 1990s, insurers were able to draw on the fears of labor to rally support against the capitalization of pensions (Naczyk and Hassel 2019).

Implication for Labor’s Interests

In the previous chapter, I detail how the deepening of financial markets in the Netherlands aligned with labor’s interests due to the decision of pension fund managers to participate in equity markets. In this chapter, I have demonstrated the limited role of independent pension funds in Germany and, thus, the scarcity of domestic capital seeking new and more profitable investment channels. The logical consequence of the German institutional structure is that labor was not invested, literally or figuratively, in the growth of domestic financial markets.

As a result, it is likely that union leadership and workers would be either indifferent to deepening markets or perhaps skeptical of the move toward greater equity market development. Given that the attainment of large profit margins typically are perceived to be at odds with labor’s interests, it is likely the latter. During this time in
Germany, evidence suggests that both labor and investors were keenly aware of this
tension between workers and shareholders. For example, Miller (2000) writes about the
conflict between Volkswagen (VW) workers and shareholders. Shareholders’ desire for
higher profits was met with workers’ position that their shorter working hours and strong
job protections were necessary to manufacture at the quality and pace that they do even if
shareholders view the arrangements as wasteful (Miller 2000).

Any contention that did exist between labor and the push for an expanded
financial sector came to the forefront during discussions over pension reforms. Naczyk
and Hassel (2019) demonstrate that the introduction of defined contribution plans with
guarantees based on market return alone was met with intense backlash due to the fact
that policymakers “linked the introduction of private defined-contribution plans with cuts
in statutory pensions” (1). This link, they argue, helped to mobilize labor against the
development of these pure defined contribution plans, which served to continually stifle
financial market development.

This brings us to the central argument of this chapter. I argue that without a
history of private, capital-funded pensions, the use of financial markets as a site of
welfare provision was off the menu of policy-options for German policymakers. This,
however, was not for lack of trying as policymakers from both parties were supportive of
the move toward greater financial integration and capitalization (Naczyk and Hassel
2019). In the following section, I outline the attempt and failure of German policymakers
led by the Social Democrats to integrate workers’ retirement benefits and financial
market performance. Without developed capital markets and with still-limited pools of
pension capital looking for investment, widespread homeownership attained through
highly leveraged home purchases was never pursued. Thus, households were never fully integrated into credit markets.

**Social Democratic Strategy Under Pressure**

In Germany, the structure of pensions precluded the development of mature equity markets and a shared interest for deepened financial markets among labor and investors. As a result, Germany remained a relatively un-financialized economy around the turn of the twenty-first century. In this section, I demonstrate that this was not a result of policymakers’ objections to financial markets or to the integration of households and financial markets, aka household capitalization. The lack of financialization and household capitalization resulted from institutional arrangements, which created unfavorable structural conditions, limited the power of investment institutions, and failed to establish a pathway for the financial sector to be seen as a legitimate means of securing welfare provision. To demonstrate this, I review the pension fund politics surrounding the Riester Reforms, which is thoroughly detailed by Röper (2021a,b) and Naczyk and Hassel (2019). Finally, I illustrate how the failure to partake in pension fund capitalism stifled the development of financialized housing, and household capitalization as a regime more generally, leading to measures consistent with pure austerity (i.e., benefit cuts without compensation).

**Riester Reforms**

Like the Netherlands, the economic conditions of the time forced the hand of the Social Democratic party and exposed the deep fragments in the SPD. When it seemed that the economy was improving, the SPD did work to roll back the changes that were made under the liberal coalition. However, the pro-labor policy approach did not last long
under the SPD led Red-Green coalition. Pension reforms were introduced in 2001 under Riester, which were quite similar to those that were enacted by the Christian-liberal coalition and then subsequently repealed by the Social Democrats (Zohlnhöfer 2004).

The Riester pension plans were introduced under the leadership of the SPD as “voluntary, personal plans in which individuals select the level of their own contributions and the financial services provider that manages the plan’s assets” (Naczyk and Hassel 2019, 2). These plans were designed to individualize pension risk, as this pension reform package was introduced in conjunction with cuts in the first pension tier, the statutory tier. The original design of this pension plan was to be a fully funded defined contribution plan (Naczyk and Hassel 2019). In effect, this meant that individuals’ benefit levels were dependent on two things. First, benefits depended on the level of contributions and, second, they depended on the return on those contributions. The debate that ensued resulted from the second variable in the benefit equation.

In a pure defined contribution scheme, individuals are not entitled to any set level of benefits. This means that workers could receive less than the amount of contributions that were paid. Whether workers receive more or less than they contributed is dependent on the return on their investments. Thus, if an individual is heavily invested in capital markets and there is a crash right before she is set to retire, it is entirely possible that total benefits would amount to less than the contributions she put into the account. In contrast, many schemes are considered to be hybrid schemes meaning that market performance does influence overall benefit levels, but there are minimum guarantees. These minimum guarantees may for example guarantee that, in a worst-case scenario, pension
contribution plans function as a savings account (i.e., one at least receives the nominal amount of contributions made).

German Social Democrats, like their Dutch counterpart, felt pressure to modernize their approach, especially in light of the poor economic conditions. The cutting of public benefits and growing reliance on individualized alternatives have long been understood as routine measures in modernizing the welfare state. However, I argue in this dissertation that financial markets were largely seen as a way out of pure austerity politics by left parties seeking to modernize welfare states. In other words, financial markets could serve as a form of compensation for left parties that historically sought to expand the welfare state but found themselves with little choice but to retrench.

Therefore, while it may seem counterintuitive that the Social Democrats would be in favor of expanding financial markets, especially capital markets, they found themselves needing a new economic program by the final years of the twentieth century. In 1996, the SPD took an official position in support of strengthening the position of the German financial sector in their motion “’Strengthening German capital markets, promoting equity savings and improving venture capital’ ((SPD Bundestagsfraktion 1996)” (Naczyk and Hassel 2019, 9). In this document, the SPD recommended bolstering equity markets by creating savings accounts that would be primarily invested in equity markets (Naczyk and Hassel 2019). Naczyk and Hassel (2019) note that these items were actually called ‘personal equity savings plan[s]’ in the SPD document (9).

This official document demonstrates the SPD’s support for policies consistent with household capitalization. Social Democratic policymakers in Germany sought to bolster financial markets while integrating households’ finances in these growing
markets. In effect, the SPD sought to plant the seeds for a household capitalization regime. When German pension reforms were on the agenda, it is not surprising that the Schröder government proposed supplementing welfare state cuts with the development of equity-oriented individual pension plans. Given the support among policymakers for deepening financial markets and integrating households into financial markets, why did the final Riester pension reforms not take the form of the type of pure, defined contribution plans that would help bolster financial markets?

Naczyk and Hassel (2019) and Röper (2021a,b) argue that the business community expressed different preferences over pension funds. Investment institutions, represented by the German Investment Funds Association (BVI), were supportive of the pure defined contribution plans as they would allow for riskier investments and more investment in capital markets (Röper 2021a). In contrast, insurance companies, represented by the German Insurance Association (GDV), preferred a scheme that set minimum guarantees as the structure of this scheme was more in line with the insurance business model which offered “relatively predictable benefits paid out in the form of an annuity” (Naczyk and Hassel 2019, 5).

Ultimately, pensions did not take the form of “personal equity savings” as investment institutions and some policymakers would have liked. As I argue in my theory and demonstrate in the previous section, investment firms were relatively weak in the German context unlike in the Dutch context. Without the history of pension fund investment in German capital markets, the BVI was considerably weaker than the GDV. The power of the GDV helped to sideline the interests of investment funds by calling into question whether there was a legitimate role for equity markets in social security (Röper
The ability of the GDV to define the issue by drawing on historical institutions and by leveraging its more powerful position relative to investment institutions demonstrates the causal power of institutions in shaping actors’ views of what types of policies are appropriate and to strengthen the footing of actors who benefit (often unintentionally) from institutional choices.

As I demonstrate in the previous chapter, the decision of pension fund managers in the Netherlands to engage with equity markets created a new institutional path that allowed for financial markets to be legitimately seen as sites of social provision. In addition, pension funds’ turn to equity markets (unintentionally) gave investment institutions a critical position in insuring the social and economic well-being of the Dutch economy and Dutch workers. Therefore, as the PvdA along with its governing partners moved to further integrate households into financial markets as a way to build assets and smooth consumption it was not met with the same resistance as policymakers were not seeking to develop an entirely new pathway. Once pensions put financial markets as a site of welfare provision on the menu of policy options, policymakers could then select the financial sector as the funding source in other areas such as housing and education.

The absence of an historical pathway that would allow for greater household integration with financial markets is evident in language used by the Gerke Kommission. This was “a commission initiated by the German Ministry of Finance that consisted inter alia of members of the banking industry, insurance industry, aba, stock exchange and company representatives” (Doetsch 1998). The pension fund recommendations that came out of this commission reflect the limited path forward for such a radical idea in the German context. The commission affirmed the “insurance-based conception of old age
provision” (Röper 2021b, 440). The GDV emphasized that the goal of old age provision was to ensure that workers had guaranteed income for their retirement years and pushed back on the use of workers’ retirement savings as a tool of financialization (Röper 2021b). They warned against using retirement savings as “‘the vehicle through which to achieve mass equity culture’ (GDV, 1998a: 14)” (Röper 2021b, 436).

The ability for the insurance sector to shape the conversation and reaffirm the historical separation of households’ finances over the life span and the desire for financial sector growth illustrates two major factors related to the historical structure of German pensions. First, it demonstrates the influential power of insurance companies relative to investment firms which, even with the support of all major political parties, were unable to get the favorable reforms enacted. Second, it demonstrates the lack of an institutional pathway which would allow for these two goals (modernization of welfare provision and the development of the financial sector) to be understood as compatible.

Thus, Röper (2021a,b) argues that the controversy over pensions resulted from intra-business competition. Naczyk and Hassel (2019) argue that the controversy over pensions resulted from the linking of pensions and welfare retrenchment thus widening the scope of conflict to labor and business. I view the inability to financialize pensions and thus begin on a trajectory of household capitalization, more generally, as resulting from the unintended consequences of institutional choices relating to the structure of pensions. The lack of independent pension funds left investment interests very weak relative to insurance interests, allowing the insurance industry to draw on the historical view of pensions as a type of fixed-benefit insurance. Without a previous path in which
financial markets bolstered social provision, the BVI and the SPD were limited in the menu of policy options from which they could draw.

*Non-Financialized Housing Regime*

In the Netherlands, the rapidly developing capital markets and the growing pool of pension fund capital created more opportunity for policymakers to further household integration into financial markets. Thus, as the PvdA sought to modernize their approach to social provision, they developed policies that took the form of publicly incentivized asset ownership. In Germany, following the failure to meaningfully financialize pensions, no analogous push existed to incentivize further household integration with financial markets. Without developed financial markets and without an institutional trajectory that facilitated asset accumulation through financialized channels, policymakers never pursued an aggressive pro-homeownership policy. Homeownership in financialized markets is critical to bringing households into the financial sphere as concerns over credit worthiness and experience with credit access are key to full household capitalization. I demonstrate that homeownership was never forwarded as a goal by detailing the SPD’s position on housing and by discussing the rigid housing regulations that remained in place during the period of social welfare retrenchment.

Unlike the Netherlands, there was no major push for increasing homeownership by Social Democrats as retrenchment efforts were implemented. In Germany, the SPD has historically been against homeownership as it limited worker mobility (Kohl and Sørvell 2021). The Left originally pursued the socialization of housing. After little success, the Left took the position that socially rented and cooperative housing was preferable (Kohl and Sørvell 2021). The push for subsidized housing was somewhat
successful but, perhaps, the greatest success is the high number of rental dwellings and the significant protections for tenants relative to landlords.

In 1950, the First Housing Law was passed. The goal of this legislation was to build dwellings that would cater to the general public ‘in terms of their fittings, size and rent’ (Voigtländer 2009, 358). This began the project of creating a robust supply of subsidized housing. In 1956, the Second Housing Law was passed. This law sought to encourage owner-occupied dwellings. Despite this, the number of new rental properties always managed to outpace the number of owner-occupied dwellings (Voigtländer 2009, 358).

Table 4.1 Declining Concern of the SPD with Homeownership

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
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<tbody>
<tr>
<td>1945 - 1964</td>
<td>2</td>
</tr>
<tr>
<td>1965 - 1984</td>
<td>4</td>
</tr>
<tr>
<td>1985 - 1999</td>
<td>2</td>
</tr>
<tr>
<td>2000 - 2012</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 4.1 demonstrates the number of times that the SPD took an explicitly pro-homeownership position in their party manifestos. The figure illustrates that pro-homeownership positions actually became less frequent during the end of the twentieth century. Between 1985 and 2012, the SPD only adopted a pro-homeownership position three times. For reference, the PvdA adopted a pro-homeownership position in their party manifesto nine times during this same period. The lack of concern with homeownership illustrates that there was no push by the SPD to financialize housing markets following the failure to financialize pension provision.
To this day, rental housing in Germany is viewed as a suitable option for households at a variety of income levels. The lack of stigma along with the robust supply all help to encourage renting over buying. Most rentals are owned by small private landlords who, thus, tend to take good care of their properties (Kofner 2014). The most important feature of the German rental market is the high level of protections for tenants. Regulations on rents are considered “moderate,” while there are strict protections for tenants. Even if tenants cease paying their rent, the restrictions make it incredibly difficult to evict tenants (Voigtländer 2009). Therefore, renting is considered a very stable option in Germany, which has prevented the development of the stigma that is associated with renting elsewhere. “Without appropriate protection, only tenants with no interest in a long-term tenancy or without the means to buy a home will choose to rent” (Kofner 2014, 267)

In the Netherlands, we discussed the way in which the housing memorandums made explicit the goal of encouraging homeownership and of discouraging middle class households from using social housing. In Germany, social housing is not a major feature of the rental market, which likely contributed to the fact that there was no analogous push. However, strong rental protections are not reason enough to prevent financialization of housing (e.g., Switzerland) (Hasenmaile 2018). Why, despite also implementing welfare retrenchments, did German policymakers not encourage greater integration of households and financial markets through the encouragement of housing financialization?

It is not that homeownership promotion did not make it to the agenda. In fact, homeownership promotion was discussed in the midst of the debates over pension
reforms (*Bundesrat Stenografischer Bericht*, 2001). The CDU rather than the SPD pressed for homeownership to be made central to the privatizing welfare reform, as some expressed interest in allowing Riester savings to be put toward a down payment to help build private assets. However, the SPD was resistant to these suggestions and members highlighted the already generous subsidies that existed in the German housing market. The SPD thus expressed a wariness toward greater government spending to increase homeownership.

In the Dutch context, I outline how the concern over finding new and profitable vehicles in which pension funds could invest contributed to the development of a highly financialized housing regime. In the German context, the absence of large pools of pension fund capital and a robust “equity culture” meant that pursuing household capitalization through housing financialization was less of a priority and more difficult because of the underdeveloped financial markets. To encourage housing in the German context would require more government outlays via subsidies during a period of economic strife when an already strong rental market existed.

In contrast, in the Netherlands, encouraging mortgage borrowing served to reduce the burden of public spending on social housing, provide new channels for pension capital to invest domestically, build up private assets, and bolster domestic capital markets by partaking in securitization of residential mortgages. Overall, due to the strong rental market, limited social housing, limited pension fund capital, and an underdeveloped financial sector, incentivizing financialized homeownership through government intervention was not as beneficial of a regime in the German context as it was in the Dutch context.
There are some policies that do support housing in Germany, but only to an extent. Germans only get a one-time tax allowance (*Eigenheimzulage*) for the purposes of buying a house (Voigtländer 2009). In addition, there are other subsidies related to home building and property ownership that reduce the cost of private ownership. During discussions over Riester Reforms, Peer Steinbrück of the SPD stated that subsidies benefiting private ownership amounted to roughly DM 30 billion around the turn of the century (*Bundesrat Stenografischer Bericht*, 2001). While interest tax relief was abolished in 1986 in Germany, a limited deduction was allowed between 1990 and 1992 (Voigtländer 2009). In addition, fixed rate loans are cheaper than elsewhere but come with penalties in the case of early repayment (Voigtländer 2009). Thus, these policies all work to encourage households to only acquire an owner-occupied dwelling when ready to settle for a long period of time and to ward off more speculative housing purchases.

Policies also remained in place that limit the risks of homeownership. For example, the maximum loan-to-value (LTV) ratio in Germany is 80% (Rudolf and Saunders 2009). This amount is in stark contrast to the high LTV ratios seen in the Netherlands, which have routinely amounted to more than the value of the home. The restrictive regulations on LTV ratios and the favorable rental market have precluded the need for a subprime mortgage market. As a result, “there are relatively few mortgage offers for households with very little equity, irregular income, and preceding loan difficulties” (368). Still, if a household manages to secure a loan that they have trouble paying, there are relatively unfavorable bankruptcy laws. Only in 1999 did German policymakers introduce the Insolvency Act (*Insolvenzordnung*), which allows debtors to discharge their debts (Rudolf and Saunders 2009). The procedures outlined in the Act are
still unfavorable relative to policies in the US and UK. “The German Insolvency Act requires a 6-year repayment period as prerequisite of consumer debt relief” (Rudolf and Saunders 2009, 17). During those 6-years, the creditor is entitled to one’s income that exceeds a specified threshold. There also does not exist a government-backed mortgage guarantee system like was created in the Netherlands during the 1990s (Toussaint et al. 2007). The lack of government-insured mortgages and the unfavorable bankruptcy laws encourage limited risk taking on the part of both banks and households.

Austerity without Appeasement

After the Riester reforms which involved major concessions to individualized pensions and minimum guarantees on savings returns, the Social Democrats embarked on more welfare state reforms. However, these reforms were not accompanied by financialized alternatives. Instead, the reforms were in line with an austerity approach. The austerity approach differs from the household capitalization regime in regard to the lack of compensation for the welfare state cuts. The Hartz Reform Package consisted of cutting generous benefits for workers without the expansion of credit to households or private alternatives that might be invested (e.g., disability or unemployment savings accounts) (“Household Credit Growth in Emerging Market Economies”).

Pension reforms were introduced in 2001 under Riester, which were quite similar to those that were enacted by the Christian-liberal coalition and then subsequently repealed by the Social Democrats (Zohlnhöfer 2004). Despite this, Riester still remained a challenge to greater welfare reductions. As a result, Schröder called for a special commission led by Peter Hartz, manager of Volkswagen, to reform the welfare state. This allowed Schröder to develop a reform agenda until he replaced Riester following the
2002 elections with Wolfgang Clement whose policies reflected the neoliberal direction Schröder championed.

The Hartz Commission led to the development of a four-part reform package that was implemented from 2003 to 2005 (Schulze-Cleven 2018). The purpose of these reforms was analogous to the purpose of those that were implemented in the Netherlands, namely to “abolish long-term, wage-dependent unemployment” (Schulze-Cleven 2018, 1). Hartz I encouraged hiring by reducing restrictions on temporary employees; Hartz II encouraged the unemployed to start their own businesses, championed midi-jobs through favorable tax schemes, and further changed restrictions on non-traditional employment; Hartz III reorganized the structure of employment agencies (Schulze-Cleven 2018).

In 2005, the most significant reforms were implemented under Hartz IV. First, this abolished the unemployment assistance program, which would kick in after job-related unemployment benefits expired (Schulze-Cleven 2018). Originally, one could receive unemployment assistance for years after unemployment with net replacement rates between 53 and 57 percent (depending on whether households had children). “Hartz IV abolished the wage-dependent benefits for the long-term unemployed so that after the reform they would receive the minimum subsistence level” (Schulze-Cleven 2018, 48). The reforms also reduced the length of time you could be on unemployment (set a cap at 12 months for workers under 55 and 18 months for workers over 55) and increased the work-to-benefit ratio (from a 2:1 work to eligibility ratio to a 3:1 ratio) (Schulze-Cleven 2018).

Around the same time, Schröder and Tony Blair, the British Prime Minister, jointly “criticized ‘traditional’ social democracy for being too state-centered while
underestimating the importance of personal effort and the individual’s responsibility” (Zohlnhöfer 2004, 120). The policy changes enacted under the Hartz Reforms along with the rhetoric adopted by Schröder communicated clearly the lack of Social Democratic commitment to the welfare state. While employment policies were liberalized to facilitate easier hiring and firing, there was no analogous liberalization in the financial sphere, which would allow consumers to draw on financial markets for security and investment purposes. As a result, the SPD during this period became associated with pure austerity policies (i.e., welfare cuts without an alternative) and turned away from the status quo.

**Conclusion**

The generosity of the first pillar of the German pension system played a critical role in shaping the trajectory of German welfare reform around the turn of the twenty-first century. The lack of independent pension funds seeking investment opportunities contributed to the underdevelopment of financial markets and narrowed the menu of policy options available to regulators, policymakers, and interests. This feature of the German system starkly contrasts with the Dutch pension system, which proved conducive to financial market development and to normalizing the idea that financial markets could be used for the purposes of social insurance.

In the absence of financial market alternatives, German policymakers engaged in welfare retrenchment without offering quasi-compensation for the decline in benefits. Thus, Germans faced financial restrictions without the promises of asset-accumulation through housing and higher private pension returns both of which would not only provide additional retirement income but also could serve as emergency sources of liquidity. As I
detail in the previous chapter, the Dutch were compensated for welfare cuts through expanded credit markets, programs to encourage financialized homeownership, and promises of higher pension returns in light of financial deregulation. In short, German policymakers pursued austerity without appeasement, while Dutch policymakers pursued household capitalization alongside retrenchment.

Having established the causes of the divergent political economic trajectories across the two contexts, I turn to the consequences of these different paths. In the following chapters, I test whether the pursuit of household capitalization as opposed to pure austerity was effective in reducing backlash to welfare state cuts in the immediate period after reforms. I then test whether the movement along different institutional paths over the last 20 to 30 years has proven to be consequential for households’ policy preferences and political attitudes. Finally, I test the most significant implication of my theory. Specifically, I test whether the integration of households with financial markets for the purposes of welfare provision proved successful in reorienting the electorate away from the state and, thus, facilitating further welfare retrenchment.

In the preceding chapters, I discuss how Social Democrats were central to retrenchment efforts in both the Netherlands and Germany. I argue that Dutch Social Democrats accompanied retrenchment efforts with opportunities for households to participate in burgeoning financial markets, in effect, pursing a policy of household capitalization, while German Social Democrats did not. In this chapter, I test the hypothesis that pursuing household capitalization as opposed to pure austerity aided in moderating backlash against the party responsible for retrenchment. The mechanism linking household capitalization and moderated backlash is the preference changes that result from the new opportunities for households to participate in liquid credit markets and financialized asset accumulation.

In the initial section of this chapter, I argue that there was a transformation in the Dutch context during the period under study consistent with the development of a more market-friendly perspective, even among left-leaning voters. I find that there was an overall shift in attitudes and ideology toward the political right in the Dutch context. This shift was particularly pronounced among PvdA members. I argue that this transformation was in stark contrast to the trends in the German context where no movement to the right developed alongside retrenchment policies, as policymakers failed to establish a household capitalization regime. Both contexts during this time engaged in welfare retrenchment, which also was accompanied by rhetoric about personal responsibility and declining responsibility of the state for provision and regulation. The key difference between these contexts was the successful encouragement of household engagement with
financial markets. This occurred primarily through the promises of homeownership and, secondarily, through investment returns on pensions.

The trends illuminated in this chapter provide evidence supporting the argument that the PvdA’s strategy during this time shifted its members toward favoring larger income differences and an overall less progressive ideology. Again, German Social Democrats also implemented third way reforms and employed third way rhetoric in the period under study. However, this alone was insufficient in moving its voting base to the right. I found similar trends in respondents’ preferences toward redistribution. In the German context, union members were marginally associated with a desire for the government to do more to reduce income differences. In contrast, PvdA members were significantly more in favor of larger income differences by the 1994 election.

In the second half of this chapter, I test the hypothesis that households’ integration into financial markets in the midst of retrenchment moderated electoral backlash to welfare cuts in the capitalized context, the Netherlands, relative to the non-capitalized context, Germany. To get an overall sense of the fate of the two Social Democratic parties, I compare aggregates of the election returns following major reforms. Initially, the PvdA fared worse than the SPD. However, by the second election following the implementation of the reforms, the PvdA held the plurality of seats in parliament, while the SPD experienced continued electoral decline. Unfortunately, data limitations prevent a robust test of the longer-term consequences of the divergent trajectories, but the trends hint at the possibility that a growing economy and rapidly growing housing wealth may shorten the electorates’ memory even for left parties. Quick electoral rebounds following welfare retrenchment are not typical of left parties (Horn 2021), therefore the PvdA’s
success in 1998 may be an indication that household capitalization did help to moderate backlash.

While the PvdA did in fact lose more seats in that first election than the SPD, I sought to test what exactly drove vote switching in each context. The Dutch results provide evidence of moderated backlash as union members, Social Democrats, and left voters were no more likely to vote switch following retrenchment than other voters. However, the German results strongly diverge from expectations. Most surprisingly, German Social Democratic party members actually were less likely to vote switch than other party members, despite the deep cuts in the welfare state. These results provide little evidence for the moderated backlash hypothesis.

Finally, I paint a broader picture of the change in favorability toward the Social Democrats in each context using data on the entirety of the electorate and compatible scales measuring the closeness respondents felt toward the respective Social Democratic party. The results indicate that SPD members and the unemployed experienced meaningful declines in favorability toward the SPD. While this does conform to expectations, the results in the Dutch context are quite similar with PvdA members expressing deep dissatisfaction with their party. Thus, the evidence does not support that household capitalization policies moderated electoral backlash, at least in the election immediately following reforms. The findings in this chapter indicate that the promises of household capitalization were insufficient to curb voter discontent in the immediate reform period, suggesting little support for the first proposed mechanism of moderated backlash. In the next chapter, I explore how the realization of household capitalization over the next few decades have shaped attitudes and preferences over the long term.
Review of Expectations and Empirical Strategy

Even if a context is in the early stages of implementing a policy of household capitalization, communicating the potential benefits that would result from more available credit and asset accumulation through financial channels may lead to preference changes, especially if the welfare state is presented as a barrier to the realization of these economic gains. I expect that where a policy of household capitalization is communicated, even alongside retrenchment, there will be a movement toward more economically liberal views.

At the macro-level, I expect that there will be a shift in preferences in the Netherlands during the period of household capitalization and retrenchment while no such movement will occur in the German context even in the midst of retrenchment and anti-welfare rhetoric (Hypothesis 1.1). I also anticipate that the shift in preferences will be particularly strong among Social Democratic Party members in the Netherlands, with no such movement by Social Democratic voters in Germany (Hypothesis 2.1).

*Hypothesis 1.1: In the Netherlands, following steps toward household capitalization, there will be less support for redistribution and a movement towards the right when compared to pre-household capitalization attitudes, but there will be no change in German preferences.*

*Hypothesis 2.1: Social democratic voters will be more likely to shift to the right in the Netherlands relative to Social Democratic voters in Germany during periods of retrenchment.*

At the micro-level, I expect that there will be a movement to the right among Dutch voters that may potentially benefit most from household capitalization (Hypothesis 1.2). Therefore, I anticipate that higher income voters and higher education voters who will be in the optimal positions to benefit from housing, financialized pension, and loosening
credit will demonstrate the greatest movement to the right. Accordingly, I expect that Dutch Social Democratic voters will demonstrate significant movement to the right in comparison to other voters (Hypothesis 2.2). In Germany, there will be no such trend among high income voters, highly educated voters, or Social Democratic voters.

_Hypothesis 1.2: Voters with higher income and more education will be more likely to shift to the right during the period of welfare reform in the Netherlands but not in Germany._

_Hypothesis 2.2: Social Democratic voters will be more likely than other voters to shift to the right during the period of welfare reform in the Netherlands but not in Germany._

To test these hypotheses, I use publicly available survey data. The datasets I draw upon are the European Values Study (EVS) 1981 to 2008 Integrated File, the 1989 - 1994 Dutch Parliamentary Election Study, and the 2002 - 2009 German Longitudinal Election Study (GLES). The European Values Study is a cross-national longitudinal study that takes place every nine years. The integrated file consists of four waves of EVS (1981, 1990, 1999, and 2008). EVS asks respondents across Europe about their opinions relating to government, society, justice, and themselves. Across the four waves, the EVS sample sizes of Dutch respondents were 1,221; 1,017; 1,003; and 1,554 respectively. The sample sizes of German respondents across the waves were 1,035; 3,437; 2,036; and 2,075.

Unfortunately, the EVS does not follow the same respondents over multiple waves (i.e., it is not panel data). Thus, to see how preferences evolve over time within the same respondents, I rely on the GLES and Dutch Parliamentary Election Study. These studies survey German and Dutch individuals, respectively, on questions related to the current election, major social and economic issues, and demographic information. Luckily, Both the Dutch Election Study and GLES were collected as panel studies during
our periods of interest. The Dutch Parliamentary Study contained 1,754 observations. Of these observations, 248 were only interviewed in the 1989 pre-election election wave, 631 were interviewed in the 1989 pre- and post-election waves, and 875 were interviewed in the 1989 pre- and post-election waves and in the 1994 wave. The GLES contained 3,263 observations. Of these observations, 902 were interviewed again in 2005 and 436 were interviewed across all three waves (2002, 2005, and 2009).

I begin my analysis with cross-national comparisons of changes in aggregate attitudes. In particular, I test to see if there is a movement away from support for the welfare state and toward a more economically liberal position on economic issues across the two contexts. I choose ideological self-placement as a measure because it captures respondents’ subjective views of their overall political placement. If respondents generally become less supportive of the welfare state and more supportive of markets, it is reasonable to expect a movement to the right. I also chose to measure how respondents’ views of the causes of need changed during the period of reform. The responses to this question include, “unlucky,” “injustice,” “laziness,” and “modern progress.” The answers unlucky and laziness demonstrate a more individualistic view toward the causes of need, while the answers injustice and modern progress indicate a more system view of the causes of need. Finally, I compare the evolution of respondents’ attitudes toward redistribution.

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1 In the GLES, this question is phrased as “To what extent should the state be responsible for reducing the disparity in income between the poor and the rich?” (15-16). The choices are “definitely responsible,” “responsible,” “not responsible,” and “certainly not responsible” (15). In the Dutch Parliamentary Study, the question is phrased as “Some people think that the differences in incomes in our country should be increased (at number 1). Others think that these differences should be decreased (at number 7). Of course, there are also people whose opinion is somewhere in between... And where would you place yourself on this line” (46-48). Respondents were then able to select where they fall on the 1 to 7 scale.
If my expectations are met, the Dutch will demonstrate movement to the right ideologically and toward a more individualistic view of need in the aggregate during the period of household capitalization. I also anticipate that overall levels of support for redistribution will decrease among Dutch respondents. In contrast, aggregate measures of Germans’ ideological placement, individualistic views, and redistributive preferences should show little to no movement during the period of austerity. While not strong causal evidence, this would provide support for the notion that contexts that implemented household capitalization regimes were successful in reorienting individuals’ views away from the state and toward markets, while those that implemented austerity without the compensation provided by household capitalization were not.

I employ a similar logic in testing my expectations outlined in hypothesis 2.1. I will be using the election panel datasets to assess the change in individual voters’ preferences over relevant period, which I disaggregate by party. For this, I use the change in ideological self-placement and the change in redistributive preferences. If my expectations are correct, we will see that Dutch Social Democratic voters’ preferences will become noticeably more right compared to other voters as household capitalization begins to be actively pursued between the 1989 and 1994 election. This will look like a change toward less support for redistribution and a more-right ideological self-placement between the 1989 and 1994 elections. I anticipate that German Social Democratic voters’ preferences will show no such movement in the right direction relative to other voters.

---

2 I create the change in ideological self-placement variable by subtracting respondents’ scores during the initial election year from their scores during the subsequent elections. In both cases higher scores are associated with more right views. Thus, positive scores indicate a shift in ideology to the right. I, similarly, create the change in redistributive preferences variable by subtracting respondents’ score from the first election from the respondents’ preference in the subsequent election. In Germany, positive scores are associated with a movement toward a lesser preference for redistribution, while positive scores are associated with a greater preference for redistribution in the Dutch context.
during the period of reform. If I am correct, this will offer support for the notion that welfare retrenchment alone is insufficient to move voters to the right.

Descriptive comparisons on their own are inadequate for demonstrating causality as they do not allow us to isolate the effects of confounding variables. Thus, I turn to regression to strengthen my causal claims and test the two micro-level hypotheses posed above. I again use the country-specific election panel studies to measure how respondents’ preferences evolved during the period of reform in each context.

I use two dependent variables. The first is the change in respondents’ left-right ideological self-placement from the pre-reform election to the post-reform election. Because ideological placement questions are measured on a continuous scale in both contexts, I use linear regression to isolate the determinants of this preference change. The second is the change in support for smaller income differences. These questions are posed slightly differently. In the Dutch context, it is on a one to seven scale. Thus, the change in self-rating is a continuous value and I, again, can run a linear regression. Since the German question is ordinal but fails to meet the assumptions of ordinal logit, I recode this variable into a binary variable. Thus, for German respondents, a value of 1 is associated with greater tolerance for bigger income difference while a value of 0 is associated with a desire for smaller income differences. As a result, I use binary logistic regression to test which individual characteristic effect the log-odds of supporting a smaller role for government in redistribution.

I anticipate that if household capitalization rather than simply retrenchment is driving the change in preferences, we will see Dutch respondents with higher income and higher education moving more toward the right as they will be best able to take
advantage of the new opportunities, whereas we will see no movement by similar German respondents. Unfortunately, no variables were included in the dataset asking about views toward homeownership and markets or about the probability of participating in financial markets. Therefore, I include income and education as independent variables. In addition, I anticipate that Social Democratic voters in the capitalized (Dutch) context will move to the right and express more individualistic preferences than Social Democratic voters in the non-capitalized (German) context who face pure austerity politics without the benefits of new financialized opportunities. Thus, I include a dichotomous measure of whether a respondent identifies as a Social Democratic party member. For the models, I include several controls to account for demographic differences that may influence respondents’ views. The controls I include are education level, gender, union membership, employment-related dummy variables, age, and class identification.

As I outline in my theory, I anticipate that the change in preferences spurred by the implementation of household capitalization as opposed to austerity without appeasement will help moderate political backlash. I detail this expectation in the final set of hypotheses. In the aggregate, I hypothesize that the SPD will suffer larger electoral losses following the implementation of austerity than the PvdA will suffer following household capitalization policies due to the moderating effects of these policies on voters’ preferences. At the micro-level, I anticipate that core Social Democratic constituencies will be more likely to electorally punish the Social Democratic Party

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3 The German controls are from the 2004 survey wave with the exception of SPD membership. The controls in the Dutch analyses are drawn from the first wave of the survey (1989) because they were not included in the subsequent wave.
where pure austerity was pursued relative to retrenchment alongside capitalization policies.

*Hypothesis 3.1: The Social Democratic Party will face less electoral backlash against retrenchment in the Netherlands than in Germany.*

*Hypothesis 3.2: In a comparison of voters, core Social Democratic constituencies (i.e., party members, union members, and ideologically left voters) will be more likely to vote switch away from the Social Democratic Party in Germany but be no more likely to vote switch in the Netherlands.*

To test the macro-level hypothesis, I draw on the ParlGov database. This database contains party, election, and cabinet data for 37 OECD countries spanning from the early twentieth century to today. I provide a descriptive comparison of the change in parliamentary seat share held by the Social Democratic parties during the period of retrenchment to see whether there was more severe electoral backlash in non-capitalized contexts relative to capitalized contexts. Again, descriptive comparisons are limited in their ability to establish causation. For this, I turn to the election studies. I create a binary variable and give respondents who reported voting for the Social Democrats in the first election, but then switched away from the Social Democrats in the election following retrenchment a one. Those who voted for the Social Democrats in both elections were assigned a zero. In Germany, of the 246 respondents that reported voting for the SPD in 2002, 85 reported not voting for the Party in 2005. In the Netherlands, of the 210 respondents that reported voting for the PvdA in 1989, 66 reported not voting for the Party in 1994. Since the dependent variable is dichotomous, I perform a binary logit to see if Social Democrats’ main constituents were more likely to vote switch in the absence of capitalization.

---

4 Due to the coding of this variable, only respondents who voted for the Social Democratic Party in the initial election under study were included in the analysis.
I include union membership, Social Democratic party membership, and left-right ideological self-placement as independent variables. Union membership and Social Democratic party membership are dichotomous variables, while ideological self-placement is on a one to ten scale in the Dutch study and on a one to eleven scale in the GLES. I include several controls to isolate the effects of the independent variables. These include income, education, urbanization, class identification, age, gender, and employment dummy variables. I also include other policy positions to control for other relevant policy considerations that would affect voting behavior.

Finally, I re-run the analyses with a less acute measure of disaffection with the Social Democratic party. I use a continuous measure of respondents’ change in favorability toward the Social Democratic Party. In the Dutch Parliamentary Study, I use the change in response to the question “Would you indicate how probable it is that you will ever vote for [the PvdA]?” (76). The scale for this question ranged from one indicating “certainly never” to ten indicating “some time certainly” (76-77). In the GLES, I use the scalometer toward parties. This question asks respondents how they feel toward the SPD. Positive five indicates “a very positive view,” while negative five indicates a “very negative view” of the SPD (21). Again, I subtract respondents’ answers during the initial election from their answers during the subsequent election. Thus, higher values are associated with an increase in positive feelings toward/the probability of voting for the Social Democrats.

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5 I include controls for policy positions that may also inform voting behavior. In Germany, the controls include a dummy if respondents think unemployment was the biggest problem in 2005, respondents’ positions on nuclear power, and respondents’ positions on the European Union. In addition, it includes respondents’ thoughts on reducing income differences. In the Dutch context, additional controls include respondents’ concern for unemployment, position on nuclear policy, emphasis on pollution, and views on euthanasia. I also include a measure of concern for income differences. The first two variables were drawn from the 1989 survey, while the latter three were drawn from the 1994 wave.
The Evolution of Preferences Across Capitalized and Non-Capitalized Contexts

I begin by testing an initial implication of my theory of political behavior. Namely, I test whether the introduction of household capitalization policies was successful in reorienting voters away from public provision and toward markets. To do this, I first compare the evolution of views in the non-capitalized context, Germany, and the capitalized context, the Netherlands. I expect Dutch respondents to display more right-leaning orientations (i.e., greater emphasis on the individual, less support for policies that socialize risk such as redistribution).

Figure 5.1 displays the change in attitudes across Germany and the Netherlands at the aggregate level during the periods of major welfare reforms. The graphs display the change in respondents’ views of the drivers of need. Dutch respondents were most likely to identify injustice as the primary driver of need in the 1990 to 1993 period. Over the next decade, this view changed for many respondents. Respondents viewed unluckiness as the primary driver of need by the 1999 to 2001 period. Over this decade, Dutch respondents were integrated into financial markets through a growing reliance on homeownership and market-reliant pensions as welfare state benefits were being reduced. This shift from viewing systemic causes of need such as social injustice to a feeling at it is a result of individual luck provides support for the notion that Dutch respondents’ views changed in line with their experience with market vagaries.
The evolution of German preferences over the period of retrenchment, without capitalization policies, shows a different trajectory. Before and after reforms, German respondents were most likely to view injustice as the primary driver of need. This view remained unaffected by third way policies. The differences in the evolution of views across our two contexts of interests highlight that Dutch respondents were subject to some pressure beyond just welfare retrenchment that contributed to an overall more
individualistic view toward those in need, a pressure that was clearly absent from the German context. This indicates support for my first hypothesis.

Figure 5.2 demonstrates the change in Dutch respondents’ ideological self-placement between the 1989 and 1994 elections. Lower values on the scale are associated with being more left while higher values are associated with being more right. During this time, there appears to be ideological movement to the center as both the far left and the far right tend to become less popular positions among respondents. In contrast, the percent of respondents who view themselves as pure moderates, in other words those who rated themselves as a five on the scale, increased from just over 15 to almost 20 percent.

**Figure 5.2 Change in Dutch Respondents’ Ideological Self-Placement during Reforms**

Source: Dutch Parliamentary Panel

We can compare the evolution of self-reported ideology in the Dutch context to the evolution witnessed in the German context. Figure 5.3 contains the evolution of self-reported ideology in Germany. Again, lower scores are associated with a more left self-placement, while higher scores are associated with a more right self-placement. The figure illustrates little deviation from the left toward the center. In fact, more respondents identify with the left following the implementation of third way policies. The trends in German respondents’ ideological self-placement are in stark contrast to the trends in the
Dutch context, despite both undergoing third way policies. These comparisons support my expectation that the implementation of liberalizing policies, rather than just pure retrenchment, contribute to an overall more right-leaning voting base.

Figure 5.3 Change in German Respondents’ Ideological Self-Placement during Reforms

![Figure 5.3](image1)

Source: GLES

Figure 5.4 Evolution of Dutch Preferences for Income Distribution during Reforms

![Figure 5.4](image2)

Source: Dutch Parliamentary Panel

Finally, I compare the evolution of perspectives on redistribution across the two contexts. The questions in both contexts relate to reducing income differences; however, they are worded slightly differently. Figure 5.4 illustrates whether Dutch respondents
indicated a preference for larger or smaller differences in income distribution across the two elections of interest. In 1989, a quarter of respondents indicated a preference for smaller income differences. By 1994, less than 15 percent of respondents expressed the extreme preferences for smaller income differences.

Figure 5.5 Evolution of German Preferences for Government Involvement in Income Distribution during Reforms

Figure 5.5 demonstrates the German preferences for greater or lesser government involvement in reducing income differences. Unfortunately, this question was only asked in 2005 and 2009 waves of the GLES. Nonetheless, the evolution of preferences in the German context is in the direction of more government intervention in reducing income differences. The small movement in Germany toward greater redistributive efforts stands in contrast to the trends in the Netherlands where voters took a more centrist position on redistribution. This demonstrates the overall reorientation away from the state that occurred in the Netherlands but did not occur in the German context despite also undergoing retrenchment. The aggregate comparisons provide support for my first hypothesis, hypothesis 1.1. However, aggregate comparisons do not allow for us to make
strong causal claims as we cannot control for other factors in purely descriptive analyses. To strengthen the causal logic, I turn to regression analysis.

Before turning to regression analysis, I first test the expectations presented in hypothesis 2.1, which anticipates that the movement to the right on issues in the Dutch context will largely result from Social Democratic Party members’ support for a turn to markets. I hypothesize that reorienting Social Democratic voters toward markets and away from the state cannot be done through retrenchment and third-way politics alone. Instead, I anticipate it is the communicating of household capitalization’s benefits that contribute to this turn.

In Figures 5.6 and 5.7, I look at the change in ideology and preferences for redistribution among members of the main Dutch political parties. PvdA members demonstrate the greatest movement to the right on the ideological self-placement scale between the 1989 and 1994 elections. The socially liberal, D66, also shows some rightward movement, while CDA and VVD members who are typically more right moved toward the left. PvdA members also demonstrate the greatest change in preferences toward less redistribution with D66 members close behind. These results show that left parties were driving much of the rightward movement, with PvdA members leading the way.

Now, let us compare the evolution in the views of left party members in the Netherlands to the evolution to left party members in the German context. Figure 5.8 shows the difference in self-reported ideological placement across the 2002 and 2005

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6 Party membership categorizations are based on respondents’ 1989 self-identification. The PvdA is the labor party or the Social Democratic Party, which tends to be center-left. The CDA is the center-right party. The VVD is the libertarian party, while the D66 calls itself social-liberal party and tends to be more to the right than the PvdA and more to the left than the CDA and VVD (Ramkema et al. 2008).
elections. While other party members demonstrate movement, members of the SPD remain remarkably consistent in their self-reported ideology during this time.

Figure 5.6 Change in Dutch Respondents’ Ideological Placement by Party

![Average Change in Left-Right Placement Among Dutch Respondents between 1989 and 1994 by Party Direction](image)

Source: Dutch Parliamentary Panel

Figure 5.7 Change in Dutch Respondents’ Income Distribution Preferences by Party

![Average Change in Income Differences Preferences Among Dutch Respondents between 1989 and 1994 by Party Direction](image)

Source: Dutch Parliamentary Panel

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7 The CDU and CSU tend to sit in the center-right. The SPD is the labor party which tends to be the center-left party. The FDP is a libertarian party. The Buendnis90/the Greens tend to be progressive socialism (Hazard 2017). The PDS represented the socialist movement and grew out of the East German Socialist Union Party (Olsen 1998). The Republikaner party was the right-wing nationalist party (Backes 1990) which preceded the current far right party AfD.
Figure 5.8 Change in German Respondents’ Ideological Placement by Party

Figure 5.9 Change in German Respondents’ Preferences for Government Involvement in Income Distribution by Party

Figure 5.9 illustrates the average change in position on the role of government in reducing income differences across parties between the 2005 and 2009 elections. In
general, almost all respondents supported greater government involvement over this period. These figures illustrate that, unlike PvdA members, SPD members did not experience the same movement toward the right on ideological self-placement or on redistribution specifically. This is true even though retrenchment was being enacted across both contexts in the midst of poor economic conditions. This offers support for the second macro-level hypothesis, hypothesis 2.1, in which I detail the expectation that austerity on its own would not produce a rightward move and it was, in fact, the decision to pursue household capitalization policies that would lead Social Democratic Party members toward a more liberal economic stance. As I have noted, aggregate level comparisons do not establish causality as they do not allow me to control for other factors that influence respondents’ positions.

To establish that it was the household capitalization policies and promises that contributed to the change in ideology, I run several regressions using the survey data from the GLES and the Dutch Parliamentary Study. In the first set of regressions, I test whether those best able to take advantage of household capitalization policies (e.g., higher education, higher income voters) were more likely to change their preferences to be in line with a pro-market, individualistic mentality. Recall, the other side of this expectation is that those same constituents in the non-capitalized environment will experience little movement. I also anticipate that Social Democratic Party members in the context of household capitalization will be more likely to demonstrate a movement to the right, while their counterparts in the non-capitalized environments will be no more likely to move to the right than other voters.
Table 5.1 contains the results for the linear regressions with change in left-right self-placement as the dependent variable. Recall that in both contexts positive values on the dependent variable are associated with a movement to the right, while negative values are associated with movement to the left.

Table 5.1 Determinants of Dutch and German Respondents’ Change in Ideology

| Determinants of Change in German L-R Self-Placement between the 2002 and 2005 Elections | Determinants of Change in Dutch L-R Self-Placement between the 1989 and 1994 Elections |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                  | Model 1                          |                                  | Model 1                          |                                  |                                  |                                  |                                  |                                  |
|                                  | b/se                             |                                  | b/se                             |                                  |                                  |                                  |                                  |                                  |
| Union Membership                | 0.180 (0.235)                    | Union Membership                | 0.252 (0.160)                    |                                  |                                  |                                  |                                  |                                  |
| Income                          | -0.035 (0.040)                   | Income                          | -0.065 (0.046)                   |                                  |                                  |                                  |                                  |                                  |
| Education                       | -0.110 (0.099)                   | Class Identification           | -0.128 (0.091)                   |                                  |                                  |                                  |                                  |                                  |
| Part Time worker                | 0.495 (0.334)                    | Age                             | -0.103** (0.031)                 |                                  |                                  |                                  |                                  |                                  |
| Student/in-Training             | 1.300* (0.547)                   | Education                       | -0.064 (0.084)                   |                                  |                                  |                                  |                                  |                                  |
| Unemployed                      | -0.675 (0.515)                   | Female                          | -0.065 (0.178)                   |                                  |                                  |                                  |                                  |                                  |
| Homemaker                       | 0.411 (0.475)                    | Disabled                        | -0.904* (0.423)                  |                                  |                                  |                                  |                                  |                                  |
| Retired                         | 0.164 (0.343)                    | Private Employee                | -1.046** (0.365)                 |                                  |                                  |                                  |                                  |                                  |
| Class Identification           | 0.558** (0.208)                  | Public Employee                 | -0.794* (0.397)                  |                                  |                                  |                                  |                                  |                                  |
| Age                             | 0.006 (0.011)                    | Unemployed                      | -0.280 (0.663)                   |                                  |                                  |                                  |                                  |                                  |
| Female                          | -0.035 (0.219)                   | Other Employ Status             | -0.782* (0.382)                  |                                  |                                  |                                  |                                  |                                  |
| SPD Member                      | 0.306 (0.193)                    | Degree of urbanization          | -0.054 (0.043)                   |                                  |                                  |                                  |                                  |                                  |
| Constant                        | -1.116+ (0.648)                  | PvdA Member                     | 0.758** (0.168)                  |                                  |                                  |                                  |                                  |                                  |
| Observations                    | 516                              | Constant                        | 2.169** (0.716)                  |                                  |                                  |                                  |                                  |                                  |
| Adjusted $R^2$                  | 0.019                            |                                  |                                   |                                  |                                  |                                  |                                  |                                  |

+ $p < .10$, * $p < .05$, ** $p < .01$

In the Dutch context, I anticipate that age, income, and PvdA membership will be associated with a movement to the right. This expectation is only partially supported.

Education and income fail to attain significance. PvdA membership, however, is
associated with a movement to the right between 1989 and 1994. Being a PvdA member in 1989 is associated with a movement to the right of roughly .8 points on average (p <.01). The variables that attain significance and are related to a leftward movement are age, being on disability, being employed in the public or private sectors, and those out of work but not retired, actively looking, or disabled.

The significance of age is likely the reaction of older voters to the cutting of benefits amid expanding markets. On average, a one-year increase in age is associated with a .1-point movement to the left. The movement to the left of older workers may reflect the retrenchment of early retirement schemes (Wolthoff et al. 2006) combined with the relative difficulty one may have in reaping the potential benefits of a turn to household capitalization while in their final years of the labor force.

I now turn to the left-hand of Table 5.1, which contains the determinants of German respondents' left-right ideological movement from the period 2002 to 2005. Looking at the variables of interest, I find that SPD membership, income, and education are unrelated to left-right movement during this period. Being a student or worker-in-training and identifying with higher classes were significantly associated with a movement to the right. The fact that SPD membership, higher education, and income were not associated with a movement to the right is in line with my expectations. This provides some evidence for hypothesis 1.1. The greatest support comes from the fact that PvdA members were more likely than other voters to move right whereas no such relationship existed for SPD members. The lack of relationship between income and education and rightward movement in the Dutch context was contrary to expectations.
I also perform analyses to isolate the determinants of the change in respondents’ views on redistribution during the relevant periods. Table 5.2 contains the results of this analysis.

Table 5.2 Determinants of Dutch and German Respondents’ Change in Income Distribution Preferences

<table>
<thead>
<tr>
<th>Determinants of German Respondents’ Change in Preferences toward a Lesser Role for Government in Income Distribution from 2002 to 2005</th>
<th>Determinants of Change in Dutch Preferences toward Smaller Income Differences from 1989 to 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td>Model 1</td>
</tr>
<tr>
<td>b/se</td>
<td>b/se</td>
</tr>
<tr>
<td>Union Membership</td>
<td>-0.575*</td>
</tr>
<tr>
<td>(0.293)</td>
<td>(0.146)</td>
</tr>
<tr>
<td>Income</td>
<td>-0.126**</td>
</tr>
<tr>
<td>(0.057)</td>
<td>(0.014)</td>
</tr>
<tr>
<td>Education</td>
<td>0.172</td>
</tr>
<tr>
<td>(0.128)</td>
<td>(0.080)</td>
</tr>
<tr>
<td>Part Time Worker</td>
<td>0.471</td>
</tr>
<tr>
<td>(0.449)</td>
<td>(0.028)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>1.148+</td>
</tr>
<tr>
<td>(1.072)</td>
<td>(0.076)</td>
</tr>
<tr>
<td>Homemaker</td>
<td>0.408</td>
</tr>
<tr>
<td>(0.620)</td>
<td>(0.160)</td>
</tr>
<tr>
<td>Retired</td>
<td>0.146</td>
</tr>
<tr>
<td>(0.450)</td>
<td>(0.587)</td>
</tr>
<tr>
<td>Class Identification</td>
<td>0.039+</td>
</tr>
<tr>
<td>(0.282)</td>
<td>(0.519)</td>
</tr>
<tr>
<td>Age</td>
<td>-0.003</td>
</tr>
<tr>
<td>(0.014)</td>
<td>(0.541)</td>
</tr>
<tr>
<td>Female</td>
<td>0.125</td>
</tr>
<tr>
<td>(0.297)</td>
<td>(0.608)</td>
</tr>
<tr>
<td>SPD Member</td>
<td>-0.243</td>
</tr>
<tr>
<td>(0.254)</td>
<td>(0.608)</td>
</tr>
<tr>
<td>Constant</td>
<td>2.942**</td>
</tr>
<tr>
<td>(0.843)</td>
<td>(0.843)</td>
</tr>
<tr>
<td>Observations</td>
<td>416</td>
</tr>
</tbody>
</table>

As described in the empirical approach section, I perform a binary logit in the German context. Union membership is marginally associated with a higher likelihood of an increase in support for government’s role in reducing income difference between 2005 and 2009, while higher income is significantly related to preferences for greater redistribution. In the Dutch context, the results of the linear regression illustrate that
PvdA membership is negatively and significantly related to an increase in support for smaller income differences. On average, being a PvdA member is associated with a movement of roughly .4-points toward favoring larger income differences. Age is marginally related to being more supportive of redistribution.

The results of this second set of analyses are similar the results in Table 5.1. These findings do not conform to hypothesis 1.2 but do provide evidence in support of hypothesis 2.2. Thus, I conclude this section having established that there was a movement to the right among the Dutch electorate, especially among PvdA members. In contrast, we do not see an analogous movement in the German context. This divergence in ideological trajectories of the Social Democratic bases in the Netherlands and Germany occurred despite both parties moving toward welfare state retrenchment during this period.

I argue that the difference between these parties is their adoption of a policy of household capitalization. Where the PvdA saw markets as a viable alternative and or supplement to welfare state programs, the SPD did not. Thus, the PvdA’s retrenchment efforts were accompanied with expanded financial opportunities and rhetoric about the benefits of financialized asset accumulation, despite cuts in public provision. In contrast, in the German context, cuts to welfare spending were felt more acutely by households due to the budgetary constraints they posed and the lack of financial opportunities that could serve as compensation for the welfare cuts. In the next section, I test if this lack of compensation in the context of retrenchment translated to greater levels of electoral backlash for the Social Democratic Party in Germany relative to the Social Democratic Party in the Netherlands.
Retrenchment, Household Capitalization, and Voter Backlash

I have demonstrated thus far in this chapter that the German and Dutch respondents diverged in their overall preferences despite the major center-left party in both countries implementing third way agendas. I argue that this is a result of the main differentiating factor during this time: the decision to integrate households and financial markets in light of welfare state cuts. Thus far, we have seen that much of the Dutch electorate has moved to the right, a movement particularly pronounced among PvdA members. This is demonstrated by the movement to the right on the measures of respondents’ self-reported left-right placement and of respondents’ preferences about income differences.

In the remaining sections of this chapter, I seek to answer a critical question. Does household capitalization (i.e., the decision to liberalize households financial access in light of retrenchment) result in lesser political backlash relative to stand-alone retrenchment efforts? To answer this, I look at aggregate trends in voter behavior in the Netherlands and in Germany. I, then, turn to micro-trends in voter behavior.

Table 5.3 Election Outcomes following Retrenchment Reforms in DEU and the NLD

<table>
<thead>
<tr>
<th>SDP Parliamentary Seat Share during Period of Retrenchment</th>
<th>PvdA Parliamentary Seat Share during Period of Retrenchment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Election</strong></td>
<td><strong>Seat Share (%)</strong></td>
</tr>
<tr>
<td>----------------</td>
<td>------------------</td>
</tr>
<tr>
<td>2002</td>
<td>41.6</td>
</tr>
<tr>
<td>2005</td>
<td>36.2</td>
</tr>
<tr>
<td>2009</td>
<td>23.5</td>
</tr>
</tbody>
</table>

Source: Authors calculations; ParlGov

I draw on descriptive data to test the macro-hypothesis that there was more severe electoral backlash in non-capitalized contexts relative to capitalized contexts. Table 5.3 contains the share of parliamentary seats held by the German and Dutch Social
Democratic parties throughout the period of retrenchment in each context. Table 5.3 illustrates that in the period during which the Hartz reforms were implemented and enacted the German Social Democratic Party, the SPD, lost a significant vote share. In the 2005 election, the SPD saw a decline of 13% in their parliamentary seat share. In the Netherlands, the PvdA lost a full quarter of their seat share between the 1989 and 1994 elections due to the retrenchment reforms. At first glance, it appears that the data fail to support the macro-hypothesis that there was greater backlash in non-liberalized contexts. In fact, the decline in parliamentary seat share for the PvdA was almost double that of the SPD.

However, looking at the trend in the longer term, we can see that a pattern emerges in line with expectations. In the 2009 parliamentary election, the SPD lost an incredible 35% of its seats. Between 2002 and 2009, the SPD lost 43% of its seat share in parliament. The PvdA’s fate in the longer term looked quite different. In the 1998 election, the Dutch Social Democrats regained almost all of the seats that they had lost in the previous election. As a result, the PvdA held the plurality of parliamentary seats only one election following the “election of popular discontent” (Visser and Hemerijck 1997, 146). This rebounding of the PvdA’s seat share at time $t+2$ is in line with behavior typically associated with voters’ response to conservative parties that engage in retrenchment (Horn 2021). Meanwhile, the long-term losses of the SPD fall in line with the expectations for a Social Democratic party that engages in retrenchment as they continued to see popularity decline (Horn 2021).
Table 5.4 Determinants of Vote Switching away from Social Democrats in the NLD and DEU

<table>
<thead>
<tr>
<th>Determinants of Vote Switching Away from the PvdA in 1994 with Additional Issue Controls</th>
<th>Determinants of Vote Switching Away from the SPD in 2005 with Additional Issue Controls</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model 1</strong></td>
<td><strong>Model 1</strong></td>
</tr>
<tr>
<td>b/se</td>
<td>b/se</td>
</tr>
</tbody>
</table>
| Union Membership | -0.247  
(0.440) |
| Class Identification | 0.501*  
(0.267) |
| Age | -0.214*  
(0.094) |
| Female | 0.923*  
(0.524) |
| Income | 0.070  
(0.138) |
| Disabled | -1.048  
(1.208) |
| Private Employee | -0.054  
(0.655) |
| Public Employee | 0.533  
(0.787) |
| Retired | 0.270  
(1.317) |
| Education | 0.065  
(0.246) |
| Euthanasia - respondent’s preference | 0.198  
(0.162) |
| Support Larger Income Diff | -0.142  
(0.161) |
| L-R placement | -0.044  
(0.179) |
| Pollution Relevant to Vote | -0.984  
(0.736) |
| Fix Unemployment over Deficit | 0.583  
(0.743) |
| Nuclear Policy | -0.081  
(0.165) |
| PvdA Member | -0.750  
(0.694) |
| Constant | -0.970  
(2.373) |
| Observations | 143 |
| Observations | 167 |

* p < .10  
* * p < .05  
** p < .01

Since descriptive statistics of election returns offer little causal evidence for or against my theory, I turn to the individual level voting data to get a better sense of what exactly drove the decline in voting for the SPD and PvdA. As discussed above, I anticipate that core Social Democratic constituencies (e.g., party members, union members, left-voters) will have the greatest likelihood of punishing Social Democratic parties for retrenchment in contexts where household capitalization is not pursued.
contrast, these voters will be no more likely to vote switch away from the PvdA in the Dutch context. The results of the binary logit estimations are presented in Table 5.4. The results of Table 5.4 show that class identification is marginally associated and gender is significantly associated with being more likely to switch away from the PvdA in the 1994 election. In contrast, being an older voter is significantly associated with being less likely to vote switch away. These results conform to Hypothesis 1.2 in the sense that income, education, and PvdA members appear to be no more or less likely to vote switch.

On the left side of the table, I present the results for the German analysis. The results show that part-time workers were significantly more likely to vote switch away from the SPD in the 2004 election. Those who think that unemployment is the most important issue were slightly less likely to vote switch, which makes sense given the SPD-led reforms to support expanded employment opportunities. Overall, these results diverge with the expectations outlined in Hypothesis 1.2 and 2.2. Left voters and union members in Germany were no more likely to vote-switch than right voters and non-union members. The most surprising finding was that SPD members were actually significantly less likely to vote switch than other voters. This finding is in direct opposition to hypothesis 3.2. Overall, the hypothesis that Social Democratic constituents would be more likely to vote switch where capitalization was not implemented alongside retrenchment was unsupported. This may be due to factors such as the limited number of alternatives for voters in terms of center-left parties in the German context. Since there are constraints on the ability of voters to defect from political parties given the limited number of choices in a given party system, I use a less acute measure of party dissatisfaction to measure if SPD voters were more likely to express disaffection.
This also allows me to expand the analysis to the entire electorate rather than just those respondents that voted for the Social Democrats in the pre-reform election. The German measure is the change in party favorability between the 2002 and 2004 elections, while
the Dutch measure is the change in the self-reported probability of voting for the PvdA. Table 5.5 contains the results of these regression.

The Dutch results are presented on the left. Immediately the results diverge with expectations. PvdA members were significantly more likely to report a lower probability of voting for the party following retrenchment. Being a PvdA party member is associated with a change in the probability of voting that is one-point lower than other voters on average (p <.01). This means that PvdA members were more likely to develop a negative view of the party during the 1989 to 1994 period. From this result, it does not appear that the expansion of financial access helped to curb the backlash at least during the initial election after retrenchment. Gender also reached conventional significance levels with women actually becoming more likely to vote for the PvdA during this period. Those with higher education and who cared about pollution also expressed a greater likelihood of voting for the PvdA in the 1994 election, but these results are only marginally significant.

The results for the German analysis appear in the right-hand column of Table 5.5. SPD members, the unemployed, and those with anti-EU preferences were all significantly more likely to express a lower favorability toward the SPD in 2005 relative to 2002. The decline in favorability among SPD members conformed to expectations. The low favorability among the unemployed also makes sense in the context of benefit reductions. Union members and left voters did not appear to develop a markedly more negative view.

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8 The coding of the original German variable ranges from negative five to positive five. I create the change in favorability variable by subtracting respondents’ 2004 SPD rating by their 2002 SPD rating. The coding of the original Dutch variable ranges from one to ten. I create the change in probability of voting for the PvdA scale by subtracting respondents’ 1989 self-reported probability of voting from their 1994 probability of voting.
of the SPD, which stands in contrast to expectations. Overall, the results of the vote-switching and favorability regressions provides little evidence to suggest that engaging in household capitalization policies moderated backlash, at least in the immediate term. Therefore, I conclude that hypothesis 3.2 is unsupported by the data. There are several possible reasons why the findings did not conform to expectations. It may be that the first mechanism in my model of behavior which states that ideas or promises about the benefits of household capitalization fails to produce any change in behavior in the immediate term even if it does result in some change in preferences. Another reason may be that SPD voters are confronted with limited alternatives. Finally, the case study presented in chapter 4 shows a sharp turn to the right by the SPD. Voters may anticipate that it is a temporary change in approach or have not yet updated their behavior in line with the changes to the party's platform.

**Conclusion**

In this chapter, I test a few key implications of my theory of political behavior under household capitalization versus under austerity without appeasement. I began by comparing the evolution of preferences across Germany and the Netherlands during the periods of retrenchment. The aggregate comparisons did indicate that there was some reorientation away from the state and toward markets in the Netherlands, as shown by the move toward individualistic views and a more right ideology. The aggregate comparisons also suggested that Social Democratic party members, in particular, shifted to the right ideologically. In contrast, there was no analogous shift in Germany, the non-capitalized context. When looking at the micro-data, I found support for the notion that Social
Democratic voters in the Netherlands were more likely than other voters to move to the right. No such relationship existed in Germany.

I then tested whether this movement to the right by some of the electorate helped to reduce backlash to retrenchment reforms in the Netherlands relative to Germany, as the expansion of financial markets came with promises of asset accumulation. The data did not support the notion that household capitalization led to less backlash. In fact, SPD voters in Germany were significantly less likely to vote switch away from the SPD than were members of other parties, whereas no relationship existed between PvdA membership and the probability of vote-switching in the Dutch context. I followed up this analysis with another analysis that used a less acute measure than vote switching. While the measures across contexts were not identical, they both measured respondents’ change in satisfaction with the relevant Social Democratic party. The results were contrary to expectations as PvdA members were significantly more likely to express dissatisfaction with their party. This also held for SPD members.

Overall, the findings in this chapter suggest that respondents in the Dutch context did experience some changes in attitudes, especially PvdA members. Thus, one cannot rule out that the expansion of financial markets and opportunities for households to engage in these markets led to more individualistic and pro-market views. However, even if this expansion did drive a movement to the right, it did not negate the negative response to retrenchment efforts in the capitalized context at least in the immediate term. While German Social Democratic voters did not experience a movement to the right, they were less likely to vote switch. This also was contrary to expectations.
Unfortunately, due to lack of data availability, I could not compare the evolution of voters’ preferences and vote choices over several elections in each context. Thus, it may in fact be the case that the fate of the PvdA and SPD diverged over several elections as I briefly suggested in my analysis of Table 5.3. Given the data presented here, I cannot make any conclusive statements about the long-term moderating effects of household capitalization policies on electoral performance of the parties. However, I can see how preferences have evolved as the Netherlands and Germany have developed into highly distinct regimes. Over the last 30 years, the Netherlands has become characterized by highly capitalized financial markets, record levels of pension assets, high levels of household debt, and an incredibly financialized housing market. In contrast, Germany has been characterized by stable household debt levels, relatively underdeveloped financial markets, and limited pension savings and capitalization.

Using original survey data, I test if these distinct trajectories have contributed to divergent preferences across the Dutch and German contexts. Importantly, I am able to test directly how financial market integration relates to preferences toward specific welfare policy areas. This allows me to test a critical hypothesis from my model, which is that financialized alternatives produce less support for public provision in the relevant policy area(s).
Chapter 6: Did the Dutch Ditch the Dole? Measuring Support for Welfare State Policies by Level of Financial Sector Engagement across Capitalized and Non-Capitalized Contexts

In the previous chapter, I explored the immediate effects of the pursuit of household capitalization on individuals’ preferences and voting behavior. I found some evidence to suggest that where household capitalization was pursued, individuals were more likely to develop more individualistic views and views more favorable toward market distribution, specifically among voters that identified as Social Democratic Party members. Despite the change in views among Social Democrats in the Netherlands where household capitalization had been pursued, they were no less likely to punish the Social Democratic Party for engaging in retrenchment than were Social Democrats in Germany where household capitalization had not been pursued.

While the findings on backlash are contrary to my expectations, the results do not rule out the potential for household capitalization policies to produce a change in attitudes and preferences in the long term. Therefore, in this chapter, I test my expectation that household capitalization will produce long term changes in preferences and attitudes using data from an original survey I designed and launched in Germany and the Netherlands. The central purpose of this chapter is to see whether there is evidence that individuals become less supportive of the welfare state in contexts where households have been integrated into financial markets. By using present-day data with more precise measures of financial sector integration and welfare state support, I test whether the pursuit of household capitalization was successful in reorienting households away from the state and toward markets for provision over the lifespan.
I find that some areas of household capitalization, such as financialized housing, are associated with greater levels of individualism, greater support for further financialization of the economy, and less support for public provision across a number of social policy areas. However, others such as capitalized pensions, while generating greater support for deeper financial markets, are not related to a turn away from the state or more individualism. Overall, the findings suggest that participation in financial markets, especially in the capitalized context, do decrease support for public provision; however, not among those most negatively affected by the turn to private provision. Instead, those who are highly engaged with financial markets and are not directly negatively affected by the specific policy area at hand appear to be most likely to support a more limited role for the state in social provision.

In what follows, I briefly review the theoretical expectations laid out in Chapter 2 that are to be tested in this chapter. I then provide an overview of the data collection process, and I describe the data structure and the key independent and dependent variables. After performing several aggregate-level comparisons of the relevant outcome variables across the Netherlands and Germany, I isolate the precise effect of household capitalization at the household level through a series of ordinary least squares (OLS) and binary logistic regressions. In the final section, I discuss the findings of the regressions and offer some concluding reflections.

**Review of Theoretical Expectations and Empirical Approach**

I expect that greater engagement with financial markets will make individuals look more favorably on pro-market policies, as these policies serve their material interests. At the country-level, I expect populations in capitalized contexts to demonstrate
higher levels of support for markets relative to non-capitalized contexts. At the individual level, I expect respondents with greater financial sector engagement to demonstrate greater favorability towards markets than those with lesser engagement.

**Hypothesis 4.1:** Dutch respondents will demonstrate greater favorability toward pro-homeownership policies, stock-market deregulation, and credit expansion than German respondents.

**Hypothesis 4.2:** Individuals with greater levels of financial engagement will demonstrate higher levels of support for pro-homeownership policies, stock-market deregulation, and credit expansion relative to those with lesser financial market engagement.

I also expect that this engagement will produce views more consistent with an individual ideology. This ideological change reflects both the individualization of risk that occurs from an emphasis on private, financialized welfare state alternatives and from greater support for markets and, thus, market distribution that results from financial market interaction. Again, I expect Dutch respondents to display a more individualistic ideology than German respondents at the aggregate level. At the individual level, I expect those with greater financial sector engagement to display greater individualism within each context.

**Hypothesis 5.1:** Dutch respondents will demonstrate more individualistic views relative to German respondents.

**Hypothesis 5.2:** Individuals with greater levels of financial market engagement will be more likely to possess an individualistic ideology relative to those with lesser engagement.

Finally, I anticipate that greater engagement with the financial sector will lead individuals to be less supportive of public provision of welfare, especially where capitalized, private alternatives exist. Therefore, I expect to see a lower overall level of support for social policies in the Netherlands relative to Germany, especially where capitalized alternatives
exist such as pensions. At this individual level, I expect those with greater financial sector involvement to be less supportive of public provision as they have access to capitalized alternatives.

**Hypothesis 6.1:** Dutch respondents will demonstrate lower levels of support for government welfare provision relative to German respondents, especially in areas where specific capitalized alternatives exist.

**Hypothesis 6.2:** Individuals with greater levels of financial sector engagement will demonstrate lower levels of support for public welfare provision relative to those with lower levels of financial market engagement, particularly where capitalized alternatives exist.

**Data Description and Operationalization**

In this chapter, I test my hypotheses using original survey data. I designed this survey to collect data on individuals’ engagement with markets, exposure to debt, reliance on pension capitalization, homeownership status, political attitudes, social policy preferences, and attitudes toward credit. While there are separate surveys that measure individuals’ views of the proper role of government; levels of individualism and egalitarianism; involvement with financial markets; and views on credit and debt, there is no survey that collects data on all of these areas. In addition, the literature has often looked at the relationship between certain types of financial market interactions in isolation and policy preferences or attitudes but has not looked at a battery of financial sector involvement and related them to both general attitudes and specific welfare state policies. When designing the survey, I kept in mind this gap in the literature, namely the failure to view household capitalization as a type of welfare regime.

I worked with the European survey firm, Respondi, to launch my survey in the contexts of interest. Respondi collected data from roughly 1200 respondents in each context. Using both online and off-line campaigns, Respondi recruits participants for
their “access panels.” Respondi maintains access panels across Europe, including in the Netherlands and Germany. From the access panel in each context, Respondi drew a random sample based on socio-demographic criteria. In particular, they ensured that the sample they drew was representative in terms of age and gender. The firm also was responsible for programming and translating the questionnaire into the context-appropriate language. Data collection took place during the middle weeks of March 2021.

The ability to design and launch my own survey provided greater control over the operationalization of the concepts embedded in the hypotheses of this chapter. To measure my primary independent variable of interest, financial engagement, I create an additive index from a series of yes/no questions respondents answered relating to their use of financial tools and services. This battery of questions included whether or not respondents have ever opened checking/savings accounts; credit cards; lines of credit for a car, home, or other purpose; or invested in the stock market either for retirement or non-retirement purposes. The highest value possible on my measure of financial sector engagement is a seven, while the lowest value on this index is a zero. Those with lower scores on this index are those with low levels of financial engagement, only limited to perhaps a bank account and credit card. Those who score moderately on this index have a bit more experience perhaps also having taken out a car loan or having some retirement in the stock market. Those who score at the highest level of financial sector engagement are respondents for whom access to financial tools and services play an integral role in their ability to secure housing, transportation, retirement, and more.

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9 I ensured proper translation by having both the translated Dutch and translated German questionnaires reviewed by native speakers prior to launching the survey.
I decided to create this index to get a fuller sense of the overall integration of households and financial markets by incorporating a multi-dimensional index that approximates how important financial market access is over the lifespan to a given household. In the literature, homeownership, non-housing debt, and stock market experience have been studied in isolation rather than as a broader part of a regime of household capitalization. This measure seeks to reconcile this oversight. Thus, this financial engagement index is the operationalization of household capitalization at the household level. Ultimately, it provides a numeric indication of the importance of financial markets to the sustenance and future well-being of households. In addition, by designing the survey so that each question is asked as a separate binary indicator, I also can disaggregate and compare, if necessary, the individual effects of different types of market engagement.

I also measure two other independent variables that are central to my story of household capitalization. These are homeownership status and the level of reliance on capitalized pensions. Homeownership has played a central role in the literature on private sources of insurance and attitudes toward the welfare state. Financialized homeownership, specifically, is of critical importance to the integration of households into credit markets. Thus, I include an indicator of whether or not respondents are homeowners. The question about reliance on capitalized pensions was asked as “From your understanding, how important is stock market performance for your retirement income?” and the possible answers were “Very important,” “Somewhat important,” “Not very important,” “Not at all important,” and “Not sure.”

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10 The final selection “Not sure” was recoded as missing.
The outcomes I was interested in measuring included respondents’ levels of individualism, respondents’ positions on pro-financial market policies, and respondents’ views on the proper role of government in different social policy areas. For the individualism scale, I combine the sources from four questions indicating a more individualistic versus a more systemic point of view\textsuperscript{11}. Respondents were asked to indicate the extent to which they agreed with each of the following questions on a five-point Likert scale:

- “Most people who don’t get ahead in our society should not blame the system; they only have themselves to blame.”
- “Economic positions are legitimate reflections of people’s achievements.”
- “There are no inherent differences between rich and poor; it is purely a matter of the circumstances into which you are born.”
- “The market is efficient in its distribution of goods, thus government involvement is unnecessary.”

To create a continuous dependent variable of an overall individualism scale, I centered the values of each variable and ensured that higher values represented greater levels of individualism prior to creating the additive index. Thus, respondents demonstrating the absolute highest level of individualism would score a positive eight, while those with the lowest levels of individualism would score a negative eight. This was an important outcome to include as I expect that household capitalization will lead to less desire for the socialization of risk through the state and a greater desire for the individualization of risk as private assets and personal credit worthiness take on greater

\textsuperscript{11} The first three questions were drawn directly from Margalit and Shayo (2020).
importance. I, therefore, anticipate this turn away from the socialization of risk to manifest in the adoption of a more individualistic world view.

A second outcome of interest measures respondents’ favorability toward policies that would further deepen financial markets. Respondents were asked to rate their favorability toward tax deductions on mortgage interest, higher loan to value ratios, and deeper secondary markets on a five-point Likert scale from “Highly favorable” to “Highly unfavorable.” Again, to create a scale of pro-capitalization policies, I centered the values of each variable and ensured that higher values on each variable represented greater pro-household capitalization views. The possible values on the household capitalization scale, thus, ranged between negative six and positive six. As outlined above, I expect that these policies will be looked upon more favorably by those with greater levels of financial sector engagement because of their material interests in the deepening of financial markets, the growth of housing markets, and the benefits afforded to those who engage fully in household capitalization through various fiscal incentives (e.g., tax deductions and exemptions).

Finally, a major expectation of this dissertation is that financial engagement in many circumstances reduces support for redistribution and potentially even government provision of traditional welfare policies such as pensions, unemployment, and disability. For the final set of hypotheses posed in this chapter, I draw from the European Social Survey’s Role of Government questionnaire. This survey asked respondents if it “Definitely should be,” “Probably should be,” “Probably should not be,” or “Definitely should not be” the government’s responsibility to provide health care, ensure old-age security, reduce income differences, cover the costs of tertiary education, provide a
decent standard of living for the disabled and unemployed, and provide adequate housing for those who cannot afford it. Instead of turning these measures into an index, I recoded each question into a dichotomous variable with those who said it “Definitely should be” given a value of one and those who said it “Probably should be” or “Definitely/Probably should not be” given a value of zero. A major implication of my theoretical expectations is that those with investments in financialized alternatives should be either in favor of less provision or at least indifferent to retrenchment efforts. Thus, by only giving those who are ardent supporters of the welfare state a value of one, I separate those who are more uncertain of their welfare state views from those who do not waiver in their support of government provision.

Table 6.1: Dutch Survey Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Engagement</td>
<td>1002</td>
<td>2.80</td>
<td>1.41</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Homeowner</td>
<td>990</td>
<td>0.61</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Imp. Markets for Pension</td>
<td>698</td>
<td>0.68</td>
<td>0.47</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Pro-Cap. Index</td>
<td>725</td>
<td>0.21</td>
<td>2.31</td>
<td>-6</td>
<td>6</td>
</tr>
<tr>
<td>Individualism Index</td>
<td>917</td>
<td>0.02</td>
<td>2.36</td>
<td>-8</td>
<td>8</td>
</tr>
<tr>
<td>Gov. Role Income Differences</td>
<td>981</td>
<td>0.48</td>
<td>0.50</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Gov. Role Housing</td>
<td>966</td>
<td>0.43</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Gov. Role Old Age</td>
<td>990</td>
<td>0.62</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Gov. Role Tertiary</td>
<td>954</td>
<td>0.35</td>
<td>0.48</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Gov. Role Unemployed</td>
<td>958</td>
<td>0.35</td>
<td>0.48</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

In Table 6.1, I present descriptive statistics for Dutch respondents on the main variables of interest. This table, therefore, includes descriptive statistics for the financial engagement, the pro-household capitalization, and the individualism indices. Other variables included in the descriptive statistics table are the relevant role of government variables, the homeownership indicator, and the variable indicating the importance of markets for retirement. The descriptive statistics in Table 6.1 illustrate that Dutch
respondents on average answered yes to just under three out of seven financial engagement indicators. In addition, about 68% answered that the stock market was “Somewhat important” or “Very important” to their retirement and about 62% of respondents said that they were homeowners. Sixty-two percent of Dutch respondents believe that the government “definitely should be” responsible for providing a decent standard of living in old age. Just under 50% think the government “definitely should be” responsible for reducing income differences, while 43% think the government “definitely should be” responsible for providing housing for those who cannot afford it. Finally, 35% think that the government is “definitely” responsible for providing tertiary education and ensuring a decent standard of living for the unemployed. Looking at the pro-market and individualism indices, Dutch respondents fell right in the middle of the spectrum, on average, seeing policies that deepen financial markets as neither negative nor too positive and seeing societal outcomes through neither an extremely individualistic nor systemic lens.

Turning to the other context of interest, Table 6.2 contains the descriptive results for German respondents. On average, respondents scored a three out of seven on the financial engagement index, which is a bit higher than in the Dutch sample. This means that German respondents tended to select more items on the financial engagement index than their Dutch counterparts. Only about 54% of respondents view stock market performance as important to their retirement, and only 40% of respondents said that they are homeowners. The figures in the Dutch context were 68% and 61%, respectively.
Table 6.2: German Survey Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Engagement</td>
<td>890</td>
<td>3.00</td>
<td>1.48</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Homeowner</td>
<td>871</td>
<td>0.40</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Imp. Markets for Pension</td>
<td>727</td>
<td>0.54</td>
<td>0.50</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Pro-Cap. Index</td>
<td>640</td>
<td>0.27</td>
<td>2.28</td>
<td>-6</td>
<td>6</td>
</tr>
<tr>
<td>Individualism Index</td>
<td>867</td>
<td>0.43</td>
<td>2.70</td>
<td>-7</td>
<td>8</td>
</tr>
<tr>
<td>Gov. Role Income Differences</td>
<td>868</td>
<td>0.46</td>
<td>0.50</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Gov. Role Housing</td>
<td>871</td>
<td>0.44</td>
<td>0.50</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Gov. Role Old Age</td>
<td>873</td>
<td>0.62</td>
<td>0.49</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Gov. Role Tertiary</td>
<td>853</td>
<td>0.29</td>
<td>0.45</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Gov. Role Unemployed</td>
<td>870</td>
<td>0.28</td>
<td>0.45</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

In regard to social provision, 62% think it is definitely the government’s job to provide old age security which is very similar to the Dutch figure. Around 45% of respondents think that reducing income differences and providing housing to those who need it definitely are responsibilities of the government. Just under 30% of German respondents think it is definitely the government’s job to provide tertiary education and a decent standard of living for the unemployed. Interestingly, German respondents tend to demonstrate slightly more individualistic and pro-market views on average. This is interesting as I anticipate that Dutch respondents, being within a highly capitalized context, will demonstrate more individualistic and pro-market views at the aggregate level relative to German respondents who are less reliant on markets for social insurance over the lifespan. I address the specific drivers of the higher levels of individualism in Germany relative to the Netherlands in the following macro-economic comparisons and later in the regressions using the micro-level survey data.

Analysis Plan and Model Specification

I begin my analysis by comparing the aggregate levels of individualism, pro-market sentiment, and support for government involvement across different areas of
social policy across my two contexts, Germany and the Netherlands. To improve the comparability of the aggregates across contexts, I do this by level of financial sector engagement, which I recode to take on the value of high, medium, or low\textsuperscript{12}. Thus, this allows us to see if there are cross-country differences even among those with similar levels of financial sector engagement.

As I have previously mentioned, aggregate comparisons are insufficient for establishing strong causal claims. I again turn to regression to establish causality to the extent possible. I begin by testing the effects of market engagement on individualism and support for deeper financial markets. Recall that I created numerical scales to measure these attitudes, which allows me to use simple OLS regression. I then turn to the binary outcome variables that I created for each policy area. Linear regression would be an inappropriate choice because the outcome variables are not continuous. Therefore, I turn to binary logistic regression.

Since I did have greater control over the demographic information included in the survey relative to the survey data used last chapter, I had a larger number of variables from which to choose the relevant controls. A major task in performing any type of regression analysis is balancing one’s model so that it is both complete and parsimonious. In developing each model, I rely on post-estimation model specification tests\textsuperscript{13}.

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\textsuperscript{12} Respondents were considered to have low financial engagement if they said yes to between zero and two types of financial engagement. They were considered to have medium engagement if they said yes to between three and five types of engagement. Finally, they were considered to have a high level of engagement if they said yes to six or seven types of engagement.

\textsuperscript{13} Two common tests of fit are the “ovtest” and “linktest” both of which test for model misspecification. The former uses the model’s predictions to create new variables, while the latter creates variables based on the predicted values in our model. Essentially, these variables are used to identify if there’s missing controls that need to be included. For more information, see Chen et al. (2003).
Support for Markets and Policies Across Capitalized and Non-Capitalized Contexts

Figure 6.1 Dutch and German Views of Capitalization Policies by Level of Financial Engagement

Figure 6.1 illustrates the degree to which respondents in each context agree with pro-household capitalization statements, broken down by level of financial engagement. Respondents rated the favorability of three policy areas in particular: secondary markets, mortgage interest deductions, and high loan-to-value ratios. The simple macro-level
comparison of support for mortgage interest deductions across different levels of financial engagement demonstrates that the Dutch are more likely than their German counterparts to view mortgage interest deductions as highly unfavorable and highly favorable. This polarization stands in contrast to the views of German respondents who tend to view this policy as either somewhat favorable or as neutral. The polarization of Dutch views of mortgage interest deductions are paralleled by their views of higher loan-to-value (LTV) ratios. This is especially true for those with higher levels of financial engagement. Dutch respondents are the most likely to view high LTV ratios as highly favorable and as highly unfavorable. Those with low or medium levels of financial sector engagement are more likely to view higher LTV ratios as somewhere in the middle. It is interesting to note that Dutch respondents are more likely to view higher LTV ratios more unfavorably, generally speaking, relative to German respondents. LTV ratios in Germany historically have remained low (no more than 80% of the asset value), while Dutch LTV ratios have reach levels as high as 120%. Thus, there may be a desire by Germans for more flexible lending, while the Dutch may be more concerned about very high LTV ratios given the experience with housing inflation and housing unaffordability as well as over-indebtedness.

The final area of household capitalization is secondary markets. The descriptive results show that in both the Dutch and German contexts, those who have higher levels of financial sector engagement are less likely to take a neutral stance. German respondents with low levels of financial engagement are more likely to take a neutral position, while

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14 The LTV ratio determines how much someone can borrow to purchase some asset. If an individual can borrow up to $100,000 for a $100,000 home, the LTV ratio would be 1:1 or 100%.
Dutch respondents with low and medium levels of engagement are more likely to take an unfavorable stance. So, what do these graphs tell us?

These macro-level comparisons of support for household capitalization policies do not present a clear-cut picture. We cannot make sweeping claims that capitalized contexts demonstrate a greater pro-market orientation relative to non-capitalized contexts. Instead, it appears that more intimate knowledge of or greater experience with household capitalization and financial markets in general contributes to a more polarized view of these policies. In contrast, where household capitalization is limited there tends to be a neutral or even slightly positive view of policies that would deepen markets. These results likely reflect the experience of Dutch respondents with housing and financial market volatility, over-indebtedness, or even bankruptcy. The more neutral or positive stances among German respondents, particularly those with lower levels of engagement with the financial sector, reflects a lack of experience with the consequences of household capitalization. This is demonstrated by the option “neither” being the clear mode across all three policy areas among Germans with low levels of financial engagement. The within country micro-data may help to clarify the traits that contribute to pro- and anti-household capitalization views.

In Figure 6.2, I present a macro-level comparison of the extent of individualistic views held by Dutch and German respondents at different levels of financial engagement. The first comparison relates to whether respondents think that economic position is explained by inherited circumstances. The results demonstrate that low levels of financial sector engagement across both contexts is related to strongly disagreeing with this statement. In addition, German respondents appear less likely to be neutral on this issue.
Next, I compare German and Dutch respondents’ views of whether economic positions are reflective of achievement.

Figure 6.2 Dutch and German Degree of Individualism by Level of Financial Engagement
The patterns within countries are quite similar as those with higher levels of financial engagement are more likely to agree or strongly agree, while those with lower levels of engagement are more likely to disagree or strongly disagree. An interesting finding that emerges is that Germans are more likely to agree that economic positions reflect achievement. Based on my expectations of a highly capitalized context, I would expect the Dutch to express more individualistic views on economic position. However, this is not the case. This may be related to the status-preserving orientation of German welfare institutions, which provides higher benefit levels to higher wage earners. Thus, it is reasonable that individuals would want to justify their positions.

The third comparison relates to the degree to which respondents view those who fail to “get ahead” as having only themselves to blame. German respondents tend to be either more neutral or to agree. While Dutch respondents with higher levels of financial market engagement tend to be the most likely to strongly agree, Dutch respondents overall tend to be more likely to disagree. Finally, I compare the extent to which respondents agree with the notion that markets are efficient in their distribution of goods. Dutch respondents with higher levels of financial engagement tend to agree or strongly agree, while Dutch respondents overall tend to be neutral or agree. In contrast, German respondents tend to be more likely to disagree.

Again, the results are not as clear cut as hypothesized. Greater engagement with financial tools and services tend to make individuals more individualistic relative to lower levels of involvement; however, there are clearly other factors that come into play at the individual level. Across contexts, the relationship is less clear. German respondents are polarized on whether inherited circumstances are to blame and are more likely than
their Dutch counterparts to view failure to get ahead and economic position as results of personal decisions and achievement. This is contrary to the direction posed by the hypothesis. Finally, Dutch respondents do tend to view markets as more efficient and, thus, view the government as having a lesser role. This is in line with the hypothesis. The results are interesting as they indicate that German respondents place significant emphasis on personal choices in shaping economic outcomes, but still view the market as requiring government intervention. As mentioned above, this may reflect the investment in and support for status-preserving welfare institutions with a distrust of completely unregulated markets.

In contrast, Dutch respondents view the markets as more efficient, but view factors external to the individual as critical in shaping economic outcomes. These macro-level results demonstrate that the integration of households and financial markets do not necessarily indicate a movement toward a more individualistic society, even if it is associated with a lesser role for government in moderating market outcomes. The coexistence of pro-market and relatively egalitarian views is not something I consider in the hypotheses but may be a hint that household capitalization does not necessarily mean the demise of the welfare state. In the following section, I dive deeper into the variables that are most influential on individualistic attitudes.

For the final set of macro-level comparisons, I look at differences between Dutch and German respondents’ views of the proper role of government. To get a general glance at support for public provision, I look at three key areas: unemployment insurance, old age security, and redistribution. In Figure 6.3, the results show that German respondents tend to express a lower level of support for unemployment insurance relative
to Dutch respondents. German respondents with high levels of financial sector engagement tend to be most likely to think that it is not the government’s role to provide unemployment compensation, while those with the lowest level of engagement tend to demonstrate the greatest support for unemployment security.

Figure 6.3 Dutch and German Views of Government Support by Level of Financial Engagement
In the Dutch context, respondents with the lowest level of engagement tend to be most supportive of unemployment support. However, high levels of financial sector engagement in the Dutch context do not appear to be related to unemployment.

Turning to old age security, German respondents surprisingly demonstrate lower levels of support for providing a decent standard of living for aged. Given the primary role of the statutory benefit in German retirement income, one might expect there to be significant support. Across both contexts, those with higher levels of financial engagement are more likely to think that the government probably should, rather than definitely should, provide old age security. Finally, I look at the relative levels of support for overall redistribution. In other words, I look at support for the government reducing income differences between rich and poor. Across the two contexts, there are similar levels of support for redistribution. Respondents with low levels of engagement in both contexts are most likely to say that it definitely should be the government’s responsibility to reduce income differences between rich and poor. However, only in the Dutch context do we see a clear difference between high financial sector engagement individuals and the rest of the population. Dutch respondents with high levels demonstrate less support for redistribution relative to other groups, with roughly a third of respondents in the sample saying it probably or definitely should not be the government’s responsibility.

These results illustrate that neither engaging with financial markets nor being in a capitalized context necessarily leads to major declines in support for government functions. Perhaps there may be some nuanced change with those who are more financially integrated being more likely to think the government “probably should be” rather than “definitely should be” involved in provision. As with the previous macro-
comparisons, we see that German respondents demonstrate lower levels of support for
government involvement in regard to old age insurance and unemployment. This is
contrary to expectations but, again, demonstrates that there are many factors that shape
views beyond just engagement with markets. An explanation may be the deep-rooted
principle of subsidiarity in the German system and status-maintaining institutions, which
may reduce support for more active role of the government, especially at the national
level, and promote a view of certain types of public provision as earned entitlements
rather than a form of government involvement.

In the Dutch system, I expected that high levels of financial sector engagement
would produce a distinct orientation away from an active state. However, that does not
appear to be the case generally speaking. Even Dutch respondents with high levels of
financial engagement are supportive of traditional welfare state programs (i.e., old age
and unemployment security). High levels of engagement do seem to lower support for
redistribution, however. This result is in line with the results presented in Figure 6.2
(individualism) in which Dutch respondents with high levels of financial sector
engagement tend to view markets as efficient and government intervention in markets
unnecessary. These findings are very interesting as it appears that greater financial sector
engagement, even in relatively egalitarian settings, reduces support for redistribution and
government involvement in the abstract but not necessarily in regard to concrete policies.

In sum, the aggregate comparisons do not provide clear evidence for hypotheses 4.1, 5.1,
and 6.1. Thus, from this survey, it appears that capitalization policies are not successful in
the overall reorientation of the entirety of the electorate away from the state. However,
we cannot conclude that those who have bought into these policies through borrowing and asset accumulation have remained unaffected. There is a pattern that emerges in both contexts with regard to respondents with low levels of financial sector engagement. Respondents with low levels of engagement tend to demonstrate consistently high levels of support for government taking an active role in each area. This may indicate that it does not require very high levels of engagement in order to change opinions or that financial engagement corresponds closely to SES. In the following section, I test some of the within-context hypotheses using the micro-level data. This allows me to isolate the effects of financial sector engagement and identify other traits that shape respondents’ views and attitudes.

**Support for Markets and Policies within Capitalized and Non-Capitalized Contexts**

In the following section, I turn to regression analysis to establish the precise effect of financial sector engagement, homeownership, and reliance on capitalized pensions on attitudes and on preferences. I begin by exploring the relationship between financial sector engagement and respondents’ attitudes. In Table 6.3, I present the results of OLS regressions for the Netherlands and Germany. The outcomes of interest in this table are levels of individualism and support for capitalization policies.

The financial engagement index is unrelated to feelings of individualism or support for policies that deepen financial markets in the Dutch context and is only marginally related to individualism in the German context. While these results are contrary to expectations, they provide useful insights, namely interaction with financial markets in general does not necessarily result in a move toward individualism. Up until now the literature has not had much to say about how an overall measure of financial
engagement would relate to preferences, but the results show that household capitalization does not produce overall value changes.

Table 6.3 Financial Sector Engagement’s Effect on Individualism and Support for Markets

<table>
<thead>
<tr>
<th>Effect of Financial Sector Engagement on German Support for Individualism and Markets</th>
<th>Effect of Financial Sector Engagement on Dutch Support for Individualism and Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individualism</strong></td>
<td><strong>Pro-Market</strong></td>
</tr>
<tr>
<td><strong>b/se</strong></td>
<td><strong>b/se</strong></td>
</tr>
<tr>
<td>Fin Engagement</td>
<td>0.131*</td>
</tr>
<tr>
<td></td>
<td>(0.078)</td>
</tr>
<tr>
<td>Homeowner</td>
<td>0.124</td>
</tr>
<tr>
<td></td>
<td>(0.223)</td>
</tr>
<tr>
<td>Market Imp. Retirement</td>
<td>0.128</td>
</tr>
<tr>
<td></td>
<td>(0.207)</td>
</tr>
<tr>
<td>Age</td>
<td>0.005</td>
</tr>
<tr>
<td></td>
<td>(0.009)</td>
</tr>
<tr>
<td>Female</td>
<td>0.255</td>
</tr>
<tr>
<td></td>
<td>(0.206)</td>
</tr>
<tr>
<td>Comfortable on Income</td>
<td>0.720**</td>
</tr>
<tr>
<td></td>
<td>(0.247)</td>
</tr>
<tr>
<td>Education</td>
<td>-0.126</td>
</tr>
<tr>
<td></td>
<td>(0.087)</td>
</tr>
<tr>
<td>Full Time Worker</td>
<td>0.733*</td>
</tr>
<tr>
<td></td>
<td>(0.352)</td>
</tr>
<tr>
<td>Part Time/Temp Worker</td>
<td>0.125</td>
</tr>
<tr>
<td></td>
<td>(0.388)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>-0.557</td>
</tr>
<tr>
<td></td>
<td>(0.567)</td>
</tr>
<tr>
<td>Permanent Disabled/Retired</td>
<td>0.375</td>
</tr>
<tr>
<td></td>
<td>(0.450)</td>
</tr>
<tr>
<td>Ideology</td>
<td>0.419**</td>
</tr>
<tr>
<td></td>
<td>(0.057)</td>
</tr>
<tr>
<td>Union Member</td>
<td>-0.006</td>
</tr>
<tr>
<td></td>
<td>(0.331)</td>
</tr>
<tr>
<td>Household Size</td>
<td>-0.058</td>
</tr>
<tr>
<td></td>
<td>(0.095)</td>
</tr>
<tr>
<td>Married</td>
<td>-3.106**</td>
</tr>
<tr>
<td></td>
<td>(0.725)</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.725)</td>
</tr>
<tr>
<td>Observations</td>
<td>670</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.131</td>
</tr>
</tbody>
</table>

* $p < .10$, * $p < .05$, ** $p < .01$  

I then turn to the second independent variable of interest which is homeownership. Homeownership performs more in line with my expectations. In the capitalized context, homeownership is associated with more individualistic views and more favorable views toward pro-financial market policies. Homeowners score one-half of a point higher on the individualism scale and roughly a full one-point higher on the
pro-market scale relative to non-homeowners, on average (p<.05, p <.01). In contrast, homeownership is unrelated to holding more individualistic views and unrelated to pro-capitalization views in the Germany context. This illustrates how homeownership in these highly financialized contexts in which homes function as an investment product produces distinct attitudes when compared to contexts in which homes take on a more functional role (i.e., provide shelter or perhaps serve as a savings vehicle). Overall, this finding is in line with my expectation for the function of housing, specifically financialized housing.

Finally, the effect of viewing the stock market as important for retirement income is remarkably similar across both contexts. It appears to be unrelated to individualism; however, it is associated with a higher score on the pro-capitalization index. In both contexts, thinking that the stock market is important for one’s retirement income is associated with a half of a point increase in the pro-capitalization index (p < .05). This partially conforms to expectations. When households feel that they have an important stake in financial markets, they become more supportive of policies that would improve their returns through the deepening of capital markets. This does not appear to make them view economic outcomes in more individualistic terms, however.

Feeling comfortable on one’s income and ideology were significant determinants of individualism, with greater comfort and a more right ideology being associated with higher levels of individualism. In the German context, full-time workers were also more likely to express individualistic views. In the Dutch context, those who were more satisfied with the government also expressed more individualistic views and more pro-market views, which is likely related to the fact that the center-right party, the People’s Party for Freedom and Democracy (VVD), is in control of government. Union members,
those who are more comfortable on income, and younger respondents expressed greater support for markets in the Dutch context, while full-time workers were less supportive of markets overall. In the German context, women and younger voters were more supportive of markets while those with higher levels of education were less supportive.

The results thus far have demonstrated that not all types of financial engagement are associated with higher degrees of individualism or even support for the further deepening of financial markets. Financialized housing stood out as a special situation which is associated with higher levels of individualism and support for markets. Viewing the stock market as important for retirement income is associated with supporting the deepening of markets but does not appear to be related to individualistic views, which reflect the findings of the Dutch macro-comparisons in that respondents were supportive of market distribution but still appeared to hold relatively egalitarian views. To see if and how financial engagement affects preferences in specific welfare state policy areas, I turn to a series of binary logit models.

Table 6.4 contains the Dutch results and Table 6.5 contains the German results. Before diving into the results particular to each context, I first want to highlight some common takeaways. Across both contexts, higher scores on the financial sector engagement index were associated with a decreased likelihood of thinking that redistribution “definitely should be” something in which the government engages. This indicates that engaging with the financial sector does influence views toward “uneearned” public provision. The other area of commonality is in terms of homeownership’s effect on respondents’ views of housing provision. In both the Netherlands and Germany, homeowners are significant less likely to think that it “definitely should be” the
government’s job to provide affordable housing. In the Netherlands, there are ample opportunities to secure housing funding, while in Germany housing remains relatively affordable which likely contributes to the views in the respective contexts.

Table 6.4 Dutch Household Capitalization and Support for Public Provision

<table>
<thead>
<tr>
<th>Determinants of Thinking Government 'Definitely Should Be' Responsible for Each Policy Area in the Netherlands</th>
<th>Old Age b/se</th>
<th>Unemployment b/se</th>
<th>Redistribution b/se</th>
<th>Tertiary Support b/se</th>
<th>Housing b/se</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fin. Engagement</td>
<td>-0.139**</td>
<td>0.002</td>
<td>-0.192*</td>
<td>-0.250**</td>
<td>-0.101</td>
</tr>
<tr>
<td></td>
<td>(0.075)</td>
<td>(0.081)</td>
<td>(0.076)</td>
<td>(0.080)</td>
<td>(0.075)</td>
</tr>
<tr>
<td>Homeowner</td>
<td>-0.168</td>
<td>-0.280</td>
<td>-0.384**</td>
<td>0.270</td>
<td>-0.463*</td>
</tr>
<tr>
<td></td>
<td>(0.217)</td>
<td>(0.225)</td>
<td>(0.209)</td>
<td>(0.223)</td>
<td>(0.210)</td>
</tr>
<tr>
<td>Market Imp. Retirement</td>
<td>0.143</td>
<td>-0.162</td>
<td>0.247</td>
<td>0.438*</td>
<td>0.146</td>
</tr>
<tr>
<td></td>
<td>(0.202)</td>
<td>(0.212)</td>
<td>(0.199)</td>
<td>(0.212)</td>
<td>(0.201)</td>
</tr>
<tr>
<td>Age</td>
<td>0.054**</td>
<td>0.035**</td>
<td>0.029**</td>
<td>0.009</td>
<td>0.031**</td>
</tr>
<tr>
<td></td>
<td>(0.007)</td>
<td>(0.008)</td>
<td>(0.007)</td>
<td>(0.007)</td>
<td>(0.007)</td>
</tr>
<tr>
<td>Female</td>
<td>0.434*</td>
<td>-0.327</td>
<td>0.155</td>
<td>-0.039</td>
<td>-0.098</td>
</tr>
<tr>
<td></td>
<td>(0.198)</td>
<td>(0.205)</td>
<td>(0.191)</td>
<td>(0.197)</td>
<td>(0.192)</td>
</tr>
<tr>
<td>Comfortable on Income</td>
<td>-0.341</td>
<td>-0.617*</td>
<td>-0.689**</td>
<td>-0.467*</td>
<td>-0.676**</td>
</tr>
<tr>
<td></td>
<td>(0.271)</td>
<td>(0.268)</td>
<td>(0.258)</td>
<td>(0.271)</td>
<td>(0.260)</td>
</tr>
<tr>
<td>Education</td>
<td>-0.074</td>
<td>0.063</td>
<td>-0.025</td>
<td>0.370**</td>
<td>0.098</td>
</tr>
<tr>
<td></td>
<td>(0.094)</td>
<td>(0.096)</td>
<td>(0.092)</td>
<td>(0.099)</td>
<td>(0.091)</td>
</tr>
<tr>
<td>Full Time Worker</td>
<td>0.448</td>
<td>-0.160</td>
<td>0.172</td>
<td>-1.291**</td>
<td>-0.533*</td>
</tr>
<tr>
<td></td>
<td>(0.321)</td>
<td>(0.345)</td>
<td>(0.318)</td>
<td>(0.313)</td>
<td>(0.315)</td>
</tr>
<tr>
<td>Part Time/Temp Worker</td>
<td>0.852*</td>
<td>0.087</td>
<td>0.299</td>
<td>-1.074**</td>
<td>-0.662*</td>
</tr>
<tr>
<td></td>
<td>(0.346)</td>
<td>(0.363)</td>
<td>(0.335)</td>
<td>(0.334)</td>
<td>(0.338)</td>
</tr>
<tr>
<td>Unemployed</td>
<td>0.702</td>
<td>1.339*</td>
<td>0.194</td>
<td>-0.384</td>
<td>0.658</td>
</tr>
<tr>
<td></td>
<td>(0.542)</td>
<td>(0.536)</td>
<td>(0.503)</td>
<td>(0.496)</td>
<td>(0.536)</td>
</tr>
<tr>
<td>Permanent Disabled/Retired</td>
<td>0.104</td>
<td>-0.254</td>
<td>0.135</td>
<td>-1.390**</td>
<td>-0.875*</td>
</tr>
<tr>
<td></td>
<td>(0.377)</td>
<td>(0.391)</td>
<td>(0.367)</td>
<td>(0.381)</td>
<td>(0.369)</td>
</tr>
<tr>
<td>Ideology</td>
<td>-0.050</td>
<td>-0.231**</td>
<td>-0.216**</td>
<td>-0.130**</td>
<td>-0.146**</td>
</tr>
<tr>
<td></td>
<td>(0.042)</td>
<td>(0.044)</td>
<td>(0.041)</td>
<td>(0.042)</td>
<td>(0.041)</td>
</tr>
<tr>
<td>Union Member</td>
<td>0.412</td>
<td>0.667**</td>
<td>0.589*</td>
<td>0.365</td>
<td>0.503*</td>
</tr>
<tr>
<td></td>
<td>(0.256)</td>
<td>(0.253)</td>
<td>(0.247)</td>
<td>(0.250)</td>
<td>(0.244)</td>
</tr>
<tr>
<td>Constant</td>
<td>-1.320*</td>
<td>-0.290</td>
<td>0.919</td>
<td>-0.175</td>
<td>0.243</td>
</tr>
<tr>
<td></td>
<td>(0.622)</td>
<td>(0.654)</td>
<td>(0.614)</td>
<td>(0.627)</td>
<td>(0.613)</td>
</tr>
</tbody>
</table>

Observations: 638 621 636 615 623

+ p < .10, * p < .05, ** p < .01
I now turn to the unique outcomes starting with the Dutch context. Again, these results are presented in Table 6.4. Respondents with higher scores on the financial engagement index also are less likely to think that the government “definitely should be” responsible for old age provision and education provision. In the highly capitalized context, this makes sense as the developed financial markets do offer alternative sources of funding such as investments in personal retirement accounts and student loans. In addition, homeowners in the Netherlands are marginally less likely to think that

Table 6.5 German Household Capitalization and Support for Public Provision

<table>
<thead>
<tr>
<th>Determinants of Thinking Government 'Definitely Should Be' Responsible for Each Policy Area in Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Fin. Engagement</td>
</tr>
<tr>
<td>(0.066)</td>
</tr>
<tr>
<td>Homeowner</td>
</tr>
<tr>
<td>(0.179)</td>
</tr>
<tr>
<td>Market Imp. Retirement</td>
</tr>
<tr>
<td>(0.176)</td>
</tr>
<tr>
<td>Age</td>
</tr>
<tr>
<td>(0.007)</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>(0.174)</td>
</tr>
<tr>
<td>Comfortable on Income</td>
</tr>
<tr>
<td>(0.213)</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>(0.073)</td>
</tr>
<tr>
<td>Full Time Worker</td>
</tr>
<tr>
<td>(0.316)</td>
</tr>
<tr>
<td>Part Time/Temp Worker</td>
</tr>
<tr>
<td>(0.346)</td>
</tr>
<tr>
<td>Unemployed</td>
</tr>
<tr>
<td>(0.558)</td>
</tr>
<tr>
<td>Permanent Disabled/Retired</td>
</tr>
<tr>
<td>(0.400)</td>
</tr>
<tr>
<td>Ideology</td>
</tr>
<tr>
<td>(0.048)</td>
</tr>
<tr>
<td>Union Member</td>
</tr>
<tr>
<td>(0.304)</td>
</tr>
<tr>
<td>Constant</td>
</tr>
<tr>
<td>(0.581)</td>
</tr>
<tr>
<td>Observations</td>
</tr>
</tbody>
</table>

\[+ p < .10, * p < .05, ** p < .01\]
redistribution is “definitely” the responsibility of the government (p < .1). This reflects the favorability of homeowners toward market distribution and the individualistic orientation discussed above. It also conforms to expectations and comports with previous findings in the literature.

Finally, viewing the stock market as important for retirement is associated with actually a higher likelihood of thinking that the government “definitely” should provide tertiary support. At first glance this is somewhat of an odd finding and definitely not in line with expectations. However, those who attach higher levels of importance to the stock market for their retirement could develop these views for a number of reasons. First, those who feel that the stock market is important to their retirement income may be in the position of having to fund tertiary education for a child or even themselves. Another reason may be that this group is more attuned to financial developments and are aware of the non-trivial increase in student debt that has resulted from education cuts. Whatever the reason may be, it is clear that even in highly capitalized contexts, financialized retirement schemes do not produce the same effects as financialized housing.

Prior to moving on to the unique results of the German model, I would like to touch on some of the controls that were particularly influential. Being more comfortable on one’s income and possessing a more right ideology are associated with being less likely to think the government definitely should provide unemployment insurance, reduce income differences, provide tertiary funding, and provide housing. Age is associated with thinking the government definitely should provide old age security, unemployment, and housing and reduce income differences. Finally, union members were more likely to
think the government definitely should provide housing and unemployment and reduce income differences.

I now turn to the German context. German respondents with higher scores on the financial engagement index are less likely to view housing as something that definitely should be provided by the government. This is perhaps related to their experience with home loans or other types of loans, which some may view as an alternative to government provision. Germans who report markets as important for their retirement are surprisingly more likely to think the government definitely should provide a decent standard of living for the unemployed. In some ways the German results mirror the Dutch results in that reliance on financialized retirement schemes tend to make respondents more supportive of government provision, albeit in seemingly unrelated areas. Again, the direct relationship is not immediately clear, but could be related to the desire for stable income given the uncertainty of retirement income that is highly dependent on financial market returns. This would represent evidence against the idea that greater integration into financial markets promotes an overarching reorientation away from the state. It could be possible that the loss of certainty in some areas may result in the desire for greater certainty in others.

A number of control variables in the German context demonstrated consistent effects across the various policy areas. Those with higher education are less likely to think the government should play a role in public provision, with significantly lower support for old age provision and redistribution. The only exception is in regard to tertiary education, which highly educated respondents are more likely to think the government definitely should play a role in providing. Full-time workers and respondents
that are more right ideologically are less supportive of government provision across the board with unemployment, redistribution, tertiary education, and housing all being significant.

The results in the German context partially conform to expectations as financial engagement reduces support for redistribution and housing and homeownership reduces support for housing. However, it also falls short of expectations in other ways, namely in the overall lack of relationship between different types of engagement and policy areas. In the Netherlands, I show greater conformity to expectations as financial engagement reduces support for policies in a number of areas as does homeownership. Both contexts, however, clearly demonstrate that greater integration in financial markets does not necessarily result in lesser support for the related policy area. This is demonstrated by the lack of relationship and even positive relationship between viewing the stock market as important for retirement income and various areas of public provision. This may be indicative of the precarious position of those who find themselves relying on uncertain financial returns for the determination of their final benefit amounts.

**Conclusion**

In this chapter, I use original survey data to test whether attitudes and welfare state preferences diverged across my two contexts of interest: the Netherlands, which is the capitalized context, and Germany, the non-capitalized context. I offer several macro- and micro-level expectations about the ways in which I anticipate how different types of integration in financial markets will affect respondents’ views. To give a sense where my theory stands vis-à-vis the data and where we are headed next, I briefly discuss the hypotheses and relevant findings and offer some concluding thoughts.
To quickly review, I expected that Dutch respondents would be more favorable toward policies that would further deepen financial markets, demonstrate more individualistic views, and prefer less government intervention at the aggregate level relative to German respondents. The results of the basic macro-comparisons did not offer much support for these expectations as Dutch respondents were less individualistic and more supportive of government provision in many ways. Dutch respondents did seem a bit less likely to take a neutral stance on the pro-market policies, especially those that had high levels of financial sector engagement, and they were more supportive of market distribution. To me, this indicated that instead of household capitalization contributing to an all-out rejection of the welfare state and a turn towards an individualistic perspective, pro-market attitudes developed alongside relatively egalitarian views. To get a sense of exactly what role financial markets did play in shaping attitudes across both contexts, I turned to regression analyses of the micro-level data.

In the micro-set of hypotheses, I tested whether financial sector engagement affects support for policies that would deepen financial markets, the degree of individualism, and the desire for government provision in different policy areas with a particular emphasis on those for which financialized alternatives exist. There was weak support for financial engagement as a driver of pro-market and individualistic views. However, financial engagement in the capitalized context and to a lesser extent the non-capitalized context was related to less support for public provision providing support for my expectations. Financialized homeownership was associated with more pro-market and individualistic views and less support for redistribution also providing some support for my expectations. Reliance on markets for retirement was related to pro-market views as
expected but was not associated with less support for old age provision which was contrary to my hypothesis.

Overall, the data appear to indicate that where financial alternatives exist and among individuals who have access to those alternatives, there is a sense that the government should take on a lesser role at least in the abstract. Thus, in the Netherlands, those with higher levels of financial engagement think the government should take on less of a role in three out of five policy areas: old age, redistribution, and tertiary support. As I have mentioned, old-age security is highly financialized in this context and tertiary funding is becoming increasingly financialized as students are taking on more and more loans in light of cuts. In addition, redistribution is one of those relative abstract policy areas that have less acute consequences than cuts in pensions, for example. Homeownership in the capitalized context also tends to reduce support for redistribution; however, support for unemployment insurance, old age provision, and tertiary funding are unaffected. This demonstrates that homeownership does not act as a sort of overarching substitute for all types of social insurance, but generally reduces favorability toward paying taxes toward benefits they are unlikely to receive. Homeownership across both contexts, ironically, does reduce support for government involvement in affordable housing. Finally, the results demonstrate that reliance on financial markets for provision, specifically retirement provision, does not necessarily lead to a desire for less public provision. In fact, it appears to have a positive relationship.

While the results show that the existence of financialized alternatives and a well-developed financial market do tend to contribute to lower levels of policy support, it seems to do so in areas that are not directly related to individuals’ own need to rely on
financial markets. Thus, it is unlikely that we will see public provision lose all favor among those who are more financially engaged, with the exception of redistribution. Instead, policymakers may be able to take advantages of cleavages in the electorate as younger voters, for example, may be less supportive of public provision of old age insurance if they anticipate that they will not reap the benefits of statutory old age provision and have to rely mainly on capitalized pensions and personal retirement savings which they are encouraged to contribute to from a young age. Another cleavage exists in the US related to education funding. Many who do not have higher educations or who attended tertiary institutions when they were cheaper engage with the financial sector for the purposes of buying homes, cars, and businesses and may think that the choice to get a higher education is an investment like a home or a car, thus the consumer should be responsible for paying for that investment through loans rather than through public tax dollars. This ability to play voters against one-another may be just as beneficial in the push to cut spending in certain areas. In the next chapter, I test whether greater capitalization of policies has led to overall declines in generosity.
Chapter 7: Establishing the Relationship between Household Capitalization and Welfare Generosity Across Time and Space

In my final empirical chapter, I test perhaps the most important implication of my theory of household capitalization. I test whether states’ decisions to deepen financial markets and transfer the responsibility for social provision from the state to markets results in lower welfare state generosity in the future. In simple terms, I test if financial markets appear to be effectively replacing the state in social provision.

So far in this dissertation, I have argued that some governments have chosen a route of household capitalization, meaning that financial markets have been employed as either a tool or the primary site of social provision. The use of markets was rooted in the (real or imagined) crisis of the welfare state. This crisis was a theme across almost all established welfare states at the end of the twentieth century. Policymakers sought to reduce both the burden on the welfare state by incentivizing households to engage with markets for old age security, for consumption smoothing and quick liquidity, for self-insurance, and for investment purposes. In doing so, they saw an opportunity to reorient households toward markets and away from public provision, potentially creating an environment in which retrenchment efforts were more palatable as support for public provision waned with the integration of households and markets. In the latter half of this dissertation, I ask the question: did it work?

Over the last two chapters, I have explored whether turning to financial markets proved effective in altering social attitudes and reducing support for redistribution in the immediate term and now decades later. I theorized and tested that lesser preferences for the welfare state would moderate backlash, effectively creating an open policymaking environment for retrenchment. While attitudes did appear to shift during the initial stages
of embarking on a household capitalization trajectory, this did not reduce backlash for retrenchment efforts in the following election. I turn to recent measures of attitudes and preferences to assess the long-term impact of the divergent trajectories. The results demonstrate that financial sector engagement, specifically in highly capitalized contexts, tends to lead respondents to desire a lesser role for government. However, this only appears to be the case so long as reduced benefits are not negatively affecting the respondents directly.

In this chapter, I focus on macro-economic trends to test whether household capitalization policies have led to welfare state decline (irrespective of public opinion at times) or if trends in welfare state generosity appear to be independent of household capitalization policies. The former case would be indicative of a “great [financialized] risk shift” occurring across the spectrum of advanced economies, even those known for their generous welfare state institutions. The latter case would signal that household capitalization may just function as a complement or supplement to state institutions rather than as a substitute, which would indicate that fears of the spread of Anglo-financial practices leading to Anglo-type minimalist welfare states are unfounded.

In what follows, I briefly review my theoretical expectations which were originally laid out in Chapter 2 and explain my empirical strategy. This strategy involves using measures of household capitalization in the areas of pensions and housing to predict changes in relevant welfare state institutions. I turn to a cross-section of advanced countries over time for additional leverage and to support the applicability of my theory as my empirical tests thus far have been limited to the Netherlands and Germany.
The results both conform to and contradict my expectations in different respects. Pension capitalization demonstrates a negative relationship with pension generosity in both the short term and the long term. I also find that unemployment insurance tends to become less generous as housing prices increase. The surprising finding emerges from the analysis of housing and pension generosity. Housing price growth, characteristic of capitalized contexts, demonstrates a positive relationship with pension generosity in the long term. This finding sheds light on an often overlooked and likely unintended consequence of household capitalization policies. Specifically, that capitalization policies in the realm of housing create a powerful new interest group, homeowners, which appear to maintain high levels of support for universal social insurance policies such as pensions and potentially serve as an obstacle to further reforms.

Review of Theoretical Expectations and Empirical Strategy

In Chapter 2, I present my models of political behavior under household capitalization and under austerity without appeasement. I theorize that household capitalization would change preferences to be less favorable toward the welfare state, which would create an open policy environment. Thus, I anticipate greater retrenchment levels in capitalized contexts relative to non-capitalized contexts. I find mixed support for a more open policymaking environment and for the notion that greater levels of capitalization cause less support for welfare state policies across the board. I, however, do find some evidence of a negative effect of capitalization on some more targeted programs. Despite the mixed public opinion results, testing the relationship between household capitalization policies and welfare state generosity remains important as policymakers may engage in opaque politics that blur the consequences of welfare
reforms or simply may ignore the preferences of voters, as has been documented in American politics (Gilens and Page 2017).

I identify areas in which financial markets offer an alternative to welfare state policies and test the effect of their growth on welfare state generosity. In doing so, I offer a novel contribution to the literature on financialized alternatives to the welfare state as I test the effect of greater financial market reliance on levels of welfare generosity over time. The general hypothesis I test in this chapter is: where greater household capitalization has taken hold, I expect declines in the generosity of relevant welfare state institutions.

*Hypothesis 7:* Greater reliance on equity markets for pension funding will cause a decline in public pension generosity.

*Hypotheses 8:* Financialized housing regimes will cause a decline in the generosity of public provision generally and in unemployment insurance and pensions specifically.

*Data and Methods*

Operationalizing Household capitalization

The focus of this dissertation is to establish if, first, an approach of household capitalization was purposefully adopted by policymakers seeking to reduce reliance on the public purse for social provision and, secondly, if this policy approach proved effective. An effective household capitalization policy entails increasing reliance on financial markets, decreasing support for public provision, and developing an open policymaking environment in which retrenchment is pursued with relatively moderate backlash. The task in this chapter is to establish whether or not greater levels of market reliance are associated with subsequent decreases in the levels of public provision in related areas.
Three main sites of household capitalization include pensions, housing, and education. As I detailed earlier, capitalized pensions are critical to financial sector development and to the establishment of an institutional path for financial markets to replace public provision. Financialized housing also is central to the development of the regime as it acts as an investment vehicle, a rainy-day fund, and integrates households fully into credit markets. Finally, the responsibility for tertiary education funding has been transferred from the state to households in a number of contexts, leading many to take on debt. Thus, these three areas are among the most visible aspects of household capitalization but, due to data availability, I limit the empirical focus to pension and housing capitalization in this chapter.

To test whether greater household capitalization causes lower levels of welfare state generosity in the realm of pensions, I collect time-series cross-sectional data on pension fund investment in equity markets and public pension generosity. Pension funds have a long history of investments, namely in fixed assets such as real estate and securities (Anderson 2019). However, with the implementation of a policy of household capitalization, pension funds have turned to equity markets with their promises of higher returns. Pensions are a key site of household capitalization as social provision in this realm has become increasingly tied to financial market performance (“Ministers, unions and employers finally agree on new pension system”).

Therefore, I collect data on the total amount of pension fund assets invested in equity markets, which can be found on the website of the Organization of Economic Co-operation and Development (OECD). This data ranges from the mid-1990s to 2018 for most contexts. To account for differences in the overall size of the countries, the
independent variable measure is pension fund investments in equity markets as a percent of GDP. In accordance with the hypotheses detailed in the previous section, I anticipate that the greater the pension fund investments in equity markets, the lesser the public provision of pensions. I rely on the updated pension generosity measure from The Comparative Welfare Entitlements Project (CWEP) led by Scruggs et al. (2022). Using the CWEP generosity measures is the optimal approach to measuring generosity as these measures take into consideration the multidimensional nature of welfare entitlements. Rather than only focusing on eligibility or replacement rates, the CWEP measures account for replacement rates, coverage, eligibility, and duration. Coverage of this data extends from 1970 to 2020. In the pension capitalization sample, pension generosity scores range from a minimum of 7.42 to a maximum of 15.48.

In order to test the impact of household capitalization related to housing I use OECD’s measure of Real House Prices. I use this measure as it contains a greater number of observations and is a more reliable measure than housing debt. The coverage of this series extends from 1970s to 2020. I find this measure to be appropriate as I anticipate the growing home prices to be a result of a policy of household capitalization. As homeownership is encouraged, financial regulations are relaxed freeing up additional credit for lending and households begin to view homes as good investments both of which drive up housing prices (Favara and Imbs 2015; Shiller 2007). In addition, greater private assets should theoretically lead to less support for public provision based on the literature on asset-ownership. In summary, we can reasonably expect that rising housing prices should spell trouble for welfare generosity if my assumptions about household capitalization are correct.
I expect that greater government involvement in encouraging homeownership specifically and asset accumulation more generally will be negatively related to overall generosity as the literature on privatized Keynesianism and asset-backed welfare has discussed. I also expect housing prices to be negatively related to pensions, as they provide an alternative “savings” for old age, and negatively related to unemployment insurance, as housing can serve as collateral in difficult times. Thus, with regard to, housing I select three dependent variables all of which are drawn from the CWEP. For overall generosity, I use the total generosity index score which is an additive index combining overall generosity of pension insurance, sickness insurance, and unemployment insurance. I then look at the relationships between housing and pensions and housing and unemployment provision separately. For the housing sample the total generosity score ranges from a minimum of 12.96, which indicates low generosity, to a high of 47.61, which indicates very high generosity. The pension generosity score ranges from a minimum of 6.52 to a maximum of 16.95. Finally, the unemployment generosity score ranges from a minimum of 0 to a maximum of 15.27.

Figure 7.1 contains a scatterplot of the relationship between the change in the amount of pension assets that are invested in equity markets and the change in pension generosity between 1997 and 2017. The trend line indicates that there appears to be a very slightly negative relationship. Ironically, a main context of interest, the Netherlands, appears to behave contrary to expectations as this context experienced both major growth in the level of pensions invested in equities and considerable growth in overall welfare state generosity.
Figure 7.1 Relationship between the Change in Pension Investments in Equities and Public Pension Generosity

The plot also shows that many countries experienced little to no change on either of the axes. This does not necessarily mean that most countries have little pension investments in equites, rather a number of contexts turned to markets prior to the period for which we have data. With that said, causal relationships cannot be established from a simple scatterplot.

In Figure 7.2, I plot the relationship between the change in housing prices and the change in total welfare state generosity. Luckily, the data for my variables of interest cover a much larger time span in this case. Thus, we are able to see the change in housing price. Over this period, many countries experienced significant growth in housing prices, but adjusted their welfare states to be more generous in some cases and less generous in others.
Figure 7.2 Relationship between the Change in House Prices and Change in Welfare Generosity

Again, there are few conclusions that can be drawn from this plot, but it does give a sense of the significant changes in welfare state politics and housing markets through the end of the twentieth century and beginning of the twenty-first century. I now turn to time-series cross-sectional regression to establish the associations embedded in the trends above.

Data Structure and Controls

I will be using time-series cross-sectional (TSCS) data to test my hypotheses. For each of these contexts, I gathered data for a number of key covariates. This allows me to control for relevant changes in demographic, economic, and political conditions. From World Bank Databank, I collected data including GDP per capita, GDP growth, current account balance, population size, population growth, population over 65, unemployment, inflation and government expenditure. From OECD, I collected controls for the size of the government deficit and the size of government debt.
Model Specification

Due to data availability limitations, the housing and pension models differ in terms of the country and year coverage. The pension data spans from 1995 to 2018 and covers 13 countries\textsuperscript{15}. This data structure does allow for the modelling of the key time trends that we are interested in, namely whether level of pension household capitalization at time $t$ is associated with lesser generosity at time $t + k$. Modelling time-series and accounting for features of cross-sectional data present unique challenges. Cross-sectional data include repeated measures for the same units, which need to be controlled for otherwise our estimates will be biased. In addition, when modelling time dynamics, one must determine if and how to account for the underlying data generating process of the time series element to ensure that relationships are not spurious.

Thus, the toughest challenges relating to TSCS data structures emerge when we are interested in modelling rather than controlling for time. This is compounded by the fact that literature on dynamic modelling of time-series cross-sectional data is lean relative to its two component methods, time-series and cross-sectional methods. However, time-series experts, Beck and Katz (1995, 1996, 2011), have been trailblazers in the subfield of political methodology developing guidance on how political scientists can best deal with the challenges of TSCS data structures. For guidance in selecting the most appropriate models for the data, I draw on Beck and Katz’s (2011) article, “Modelling Dynamics in Time-Series—Cross-Section Political Economy Data.”

\textsuperscript{15} These countries are Australia, Austria, Belgium, Finland, Germany, Ireland, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, and the United States. Due to the difficulty estimating dynamic models on groups with fewer than 10 observations, I limited the analyses to these contexts.
When dealing with time series data, the first step is to establish whether the data meets the assumption of stationarity. Stationary data is characterized by a return to the mean following shocks, whereas non-stationary data is characterized by long-term or permanent changes to the mean resulting from shocks (Beck and Katz 2011; Webb 2020). After performing both Augmented Dickey Fuller and Phillips Perron tests for a unit root, it appears that the test of the null hypothesis that our series are unit roots provides mixed results. Beck and Katz (2011) argue that even if routine unit root tests appear to fail to reject the null, the long-term autoregressive processes that tend to characterize daily, monthly, or quarterly data spanning over 100 or more observations are less concerning in the context of common TSCS political economy data, which rarely have greater than 40 observations per unit. They argue we may not be witnessing entire cycles (in other words, there may actually be reversion to the mean) and, even if there is some evidence of departure from the mean, it tends to be bound within a relatively tight range when compared to financial data or even presidential approval data. A conservative model that may address these issues is a first difference model; however, Beck and Katz (2011) argue that valuable information is lost through differencing.

In cases such as the pension capitalization data in which there is a relatively short period of time under study (< 25 years) and bounded means and variances or where there is evidence of cointegration of non-stationary series, an error correction model is appropriate (Beck and Katz 2011). Prior to estimating the model, I perform a test to see if the series that demonstrate some or mixed evidence of non-stationarity are cointegrated (Shrestha and Bhatta 2018). This is particularly important for my housing models, as the time period under study is rather large (T > 40). Cointegrated series are non-stationary
series that have a “long-run equilibrium relationship.” The results of several cointegration tests suggest that the series are cointegrated and, therefore, an error correction model is appropriate (Beck and Katz 2011).

For estimation of this model, I draw on Blackburne and Frank’s (2007) Stata command, “xtmg.” This command is designed for the estimation of error correction models for non-stationary heterogeneous panels, specifically. The application of an error correction model estimates the short-term effects of shocks that eventually dissipate, the error correction term that estimates the time it takes for a return to equilibrium, and the long-term effects that become part of the series. Several specifications are possible with this estimator, namely the pooled-mean group (pmg), the mean group (mg), and the dynamic fixed effects (dfe) estimator. The mg estimator, developed by Pesaran and Smith (1995), runs the model for each group (or country in this case) separately and then averages the coefficients (Blackburne and Frank 2007). Therefore, the estimates can vary across each group. The dfe approach differs starkly from the mg approach in that the only estimate that can vary across groups is the intercept. Thus, instead of running separate analyses for each group, the data are pooled to estimate the coefficients and error variances (Blackburne and Frank 2007). The pmg estimator, developed by Pesaran, Shin, and Smith (1997, 1999), exists between the two extremes. The pmg approach allows the intercept, short-run, and error term estimates to vary by group, but estimates the long-term coefficients based on the pooled data (Blackburne and Frank 2007).

Unfortunately, the error correction models do not do well with too many predictors. Therefore, I chose predictors that are theoretically and empirically important and that demonstrate evidence of non-stationarity as stationary processes cannot predict
non-stationary processes. The two controls I include in each model are GDP per capita and government spending as a percent of GDP. I include population growth as a relevant control in the pension model where it demonstrated a meaningful effect. I also include a control for unemployment rate in the model with unemployment generosity as the dependent variable. After performing all three estimation techniques for each relationship, I chose the optimal approach based on results of Hausman tests.

Results

<table>
<thead>
<tr>
<th>Table 7.1 Long and Short Term Effects of Financialized Pension Alternatives on Public Pension Generosity</th>
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<tbody>
<tr>
<td><strong>Dependent Variable</strong></td>
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<td><strong>Explanatory Variables</strong></td>
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<tr>
<td><strong>Long Run</strong></td>
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<tr>
<td><strong>GDP Per Capita</strong></td>
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<tr>
<td><strong>Government Spending % GDP</strong></td>
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<td><strong>Short Run</strong></td>
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<tr>
<td><strong>Δ in Pension Investments in Equities % GDP</strong></td>
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<tr>
<td><strong>Δ in GDP Per Capita</strong></td>
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<tr>
<td><strong>Δ in Government Spending % GDP</strong></td>
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<td><strong>Constant</strong></td>
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16 The results of a Wald test suggest that population growth plays little role in pension generosity in the pension capitalization model. In addition, its inclusion left the results of the other variables relatively unaffected. For this reason, I decided to present the more parsimonious model.
In Table 7.1, I present the estimated relationship between pension investments in equity markets and public pension generosity. According to the ADF and PP test, the independent variable contains a unit root with trend and drift, while the dependent variable contains unit root with trend. I find evidence of cointegration using the Kao test, the Westerlund test, and the Pedroni test. The dynamic fixed effects estimator performed best according the Hausman test. The results suggest both short-term and long-term effects of pension equity investment on overall pension generosity. In the short term, a 1% increase in the level of pensions in equity investments is associated with a .22% increase in generosity. In the long run, a 1% increase in the level of pension investments in equities is associated with a decrease of .86% in generosity. The error correction coefficient is -.19. This suggests that it will take over 3 years for the disequilibrium to halve (Frain 2018).

This demonstrates support for the expectation that financial markets not only substitute for certain areas of the welfare state but may actually play a role in its retrenchment. We see that the greater the level of pension investment in equity markets is associated with less generous public pension provision in long-term. Interestingly, this relationship stands even in light of our findings that reliance on markets for pension provision has no effect on support for public pension provision. Thus, policymakers may be engaging in low-transparency politics that quietly increase the importance of capitalized pension schemes by, for example, changing the approach to indexation. On the other hand, politicians may be catering to other groups who are less supportive of old age provision like those with generally high levels of financial engagement.
Another key component of household capitalization is the encouragement of homeownership. As discussed throughout this dissertation, homeownership has been at the center of the literature on asset-backed welfare regimes and the newer literature on privatized Keynesianism. Therefore, there is reason to expect that where homeownership has been encouraged and housing wealth has grown there will be a long-term decline in welfare state generosity. I test this assertion using data on the growth in housing prices and subsequent trends in overall welfare state generosity.

<table>
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<tr>
<th>Table 7.2 Long and Short Term Effects of Housing Price Growth on Welfare State Generosity</th>
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<tbody>
<tr>
<td><strong>Dependent Variable</strong></td>
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<tr>
<td><strong>Explanatory Variables</strong></td>
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<tr>
<td><strong>Long Run</strong></td>
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<tr>
<td>Housing Price Index</td>
</tr>
<tr>
<td>GDP Per Capita</td>
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<tr>
<td>Government Spending % GDP</td>
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<tr>
<td><strong>Short Run</strong></td>
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<tr>
<td>Speed of Adjustment to Equilibrium</td>
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<tr>
<td>Δ in Housing Price Index</td>
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<tr>
<td>Δ in GDP Per Capita</td>
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<tr>
<td>Δ in Government Spending % GDP</td>
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<td>Constant</td>
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</table>

*p<0.1; *p<0.05; **p<0.01; ***p<0.001
Again, I test if the data is characterized by non-stationarity. I find evidence of non-stationarity with trend using the ADF and Phillips Perron tests. Next, we test for cointegration. The results strongly indicate that the housing price index and the total generosity series are cointegrated. I run a dynamic error correction model, which provides the short run and long run effects of two cointegrated series. According to the Hausman criteria, the dynamic fixed effects specification performs best.

The results of the dynamic fixed effects specification are presented in Table 7.2. The results suggest a lack of support for the notion that increases in housing price alter the overall generosity of the welfare state. This holds for both the short term and the long term. The only variable in the model to influence the level of total welfare state generosity is the change in government spending. In the short-term, government spending tends to have a positive effect on welfare state generosity. While there is insufficient evidence to make conclusions about the long-term effects of housing on total welfare generosity, housing may have more acute effects on specific areas of public provision.

Housing has often been understood as a quasi-social insurance in that it is a site of wealth accumulation that can be cashed-in during retirement or in case of job loss. For this reason, I test the effects of homeownership on pension generosity and unemployment generosity.

According to the ADF, pension generosity and the housing index are unit roots with drift and appear to be cointegrated series allowing us to run a dynamic error
correction model. Here the pmg estimator performs better than the dfe model at marginal significance levels\textsuperscript{17}. The results of the pmg estimation are presented in Table 7.3.

<table>
<thead>
<tr>
<th>Table 7.3 Long and Short Term Effects of Housing Price Growth on Public Pension Generosity</th>
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<tr>
<td><strong>Dependent Variable</strong></td>
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<tr>
<td>Pension Generosity (CWED)</td>
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<tr>
<td><strong>Explanatory Variables</strong></td>
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<tr>
<td><strong>Long Run</strong></td>
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<tr>
<td>Housing Price Index</td>
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<tr>
<td>GDP Per Capita</td>
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<td>Government Spending % GDP</td>
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<td>Population Growth</td>
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<td><strong>Short Run</strong></td>
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<td>Speed of Adjustment to Equilibrium</td>
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<td>Δ in Housing Price Index</td>
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<td>Δ in GDP Per Capita</td>
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<tr>
<td>Δ in Government Spending % GDP</td>
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<td>Δ in Population Growth</td>
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<td>Constant</td>
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The table shows that housing and pension generosity are related in both the short and long term. GDP per capita and government spending are positively associated with

\textsuperscript{17} The Wald test indicated that the inclusion of unemployment as a predictor did not improve the dfe model but did improve the pmg model. Since the pmg model outperformed the dfe model at the .1 significance level, I decided to go with the more complete model.
greater pension generosity in the long term. Population growth also shows a positive relationship with pension generosity in the long term. All of these results largely check out with logical expectations. However, the relationship of my key independent variable diverges with my expectations. Housing prices actually are positively associated with pension generosity over the long term.

The results indicate that a 10% increase in housing prices is associated with a .13% increase in pension generosity in the long-term. This finding stands in contrast to much of the preceding literature on the relationship between housing wealth and the generosity of welfare states, which found negative impacts. It, however, does comport with the findings from the public opinion surveys, which indicate that homeownership does not affect individuals’ preferences for pension provision no matter the level of financialization. The results also provide insufficient evidence to suggest my variables exert short-term effects on unemployment. The error correction term is equal to -.20, indicating that it takes just over three years for the disequilibrium to halve.

Finally, I test the relationship between rising housing prices and unemployment insurance. These series possess unit roots with drift according to the ADF test and demonstrate cointegration. Therefore, they are suitable for a dynamic error correction model. The Hausman test once again indicates that the dfe estimator performs best. The results of this test are presented in Table 7.4. None of the predictors have significant effects in the short-term. In the long-term, both housing and unemployment demonstrate a significant effect on unemployment generosity. These relationships are in the expected direction.
A 1% increase in the unemployment rate is associated with a decline of .265% in unemployment generosity in the long term. This finding reflects the Dutch and German experience in which unemployment, specifically long-term unemployment, led policymakers to reduce the generosity of unemployment insurance. In the long-run, housing prices also demonstrate a negative relationship with unemployment. A 1%
increase in the housing price index predicts a .03% decline in the generosity of unemployment insurance in the long-run. This finding makes sense as housing can function as a source of liquidity during difficult times thanks to home equity loans or as a savings vehicle that can be cashed out (sold) in case of emergency.

Conclusion

In this chapter, I have sought to model the long-and short-term relationship between areas central to household capitalization and public welfare provision. The models in this chapter present a contribution to the literature on welfare-substitution and asset-based welfare by establishing the dynamic macroeconomic relationship between trends in areas associated with private welfare provision and welfare state generosity in related programs. Drawing on a dynamic specification that allows me to leverage both over time and cross-sectional variation, I find support for a number of expectations and evidence which turned other expectations on their heads.

I first model the relationship between greater reliance on equity markets for pension provision and the long-term public provision of pensions. I find evidence in support of this relationship as greater levels of pension assets invested in equity markets are associated with long term declines in public pension provision. This relationship indicates that as pension-specific equity investments grow, pension generosity declines. This is a concerning implication as volatility is a well-known characteristic of financial markets.

In addition, I test whether greater housing wealth is associated with less public provision, an implication of much of the previous literature. The findings on housing wealth are mixed. There is insufficient evidence to conclude that rising housing prices are
associated with lower overall generosity in the long-term. I do find evidence that housing is negatively related to unemployment generosity in the long term. The data in the previous chapter suggested that homeowners possessed a marginally more negative view towards unemployment in the non-capitalized context. This may be related to the social insurance function that housing wealth may assume. However, support for unemployment insurance tends to be generally low relative to other areas so it may be a low hanging fruit when governments are faced with cuts.

A surprising relationship emerges between housing wealth and pension generosity. The literature has long theorized that housing serves as a quasi-pension fund as it tends to be the primary asset for most OECD households and is seen as making individuals “owners” and less likely to rely on the state or desire state intervention. Those in the literature typically cite that homeownership and a generous welfare state compete for the resources of households and that larger welfare states can make homeownership more expensive (Ansell 2014). Interestingly, however, I find that housing wealth is associated with greater pension generosity in the long-term. This result stands in contrast to expectations. There are several possible explanations for this. As we saw, homeownership and reliance on financial markets for pension provision were unrelated to support for pension provision. This indicates that public pension provision still remains popular among homeowners, a key voting demographic, resulting in great difficulty not only retrenching pension benefits but also in added pressure to increase those benefits. These results present good news for those who worry about the influence of growing housing wealth on the future of pensions. It is not such good news, though, for those who
had hoped that encouraging homeownership would allow for the retrenching of old age security, arguably the costliest area of government social spending.

Even though evidence suggests that homeowners express less support for government involvement in income maintenance for able-bodied working-aged people, it seems that unpredictable income for those that are vulnerable remains unpalatable. This may relate back to risk. If one were to require disability insurance or old-age insurance, it typically would result from an inability to work to earn income. When one cannot compete on equal footing with able-bodied working aged individuals to earn income, it is likely too high of a risk to rely on private provision. Thus, support remains high for public provision for vulnerable groups.
Chapter 8: Conclusions

The literature on financialized alternatives to the welfare state is a growing area of welfare state research in Political Science but remains in its nascent stage. Thus far, the research on the turn to financial markets as a source of compensation for wages and inadequate social provision mainly has focused on less generous welfare state contexts (Krippner 2011; Rajan 2011; Crouch 2009). Where literature has looked across different welfare state contexts, the focus has remained on the use of credit and debt as a tool of social provision and its consequences for public preferences (Wiedemann 2021, 2022). Although this literature follows much of the same logic of the literature on asset-backed welfare, specifically housing, the causes and consequences of the expansion of homeownership and of the expansion of consumer credit have yet to be brought into formal conversation. In this dissertation, I challenge readers to look at these policies, alongside other financialized policy areas such as pension capitalization, as a type of welfare state regime. I term this regime household capitalization.

In the introductory chapter, I define household capitalization as the existence of or movement toward a policy environment characterized by government encouragement of household engagement with financial markets for the implicit or explicit purpose of managing risk over the lifespan, especially when encouraged as an alternative to socializing said risks. I develop this concept as I view the logic behind housing encouragement, the turn to capitalized pensions, and a reliance on credit markets as effectively the same. Essentially, households depended upon the liquidity and growth of financial markets for security over the lifespan, a notion that was front and center in the work of Wiedemann (2021) on debt.
The connection between deepening household debt, housing-market financialization, pension capitalization, and the overall financialization of the economy has been implied in much of the literature. However, how some of the most generous welfare states became characterized by huge household debt and highly financialized pensions was a puzzle that the welfare state literature has never fully addressed. This was an especially glaring gap as a reliance on household debt and the promotion of homeownership have, until recently, been discussed primarily in the context of less generous welfare states such as the United States and United Kingdom yet the trends cut across welfare state groupings.

In this dissertation, in addition to attaching a name to the trend of greater household integration into financial markets, I provide an explanation of the institutions and agents that facilitated the turn to financial markets, and I uncover the consequences of the different dimensions of this policy regime for individuals’ attitudes and preferences but also for the welfare state itself. In doing so, I contribute to several literatures. First, I contribute to the historical institutionalist literature on welfare state development by tracing the agents and institutions that collectively paved the way for financial markets to be seen as a legitimate tool of social provision. I also contribute to the public opinion literature by answering questions such as: do capitalized pensions function similarly to financialized homeownership in that they reduce support for public provision? Does homeownership in non-financialized contexts have the same effect on preferences and attitudes as homeownership in financialized contexts? And what are the consequences of different types of financial sector engagement on preferences across different policy
areas? Finally, using macro-economic trends, I provide an answer to the critical question: do financialized alternatives to the welfare state cause welfare state decline?

In the following sections, I break down the findings in each area of contribution and discuss a bit about the generalizability of my conclusions. I begin with the findings of the qualitative case study of the Netherlands and Germany. I then turn to my findings on political behavior looking at both the period during which household capitalization policies were implemented and the current period twenty years later. After reviewing the short- and long-term relationship between capitalized policy areas and welfare state generosity, I offer areas for future research.

Before getting into the details, the answer to my overarching question in this dissertation is yes and no and it depends. In the beginning I asked, does integrating households into financial markets work to reduce support for social policies and ultimately decrease their role in public provision? While the findings in this dissertation do not fit neatly into a perfectly wrapped box, they provide evidence that policymakers sought to reorient households toward financial markets and away from reliance on the state which served to undermine support in targeted areas such as unemployment insurance contributing to declines in generosity. However, these policies also had unforeseen consequences such as creating powerful interest groups, for example homeowners by expanding homeownership, which may have inadvertently strengthened the resiliency of the welfare state.

Institutional Foundations of Household Capitalization

Politicians across both the Netherlands and Germany sought to move the burden of social provision off of the state and saw financial markets as presenting an opportunity
to do just that. In the Netherlands, the most obvious political campaign to use financial markets as an alternative to the state was in the realm of housing. By encouraging homeownership through deregulation of lending, fiscal incentives to borrow, and the creation of a state-backed mortgage guarantee scheme, Dutch policymakers were successful in sharply increasing the rate of homeownership and reducing the role of subsidized housing. In Germany, the attempt to increase the role of financial markets was illustrated by the original pension plan set out by Riester in which returns were completely dependent on financial market returns.

During this time, there were central roles played by Social Democratic thought leaders in each context. The mutual experiences of difficult economic conditions and poor electoral performance contributed to the sense that the Social Democrats across both the Netherlands and Germany needed a new policy direction that did not look like pure austerity politics. Even when he was the leader of the largest labor union, Wim Kok had a vision in which labors’ well-being could be secured through less traditional means such as supporting steps necessary for higher company returns and receiving stock-based compensation in exchange for wage moderation. In the German context, the movement for reforms was led by Schröder along with the SPD which had declared the desire to improve the role of financial markets in the German economy.

However, a successful movement toward a household capitalization regime was not imminent. Implementation required historical institutions conducive to a move toward markets. The institution critical to the successful transition to a reliance on financial markets in the Netherlands but detrimental to this transition in Germany was the structure of pension institutions. In Germany, public pension institutions provided
sufficient income during the post-war period due to benefits being earnings-related. As a result, occupational pensions did not develop in this context. Occupational pensions, however, did develop in the Netherlands where public pensions provided insufficient income during retirement due to their flat-rate structure. These occupational pensions historically invested in fixed assets, but began investing in equity markets during the 1980s, which contributed to necessary conditions for a regime of household capitalization.

The conditions necessary are structural and sociological in nature. In terms of structure, occupational pensions contributed to the development of Dutch equity markets, which led to a more developed financial sector generally speaking. These funds also presented a large pool of capital seeking investment channels, which set the stage for a highly financialized residential housing market. Finally, the residential debt could be repackaged and sold on capital markets as higher yield securities which would further benefit pension funds. In terms of the sociological conditions, pension funds’ turn to financial markets created an institutional path which deemed financial markets to be appropriate sites of social provision. Thus, turning to financialized channels of social insurance or social investment were not viewed as foreign as such an idea would be in the German system, which had no institutional precedent.

An important question emerges from this narrative which is: to what degree are these findings generalizable? At a basic level, I view these findings as applying to advanced welfare states in the post-Fordist period. However, that does not rule out that similar approaches may be taken as other states’ welfare institutions and financial markets continue to develop. In particular, in order to successfully pursue this type of
regime, a certain level of financial sector development is necessary in order to make household integration feasible and beneficial. In addition, some pre-existing institutional pathway that allows for policymakers and voters alike to entertain the idea of financial markets as a means to achieving social provision is necessary. Thus, in countries that have similar pension systems to the Netherlands such as Denmark, Sweden, and Switzerland, there are higher levels of household debt and overall higher levels of financialization as Anderson (2019) argues. While I think that Kok played an integral part as a policy entrepreneur during his time leading the union and the PvdA, policy learning likely has contributed to the spread of this approach.

**Household Capitalization and Political Behavior Then and Now**

After establishing the trajectory leading to the adoption of household capitalization policies or pure austerity policies, I find that there do appear to be some ideological shifts during this time among Social Democratic voters in the Dutch context. However, my theoretical expectations do not hold up as I find that the PvdA lost significant vote shares following retrenchment even in light of the expansion of households’ access to financial markets. While the PvdA did recover during the next election cycle, it remains uncertain whether this was related to the successful encouragement of homeownership and the growth of capital markets. In the German context, SPD voters remained loyal to the party which also was contrary to expectations; however, the SPD still lost significant vote shares and failed to recover in the following elections. Thus, the overall effect of household capitalization policies relative to pure austerity on the electoral fortunes of the parties appears to be limited, but it is possible that they were beneficial in the longer term.
To get a clearer picture of the consequences of the divergent trajectories on political behavior, I turned to original survey data in Chapter 6. Having control over the survey questions that were included allowed me to highlight the effects of different types of involvement and gauge which policy areas appeared to be most affected. I find that redistribution tends to be unpopular among those with high levels of financial engagement across both contexts. This comports with previous findings and indicates the lower overall level of support for government involvement in the abstract among households with high levels of financial market engagement.

That is a major takeaway: financial sector engagement promotes less support for public policies in the abstract in capitalized contexts. I say this because those who have high levels of financial engagement tend to be less supportive of policies for which there are clear financialized alternatives such as tertiary education and old age income. However, among those who feel very reliant on financial markets for retirement income, there is no less support for public old age provision, and it even appears to generate greater public support in other areas among this group.

The findings of Chapter 6 indicate that there may be room for politicians to play different interest groups against one another. By capitalizing on homeowners’ low support for publicly supported housing, politicians can cut subsidized housing and say that they are following the will of a major voting constituency which also happens to be relatively larger in capitalized contexts due to the emphasis on homeownership. The lower levels of support for redistribution among homeowners and the highly financially engaged in the capitalized context also may contribute to more liberal economic policymaking, especially in areas critical to redistribution such as tax policy. While the
integration of households with financial markets does lead to lower levels of support for public provision or at least greater indifference, the relationship was not exactly as I expected. Those who are negatively affected by the reliance on financial markets appear to remain supportive of public provision. Thus, policymakers still have some level of resistance to overcome. Whether this resistance is enough to prevent further retrenchment in relevant policy areas is the topic I explore in Chapter 7.

**Consequences of Household Capitalization for Welfare State Generosity**

The final piece of the empirical puzzle was whether households’ reliance on financial markets as sites of social insurance would lead to the replacement of public social provision over the long term. The results of dynamic models of time-series cross-sectional data presented some interesting results. In some ways, I uncovered relationships that were in accordance with my expectations. The data indicated a negative long-run relationship between homeownership and levels of unemployment generosity. Despite homeowners remaining relatively supportive of unemployment insurance, a major impetus for the encouragement of household integration with financial markets was the development of personal assets that could be relied upon instead of public provision. The data also indicate that private pension investments are associated with declines in pension generosity in the long term. This provides evidence that private pension growth will in the average context be associated with declines in statutory pension benefits. The negative relationship with pensions is more in line with the public opinion findings in which there was some evidence supporting that high levels of financial engagement reduced the role individuals thought the government should play in providing old age
security. However, it also demonstrates a disregard of those who feel that they must rely on capitalized pensions.

Despite the literature historically having focused on homeownership as social insurance or a type of “asset-backed welfare,” I find that growth in housing prices is associated with increased public pension generosity in the long term. While this was contrary to my expectations, the association between rising housing prices and increasing pension generosity makes sense if one thinks about homeowners as a particularly powerful constituency. The public opinion data presented in Chapter 6 illustrates that pensions possess high levels of support relative to other policy areas across both the capitalized and non-capitalized contexts. Thus, it may be that homeowners exert a positive effect on pension generosity as they comprise an important group which remains highly supportive of this policy area. Unlike housing or redistribution, homeowners foresee themselves relying on statutory retirement schemes at least in part.

The results of the dynamic models presented in Chapter 7 possess the greatest degree of generalizability as the data were over a longer time horizon and included numerous advanced welfare states. Thus, I have confidence that the relationships between capitalized pension growth and pension generosity and between housing price growth and unemployment and pension generosity illustrated in the results are in fact widely applicable to advanced economic contexts. In an ideal world, I would also have access to relevant public opinion data that spans over a longer time period and over a greater number of countries as this would allow me to better gauge the degree to which trends in welfare state generosity follow public opinion trends.
Areas for Future Research

Since this area in the literature is relatively new, there are numerous directions that researchers could explore. However, there were three areas for future research that repeatedly came to me as I worked through this project. The first area researchers could explore is in the area of public opinion. There is limited micro-data on the degree to which households rely on financial markets for provision and no regular collection of this data alongside the collection of data on political attitudes and preferences. More consistent data collection would allow researchers to better establish the relationship between use of financialized or just private alternatives to social programs (e.g., pensions, credit use, home equity loans, student loans), attitudes toward both private and public forms of insurance, and the long-term trends in the generosity of public provision. This would allow welfare state researchers to track the degree to which public opinion really matters in the presence of alternatives.

The second area that remains to be explored is how exactly financial downturns and windfalls affect attitudes. I would expect that support for public provision increases when markets downturn. When equity markets dip and people’s retirement savings are looking bleak, I would imagine that public support for statutory retirement schemes increase. Similarly, I would think that homeowners would be more sympathetic to public spending on housing and on redistribution in case of a housing market downturn, especially those who may face foreclosure.

Finally, a somewhat more existential question that I thought about as I wrote this dissertation is whether household capitalization as a regime type is built to last or if it is a fleeting attempt to find an alternative to public provision that ultimately falters. Just like
the post-war manufacturing-driven economic boom did not last, finance-led growth of both the economy and widely distributed personal wealth may be unsustainable. Perhaps, financial boom and bust cycles will become a routine part of households’ budgetary considerations or maybe the volatility will eventually generate renewed support for public provision. Realistically, I think welfare provision in many areas will be characterized by some financialized element that is functional during prosperous times and the state acting as insurer of last resort during poor economic times. Either way, it is clear that the states will maintain a prominent role in social provision for the foreseeable future.
APPENDIX

Chapter 2 Methodological Appendix

I test the implications of the first part of my theory depicted in Figure 1.1 in which I offer an explanation of why household capitalization has taken hold in some advanced contexts, but not in others, using a comparative case study of the Netherlands and Germany. In order to understand the process behind liberalization of financial access for households, I employ a controlled comparison using Mill’s method of difference (Mill 1843). The method of difference is characterized by comparing two cases with divergent values on the outcome of interests; therefore, Mill (1843) suggests utilizing the method of difference when there are two cases that are very similar, except for the occurrence of some phenomenon. Mill (1843) suggests looking for a way that these cases are different in order to locate the primary cause of the divergent outcomes. This method is desirable as it allows for controlling as many factors as possible and, thus, isolating the key variables of interest (Mill 1843; Lijphart 1971). In many ways this approach reflects quantitative logic as we have selected the cases “in such a way as to maximize the variance of the independent variables and to minimize the variance of the control variables” (Lijphart 1975, 164). Another name for this type of analysis is “macro-causal analysis” (Skocpol and Somers 1980). Skocpol and Somers (1980) argue the goal of this approach is to make causal claims about macro-process by controlling for as much variation as possible.

Taking a methods of difference approach also addresses potential concerns about case selection. The problem of case selection typically occurs when only cases are selected in which the outcome of interest has occurred. This often makes difficult the
identification of the key causal variable or variables of interest. Geddes (1990) demonstrates the way in which results may be biased when there is failure to take into consideration the full range of variation in the dependent variable. By employing the method of difference, we try to correct for this by choosing cases with a wide variation in the dependent variable, namely in the degree of household capitalization. Despite ensuring that case selection does not produce bias from selection on the dependent variable, the greatest critique of the method of difference is the great difficulty selecting cases that are similar enough to ensure sufficient controls.

Since there are very few perfectly similar contexts, most comparisons will have limitations (Skocpol and Somers 1980). In light of this reality, scholars have provided practical guidance on case selection. One should choose cases that are representative on dimensions of interest and that share the greatest number of features to ensure there are maximum controls (Slater and Ziblatt 2013). Lijphart (1971) suggests studying contexts that are geographically proximate as this increases the likelihood of shared geography, history, and culture. With this guidance in mind, I have selected the cases of Germany and the Netherlands as they share a number of similarities in regard to their institutions, post-war coalitions, and economies. Critically, these contexts also are representative of important variation in the level of liberalization that exists in advanced countries with the Netherlands having among the highest levels of financialization post-1990 and Germany remaining on the post-war trajectory of limited financialization.

Case Justification

Germany and the Netherlands typically have been categorized together under the welfare state literature, as conservative welfare states and as coordinated market
economies more generally (Esping-Andersen 1990; Hall and Soskice 2000). They share a border, a history of strong Christian Democratic parties, and corporatist institutions.

In the welfare state literature, Germany and the Netherlands are characterized as conservative welfare states. Both countries have a history of strong Christian Democratic parties resulting in welfare regimes that have been strongly influenced by the Catholic social teaching and were thus organized around the principle of subsidiarity (Esping-Andersen 1990). Traditionally, this welfare regime has been characterized by limited redistribution and a focus on status maintenance through employment-rated insurance as it is seeks to maintain the male breadwinner model.

In addition, both the Netherlands and Germany have corporatist institutions. These institutions formally incorporate labor into the decision-making process, which helps to prevent social conflict (Crouch 2017). Germany’s corporatist system is characterized by ‘dual system’ consisting of both “centralized collective bargaining through multi-industrial unions and a statutory system for plant labor representation” in the form of work councils (Thelen 1991, 2). The labor institutions of the Netherlands fall closer to the ideal type of a corporatist country in that there is highly centralized bargaining among peak organizations. There are no rules mandating that agreements must be forged with unions; however, employers have an incentive to enter into agreements with unions as they have no strike clauses and are subject to mandatory extensions (Rueda 2007). In both contexts, organized labor secured relatively high levels of employment protection during the post-war period, although these protections have been in decline especially recently in the Netherlands. In both countries, union density is not terrible high. From 1988 to 1998, trade union density went from 33% to 25% in Germany
and from 25% to 24% in the Netherlands. Today, both countries have a union density around 16% (OECD Stat 2020; OECD Trends in Trade Union Membership).

The economies of both the Netherlands and Germany are highly dependent on trade. They both historically had export-oriented strategies, which further contributes to the emphasis on cooperative decision making and, specifically, the need for wage moderation (Schenk and Hulsink 1998; Lindlar and Holtfrerich 1997). According to export data from 2000, both countries’ main exports were machinery and appliances which comprised roughly 20% of each country’s exports and electrical machinery and equipment (Simoes and Hidalgo 2011). The two diverge in the importance of vehicle manufacturing which comprised about 17% of all exports in Germany and 7% in the Netherlands. In addition, oil plays a greater role in the Dutch economy comprising around 10% of exports. Each country maintained similar current account surpluses as a percent of GDP throughout the 1990s; although, Germany did suffer deficits for a few years during this period (World Bank 2020c; IMF 2020a).

In addition, Germany and the Netherlands faced severe fiscal stress beginning in the 1980s as a result of union and employer dependence on the state to “take surplus labor out of the market” and as a result of the growing burden of pensions (Visser and Hemerijck 1997; Streeck 2010, 56; Häusermann 2010). In addition, the increasingly aging population in each country is raising additional concerns about the sustainability of pension and healthcare spending.

Over the last three decades, the two countries have implemented divergent liberalization reforms (Engelen et al. 2010). Germany is one of the only advanced countries in the world that has actually seen a decline in household debt levels, while the
Netherlands has experienced significant growth in household debt. From 1990 to today, Germany has maintained household debt levels of roughly 53 percent of GDP, with a brief uptick during the early-2000s (IMF 2020b). In contrast, the Netherlands’s household debt level as a percent of GDP was 50 percent in 1990 and, at its peak in 2010, reached roughly 120 percent of GDP (IMF 2020b). Today, it sits at around 103 percent of GDP (IMF 2020b).

Figure A.1 Dutch and German Household Debt

![Household Debt as a Percent of GDP](image)

Source: IMF

Figure A.2 Dutch and German Stock Market Capitalization

![Stock Market Capitalization (% of GDP)](image)

Source: World Development Indicators
In addition, Figure 1.5 illustrates how German and Dutch capital markets have diverged during this time. Throughout the 1970s and into the 1980s, the Netherlands and Germany were similar in regard to the depth of their capital markets. Both were relatively undeveloped. However, during the early 1990s, things began to diverge. While there was financial market development in both contexts, the growth of Dutch capital markets far outpaced the growth of German markets. At its peak, Dutch stock market capitalization stood at almost 160% of GDP. At the same time German stock market capitalization was slightly greater than 60% of GDP. Today, Dutch stock market capitalization is double that of Germany’s relative to each country’s GDP.

Limitations to the Case Comparison

While these countries share numerous similarities and have critical variation on key variables of interest, it is important to note that there are several limitations to this case selection that are worth mentioning. First, the Netherlands has a powerful banking sector for its size. Of the top 100 banks, five are in Germany and three are in the Netherlands (Ali 2020). This is notable as Germany has a population over four times the size of the population of the Netherlands. At least two out of the three major banks in the Netherlands (ING Group and ABN Amro) are products of major financial mergers that occurred during the 1980s and 1990s (Jansen and Moonen 1999). Therefore, exploring their development is part of the broader financial liberalization process that is of interest in this dissertation. This makes sense because the Netherlands and Germany also had similar levels of stock market capitalization until about 1981 at which point the Netherlands begins to far outpace Germany (World Bank 2020d). Lastly, the classification of the Netherlands as a prototypical “continental” welfare state in the sense
of Esping-Andersen’s (1990) “three worlds” often has been contested (Goodin 1999). Some argue that the Dutch welfare state emphasizes universal rights to a greater extent than most continental states, which is true, especially following reforms. However, it historically has possessed certain continental characteristics including a traditional corporatist relationship between the state and social partners; benefits that were more generous for higher wage earners; policies that were less supportive of women’s labor market participation; and lower levels of public employment (Goodin 1999; Van Der Veen and Trommel 1999; Brodsky 2000; Häusermann 2010).
References


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