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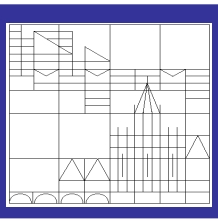

Electoral Cycles in Active Labor Market Policies

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Electoral Cycles in Active Labor Market Policies

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We examine how electoral motives influence active labor market policies that promote (short term) job-creation. Such policies reduce measures of unemployment. Using German state data for the period 1985 to 2004, we show that election-motivated politicians pushed job-promotion schemes before elections.

Keywords: political business cycles, opportunistic politicians, active labor market policies

JEL: P16, J08, H72, E62, H61

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1. Introduction

Electoral motives can and do influence economic policy. In particular, politicians have been shown to behave opportunistically before elections to increase their re-election prospects (e.g., Nordhaus 1975; Rogoff and Sibert 1988). More recent studies fail to identify electoral cycles in unemployment or inflation, but find cycles in policies such as government expenditures. By using panel data, electoral cycles have been identified in OECD countries, across states or provinces in federal systems, and also across municipalities.[1]

Unemployment has been shown to be an important indicator of government popularity (e.g., Ursprung 1984; Lewis-Beck and Paldam 2000; Mueller 2003). Voters tend to be little informed about the state of the (macro) economy (e.g., Caplan 2007: 80), but make reasonable assessments about unemployment (Conover et al. 1986; Paldam and Nannestad 2000; Davidson et al. 2010). Governments can reduce unemployment directly by using Active Labor Market Policies (ALMP). In countries such as Germany, individuals employed in ALMP measures immediately drop out of the unemployment statistics. ALMP therefore decreases official unemployment measures in a direct way. In the former West Germany, for example, the unemployment rate over the 1980-1998 period would have been 0.25 percentage points higher without job-creation schemes (Hagen and Steiner 2000: 127). Total yearly expenditures on ALMP amounted to more than 24 billion Euros in 1998 (Hagen and Steiner 2000: 14).

Many European governments have implemented ALMP programs.[2] Because of the political benefits, it is likely that electoral manipulation through ALMP is undertaken.

[1] Electoral cycles have been shown, for example, in OECD countries (Katsimi and Sarantidis 2011; Potrafke 2011a), the European Union (Efthyvoulou 2011), the German states (Schneider 2010; Tepe and Vanhuysse 2009), Canadian provinces (Blais and Nadeau 1992; Reid 1998; Tellier 2006), Portugese municipalities (Veiga and Veiga 2007; Aidt et al. 2011), Brazilian municipalities (Sakurai and Menezes-Filho 2008, 2011), French municipalities (Foucault et al. 2008). For country studies see, for example, Grier (2008), Berger and Woitek (1997), Belke (2000), Batool and Sieg (2009), Potrafke (2012), Ferris and Voia (2011).

[2] To be sure, the success of ALMP programs is ambiguous and varies across countries. In Switzerland and Germany, for example, ALMP programs hardly shortened unemployment duration (Lalive et al. 2008; Hagen and Steiner 2000; Fertig et al. 2006). In Poland, training programs have increased the probability of individual

Governments may do so by implementing government employment programs, vocational training programs or offering early retirement payments to the unemployed elderly. Against the background that electoral manipulation has been investigated in several fields of economic policy-making, it is surprising that electoral cycles in ALMP have not been investigated. We study whether election-motivated manipulations of ALMP have been undertaken in the German states in the period 1985 to 2004. Our results show that job-creation schemes have been pursued more vigorously to reduce unemployment rates significantly in the run-up to elections..

The paper is organized as follows. Section 2 presents the institutional background. Section 3 describes the empirical strategy. Section 4 presents the results. Section 5 concludes.

2. Institutional background: active labor market policies in Germany

Active labor market policies are intended to reintegrate unemployed persons into the labor force, for example, by subsidising wages or by means of job-creation schemes.[3] ALMP programs in Germany are supervised by the Federal Employment Agency (Bundesagentur für Arbeit, FEA). Historically, ALMP programs were an important innovation of the Job Promotion Act (AFG, Arbeitsförderungsgesetz), which formed the legal basis for labor market policies in Germany in the 1969-1997 period. In 1998, the Social Code (Sozialgesetzbuch, SGB) III was adopted with the intention of expanding the provisions of ALMPs. ALMPs are not, however, limited to the federal level of government. In practice,

employment, whereas wage subsidies have had a negative influence on individual employment probability (Kluve et al. 2008). Using data from Denmark, Graversen and van Ours (2008) find positive activation program effects on unemployment duration and job finding rates. Evidence from the United States suggests that taxpayer-financed job-training programs are "successful" mainly because the individuals receiving such training are more employable even before entering the program, that is, admissions officers "skim the cream" off the top of the pool of applicants (see, e.g., Bell and Orr 2002). The ambiguity of ALMP success notwithstanding, politicians have implemented ALMP programs for a long time.

[3] There are several ALMP instruments which broadly remained the same but were extended over time. Thomsen (2007) refers to the SGB III as a legal basis and distinguishes between “Measures to Enhance and Adjust the Qualification of the Individuals”, “Counselling and Assistance for Regional and Vocational Mobility”, and “Subsidised Employment”. The latter category consists of wage subsidies and two groups of employment programs, namely job-creation schemes and structural adjustment schemes. They both establish the so-called second labor market.

ALMPs are administered not only by the FEA, but also by state-level public employment agencies (Landesanstalten, LEA) (for further details on labor market policies in Germany and the institutional set-up of job-creation schemes see, e.g., Thomsen 2007: 16). The state governments can implement their preferred labor market policies by subsidizing particular job-creation schemes with funds taken from their own budgets and by setting administrative guidelines in the LEAs. Political decision makers and high ranking civil servants in the LEAs cooperate in implementation. Politicians may also place friendly party members in responsible positions in the LEAs.[4] Beyond the programs initiated by the LEAs and the local agencies, a state government can implement additional ALMP measures.

ALMP programs were first used in the beginning of the 1980s in the former West German states. We focus on this group of 10 states. In particular, we examine job-creation schemes ("Arbeitsbeschaffungsmaßnahmen")[5] until 2004 for three reasons: First, job-creation schemes were a prominent policy instrument in this period. They represented the most important type of subsidized employment, both in terms of the number of participants and costs (see, e.g., Hagen and Steiner 2000). Second, we focus on this time period not only because job-creation schemes became less important after the end of 2004; an additional reason for not including later years are the structural reforms of the German labor market associated with the so-called Hartz-laws which were introduced in the beginning of 2005. Third, among the ALMP measures undertaken in Germany, the best and most comparable data are for the job-creation schemes. A number of other ALMP measures have been undertaken, but their design changed over time and they are not necessarily comparable across states. Data on total ALMP spending at the state level are not available. We therefore

[4] Local authorities also play an important role in ALMP because they arrange new jobs, find positions for unemployed persons and negotiate locally with the so called "Traeger" (municipal job-creation companies or similar local institutions), but they are not responsible for the budget decisions.

[5] The so-called „Arbeitsbeschaffungsmaßnahmen" (job-creation schemes) encompass subsidized jobs in the second labor market that are intended to reintegrate unemployed persons into employment. Their duration is limited and they often comprise tasks in the low-skilled sector.

use the number of individuals benefiting from job-creation schemes as a proxy for the governments' ALMP activities.

3. Data and empirical strategy

3.1 Data

We employ annual data of the number of individuals treated in job-creation schemes ("Arbeitsbeschaffungsmaßnahmen"). The data are provided by Germany's Federal Employment Office and covers the period 1985 to 2004 for the ten former West German states. We do not include the former East German states and also do not consider Berlin because it was divided before the German unification and therefore the data contain a structural break.

Figure 1 shows the number of individuals enrolled in job-creation schemes (per 1000 inhabitants) and the unemployment rate from 1985 to 2004. On average, about three individuals per 2000 inhabitants were enrolled in job-creation schemes, the average national unemployment rate was 9.58%. The number of individuals in job-creation schemes and the unemployment rate differed over time and across individual states. For example, unemployment as well as the number of individuals enrolled in job-creation schemes fell at the end of the 1980s and reached a minimum after the German unification. In 1990, the unemployment rate was 6.98% and there were 2.01 individuals enrolled in job-creation schemes per 1000 inhabitants. Subsequently, unemployment and the number of individuals enrolled in job-creation schemes rose steadily in almost all German states. Laender such as Bremen (on average 4.51 individuals enrolled in job-creation schemes per 1000 inhabitants over the entire sample period), Hamburg (1.89) and the Saarland (1.84) had many individuals in job-creation schemes, but only few were emrolled in such programs in Laender such as Baden-Wuerttemberg (0.36), Bavaria (0.69) and Hesse (0.71) had only few individuals in job-

creation schemes. Overall, we control for these effects using fixed year and state dummies in the econometric model.

Regarding the relationship between the number of individuals enrolled in job-creation schemes and the number of unemployed persons, approximately one out of every 30 jobless Germans took part in such a program, on average. This enrolment rate ranged from a minimum of one per 400, to a maximum of one per seven.

3.2 The empirical model

The base-line panel data model has the following form:

$$\Delta\, ln\ individuals\ in\ job\text{-}creation\ schemes_{it} = \alpha\, Election_{it} + \beta\, Left_{it} + \sum_k \gamma_k \Delta\, ln\ x_{ikt} + \delta\, \Delta\, ln\ individuals\ in\ job\text{-}creation\ schemes_{it-1} + \lambda_t + \eta_i + u_{it}$$

with i = 1,...,10; k = 1,...,3; t = 1985,...,2004.

The dependent variable $\Delta\, ln\ individuals\ in\ job\text{-}creation\ schemes_{it}$ denotes the growth rate in the number of individuals enrolled in job-creation schemes (per 1000 inhabitants) in every individual state i and year t.[6] We use the growth rate and not the absolute number of individuals enrolled in job-creation schemes as the dependent variable to avoid spurious regression. Panel unit root tests show that the growth rate is stationary.[7] The variable $Election_{it}$ captures the timing of the elections. It assumes the value of one in an election year and zero otherwise. We use this election variable as a benchmark. For robustness checks, we also apply different codings, such as including pre-election and post-election variables. There

[6] We use the number of individuals in job-creation schemes instead of the inflows into job-creation schemes as the measures vary in duration.

[7] By contrast, panel data unit root tests for the number of individuals enrolled in job-creation schemes (per 1000 inhabitants) in levels provide mixed results. In any event, the regression results show clearly that the model in levels is spurious: the estimated coefficient of the lagged dependent variable is nearly 1 and the associated t-statistics exceed 20. We therefore estimate the model in growth rates.

are no common election dates across the German states, and legislative terms last four or five years.

Potentially all politicians behave opportunistically before elections, but politicians with different ideologies may well implement different economic policies during the legislative period (Frey and Schneider 1978a, 1978b). To account for differences between leftist and rightwing governments, we include the variable $Left_{it}$.[8] Partisan theory predicts that leftist governments are more anxious about unemployment (Hibbs 1977; Alesina 1987). We therefore expect leftist governments to employ ALMP measures more often than rightwing governments. Two major political blocs have dominated the political spectrum in Germany: the leftist Social Democratic Party (SPD) and the conservative Christian Democratic Union (CDU). In Bavaria, Germany's largest federal state by area, the conservatives are not represented by the CDU but by their sister party, the Christian Social Party (CSU). CDU and CSU do not compete and they form a single faction in the federal parliament (Bundestag). This is why we use the label CDU for both parties in the empirical analysis. All federal chancellors and state prime ministers were members of one of these two major blocks, SPD and CDU. Therefore, one can test for ideology-induced effects on this left-right dimension. The variable $Left_{it}$ assumes the value of one in periods when a SPD Prime Minister was in office and the SPD did not form a coalition with the CDU (grand coalition), the value 0.5 when the two parties formed a grand coalition (we do not distinguish whether the SPD or the CDU appointed the Prime Minister) and zero otherwise.[9] For robustness tests we replace the

[8] By employing OECD panel data, the results by Goerke et al. (2010) suggest that leftwing governments were more likely than rightwing governments to raise unemployment benefits. Leftwing governments did not, however, increase the growth rate of ALMP spending in OECD countries (Potrafke 2010).

[9] The much smaller Free Democratic Party (FDP) and Green Party (GR) have played an important role as coalition partners in the former West German states. While the SPD has formed coalitions with the three other parties, the CDU never joined a coalition with the Greens on the federal or state level during the period analyzed in this paper. We will also consider the influence of the different coalition types, because the left-right dimension may neglect ideological differences between government parties within a "camp" (e.g., on the left between SPD/FDP and SPD/GR coalitions). As minority governments and other government formations have played a negligible role, they will be subsumed under the coalition types mentioned above.

variable "Left" by individual coalition type dummies and also consider the party affiliation of the Labor Minister in coalition governments.

$\Sigma_k \gamma_k \Delta ln\, x_{ikt}$ includes three economic control variables. The number of individuals in job-creation schemes is related directly to the number of unemployed persons since job-creation schemes are often used in reaction to high unemployment. We therefore include the growth rate of the unemployment rate in period t-1 to acknowledge that governments react to high unemployment in the previous period by introducing more job-creation schemes. The time lag also avoids concerns about potential endogeneity. We include the growth rate of real GDP to account for the business cycle and the growth rate of students whose coursework included English (as a share of total students) to account for education quality across states. We use this measure as a proxy for education because no better data are available. λ_t represents fixed year,[10] and η_i fixed state effects. Table 1 shows descriptive statistics of all variables included in our sample.

We estimate the dynamic panel data model including the lagged dependent variable by using Bruno´s (2005a, 2005b) bias corrected least squares dummy variable estimator for dynamic panel data models with small N.[11] We chose initially the Blundell-Bond (1998) estimator, in which the instruments are collapsed as suggested by Roodman (2006). This procedure avoids using invalid and too many instruments (see Roodman 2006, 2009 for further details). Following Bloom et al. (2007) we undertake 50 repetitions of the procedure to bootstrap the estimated standard errors. Without the lagged dependent variable, the basic model is estimated by feasible generalized least squares in a common fixed effects framework. We apply heteroscedastic and autocorrelation consistent (HAC) Newey-West type standard errors and variance-covariance estimates (Newey and West 1987; Stock and Watson 2008) because the Wooldridge test for serial correlation in the idiosyncratic errors of

[10] The fixed year effects also control for specific historical events such as the German unification.
[11] In accordance with large sample properties of the GMM methods, e.g., the estimator proposed by Arellano and Bond (1991) would be biased in our econometric model with N=10.

a linear panel-data model implies the existence of strong arbitrary serial correlation (Wooldridge 2002: 176-177).

4. Results

4.1 Basic results

Table 2 reports the results from estimating the base-line model. In columns (1) and (2) we have entered only the political variables to show that the inferences regarding them are not sensitive to the inclusion/exclusion of the economic control variables. Columns (1) and (3) show results without the lagged dependent variable; columns (2) and (4) report them when that variable is included. The coefficient of the lagged dependent variable is statistically significant at the 5% level in column (4) but lacks statistical significance in column (2). The coefficient of the lagged dependent variable yields an elasticity of about 0.16 and shows that the growth in the number of individuals enrolled in job-creation is time-wise quite persistent. The lagged growth rate of the unemployment rate is statistically significant at the 5% level in column (3) and at the 1% level in column (4). The numerical meaning of the coefficient is that when the unemployment rate increases by 1% the number of individuals enrolled in job-creation schemes (as a share of inhabitants) increases by about 0.7%. Unemployment in period t-1 is thus seen to have a decided influence on the number of individuals enrolled in job-creation schemes in period t. The growth rate of real GDP and the share of students who are taught English do not turn out to be statistically significant.

In accordance with the predictions of the political business cycle theory, politicians increased the growth rate of the number of individuals in job-creation schemes before elections. The coefficient of the election variable is statistically significant at the 5% level in columns (1) and (3) and at the 10% level in columns (2) and (4). The numerical meaning of the coefficients is that in election years in the German states, the growth rate of the number of

individuals enrolled in job-creation schemes increased by about four percentage points. Government ideology did however not influence the use of ALMP.

4.2 Robustness tests

We have tested the robustness of the results in several ways. To see whether growth in the number of individuals enrolled in job-creation schemes increased only in election years, we have included a pre-election year variable that assumes the value of one in pre-election years and is zero otherwise, and a post-election year variable that assumes the value of one in post-election years and is zero otherwise. The results in Table 2 show that active labor market policies have been boosted in election years: the election year variable is statistically significant at the 10% level in column (2) and at the 5% level in column (4) and lacks statistical significance at conventional levels in columns (1) and (3). In contrast, the pre-election and post-election variables do not turn out to be statistically significant in columns (1) to (4). This finding shows that politicians manipulated the growth rate of job-creation schemes directly before but not after or much before elections. An explanation why the pre-election and the post-election variable do not influence the growth rate of the number of individuals enrolled in job-creation schemes may be the duration of these measures, which was 12 months on the average. The coefficient of the ideology variable also does not turn out to be statistically significant.

Federal elections may also influence ALMPs in the German states. The reason is twofold: (1) federal governments can also implement job-creation schemes and (2) the chancellor can encourage prime ministers who belong to his party to boost ALMP effort in order to increase his or her reelection prospects at the federal level. We have therefore included a federal election dummy that assumes the value of one in each year coinciding with a federal election and is zero otherwise. Table 4 shows that the federal election dummy is statistically significant at the 1% level. The numerical meaning is significant: the coefficient

of the federal election dummy is about four times larger than the coefficient of the state election dummy variable. Notice that including the federal election dummy does not change the estimated value or the statistical significance of the state election dummy and that several state elections were held in the same year as the federal elections, some even on the same day.

Table 5 shows results obtained after having replaced the variable $Left_{it}$ by coalition type dummy variables which do not turn out to be statistically significant.[12] An exception is the CDU/SPD dummy variable which is statistically significant at the 1% level in column (1). In any event, replacing the variable $Left_{it}$ by coalition type dummy variables does not change the inferences regarding the election variables. It is conceivable that when the CDU and SPD form a grand coalition, the party affiliation of the Labor Minister has an influence on ALMP. Whenever the CDU and the SPD formed a grand coalition in the German states, the SPD claimed the Ministry of Labor. Also, when the SPD formed coalitions with the FDP and the Greens, the SPD always claimed the Ministry of Labor. We have included a SPD Labor Minister dummy variable (results not shown). In fact, the SPD Labor Minister dummy variable always assumes the value 1 when the variable $Left_{it}$ assumes the value 1 or 0.5 and is thus a more encompassing variable for leftwing political ideology. Its coefficient has the expected positive sign but does not turn out to be statistically significant across the specifications. Including the SPD Labor Minister variable does not change the inferences regarding the election variable.

We have checked for the sensitivity of the results to the identities of the individual states included in the empirical model. To rule out this possibility, we have rerun the regression, excluding one state at a time. Overall, the inferences are robust in that they are not

[12] The coalition type dummies take the value of one when the specified coalition type was in power and zero otherwise. We distinguish between six different coalition types: CDU, CDU/FDP, CDU/SPD, SPD/FDP, SPD/GR, and SPD. With respect to the grand coalitions (CDU/SPD), we do not control for the identification of the parties that appointed the prime minister. To avoid perfect collinearity between the coalition type dummies, one of the coalition type dummies must function as the reference category (here SPD). The estimated effects of the other coalition type dummies then need to be interpreted as deviations from the reference category.

subject to the inclusion of particular states. The influence of the election variables declines, however, when Hamburg, Schleswig-Holstein and the Saarland are excluded (results not shown).

Elections can be irregular (early) (Brender and Drazen 2005; Shi and Svensson 2006). Following Shi and Svensson's (2006: 1374) identification strategy, an election is classified as regular (predetermined) if the election is (i) held on a constitutionally determined date (year), (ii) held in the final year of the term specified by the constitution; or (iii) announced at least one year in advance of that date. In our sample, 8% of the state elections need to be classified as "early": three elections in Hamburg and one election in the Saarland. We have replaced the election year variable by one variable for regular and one for early elections. The coefficients of the regular election-year variables lack statistical significance at conventional levels. The early election variable also lacks statistical significance in the dynamic panel data model, but is significant at the 5% level in the model excluding lagged dependent variable. Against the background that the influence of election variables declines when Hamburg, Schleswig-Holstein and the Saarland are excluded, this result is not surprising. The influence of the early election variable does however not contradict the electoral cycle hypothesis because, in contrast to fiscal policy, election-motivated politicians can easily implement job-creation schemes also in a short-run period before early elections.

Other economic variables capturing the industry structure and the fiscal equalization scheme may influence ALMP in the German states. We have therefore controlled for these influences.[13] Neither the number of firms, nor the number of employees, nor the fiscal equalization variables turn out to be statistically significant. We have also replaced the growth rate of students whose curriculum comprised English (as a share of total students) by the

[13] We employ data by the German Federal Statistical Office on the number of firms and the number of employees in these firms in the manufacturing sector. The fiscal equalization variable equals the funds in million Euros of constant purchasing power that each state received (positive amount) or spent (negative amount) in period t.

growth rate of students whose curriculum comprised French (as a share of total students) and the growth rate of the share of foreign students to account for education quality across states. Both variables turn out not to be statistically significant. In any event, including these variables does not change the inferences regarding the election variables at all.

We have also estimated the model using monthly instead of annual data. The advantage of using monthly data is to exploit more variation in job-creation schemes and the number of unemployed persons. The disadvantage is that we cannot include further economic control variables that are not available on a monthly basis. In any event, using monthly data provides strong support for electoral cycles in ALMP.

4. Conclusion

ALMP measures reduce unemployment directly and sugar-coat unemployment statistics. Electoral motives can thus explain why governments have implemented so many ALMP programs and spent so much money on these programs. In Germany, for example, ALMP expenditures exceeded 24 billion Euros in 1998 (Hagen and Steiner 2000: 14). We have tested whether election-motivated politicians manipulate ALMP policies over the voting cycle, using data for the German states from 1985 to 2004. We find that ALMP in the form of job-creation schemes were pushed before elections.

Avenues for future research include the following questions: have electoral motives influenced training programs and wage subsidies to the same extent? Are some ALMP measures more prone to strategic considerations before elections? If yes: can these effects explain why some AMLP programs turn out to be less effective than others? Electoral cycles in ALMPs could also be tested for other countries in which their effectiveness has been the subject of controversy. Empirical studies could also employ ALMP measures other than job-

creation schemes such as vocational training programs or offering early retirement payments to the unemployed elderly

The most important question for future research, however, is whether expansionary policies (ALMP as well as other economic policies) before elections do indeed improve the incumbent's re-election prospects. Our results suggest that political cycles in ALMP occur, but we cannot draw any conclusions with respect to the actual electoral influence of expansionary ALMP for re-election purposes. When opportunistic behavior pays, politicians may well proceed boosting the economy in order to stay in office.

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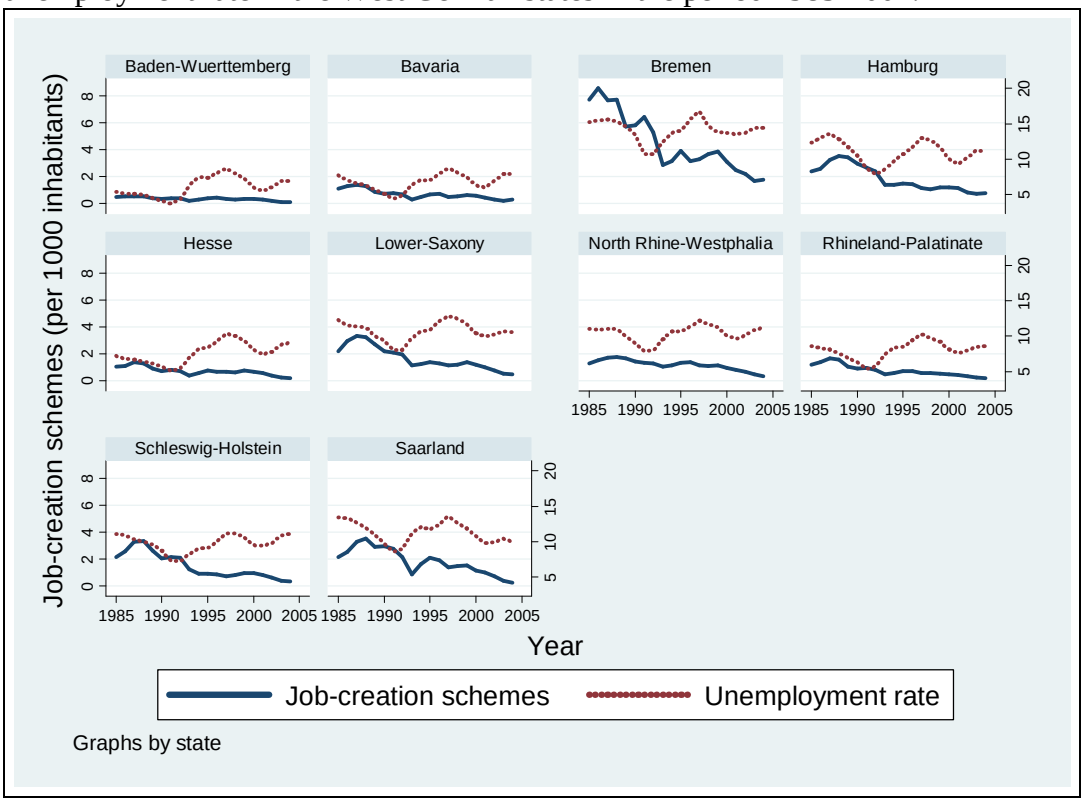
Figure 1: Number of individuals in job-creation schemes (per 1000 inhabitants) and unemployment rate in the West German states in the period 1985-2004.



Source: German Federal Employment Office

Table 1. Descriptive Statistics.

Variable	Obs.	Mean	Std. Dev.	Min	Max	Source
Number of individuals in job-creation schemes (per 1000 inhabitants)	200	1.50	1.45	0.12	8.56	Federal Employment Agency Federal Statistical Office
Unemployment rate	200	9.58	2.68	3.73	16.78	Federal Employment Agency
Election	200	0.25	0.43	0	1	own calculation
Pre-Election	200	0.25	0.43	0	1	own calculation
Post-Election	200	0.24	0.43	0	1	own calculation
Federal Election	200	0.25	0.43	0	1	own calculation
Left	200	0.62	0.47	0	1	Potrafke (2011b)
SPD	200	0.29	0.45	0	1	Potrafke (2011b)
SPD/FDP	200	0.19	0.39	0	1	Potrafke (2011b)
SPD/GR	200	0.11	0.31	0	1	Potrafke (2011b)
CDU/SPD	200	0.07	0.26	0	1	Potrafke (2011b)
CDU/FDP	200	0.16	0.37	0	1	Potrafke (2011b)
CDU	200	0.19	0.39	0	1	Potrafke (2011b)
Labor Minister (SPD)	200	0.65	0.48	0	1	own calculation
Labor Minister (CDU)	200	0.34	0.47	0	1	own calculation
Labor Minister (FDP)	200	0.01	0.10	0	1	own calculation
GDP per capita (real)	200	22615.05	7659.16	10920.50	48448.17	Research Group "*Volkswirtschaftliche Gesamtrechnung der Länder*"
Students who are taught English (share)	190	0.29	0.12	0.09	0.87	Federal Statistical Office
Students who are taught French (share)	190	0.05	0.05	0.00	0.22	Federal Statistical Office
Foreign national students (share)	200	0.08	0.04	0.02	0.17	Federal Statistical Office
Enterprises	200	4210.855	3799.453	331	11905	Federal Statistical Office
Employees in Enterprises	200	627775.1	579617.1	60608	2037956	Federal Statistical Office
Fiscal equalization	200	-52.11486	1009.377	-2734.389	1889.04	Federal Statistical Office

Table 2. Regression Results. Dependent Variable: Growth rate of the number of individuals enrolled in job-creation schemes (per 1000 inhabitants). Heteroskedastic and autocorrelation consistent (HAC) Newey-West type standard errors and dynamic bias corrected estimator.

	(1) FGLS	(2) Dynamic	(3) FGLS	(4) Dynamic
Election	0.0371**	0.0389*	0.0433**	0.0441*
	[2.59]	[1.68]	[2.34]	[1.90]
Left	0.0239	0.0409	0.0248	0.0209
	[0.60]	[1.08]	[0.58]	[0.54]
Δ ln Unemployment rate (t-1)			0.6570**	0.7026***
			[3.10]	[2.78]
Δ ln GDP per capita (real)			-0.0910	0.0144
			[0.26]	[0.01]
Δ ln Share of Students who are taught English			-0.0920	-0.1065
			[0.67]	[0.79]
Lagged Dependent Variable		0.1017		0.1552**
		[1.43]		[2.04]
Fixed State Effects	Yes	Yes	Yes	Yes
Fixed Year Effects	Yes	Yes	Yes	Yes
Observations	190	180	180	180
Number of N	10	10	10	10
R-Squared (overall)	0.72		0.72	

Notes: Absolute value of t statistics in brackets; * significant at 10%; ** significant at 5%; *** significant at 1%

Table 3. Regression Results. Dependent Variable: Growth rate of the number of individuals enrolled in job-creation schemes (per 1000 inhabitants). Heteroskedastic and autocorrelation consistent (HAC) Newey-West type standard errors and dynamic bias corrected estimator. Pre-election and Post-election dummy variable included.

	(1) FGLS	(2) Dynamic	(3) FGLS	(4) Dynamic
Election	0.0422	0.0434*	0.0505	0.0491**
	[1.67]	[1.88]	[1.65]	[2.08]
Pre-Election	0.0091	0.0154	0.0143	0.0166
	[0.26]	[0.54]	[0.35]	[0.58]
Post-Election	0.0086	0.003	0.0111	0.0036
	[0.33]	[0.12]	[0.40]	[0.14]
Left	0.0248	0.042	0.0266	0.0223
	[0.62]	[1.08]	[0.63]	[0.57]
Δ ln Unemployment rate (t-1)			0.6552**	0.6925***
			[3.03]	[2.74]
Δ ln GDP per capita (real)			-0.0648	0.0275
			[0.17]	[0.02]
Δ ln Share of Students who are taught English			-0.0979	-0.117
			[0.73]	[0.85]
Lagged Dependent Variable		0.1131		0.1650**
		[1.55]		[2.13]
Fixed State Effects	Yes	Yes	Yes	Yes
Fixed Year Effects	Yes	Yes	Yes	Yes
Observations	190	180	180	180
Number of N	10	10	10	10
R-Squared (overall)	0.72		0.72	

Notes: Absolute value of t statistics in brackets; * significant at 10%; ** significant at 5%; *** significant at 1%

Table 4. Regression Results. Dependent Variable: Growth rate of the number of individuals enrolled in job-creation schemes (per 1000 inhabitants). Heteroskedastic and autocorrelation consistent (HAC) Newey-West type standard errors and dynamic bias corrected estimator. Federal election dummy variable included.

	(1) FGLS	(2) Dynamic	(3) FGLS	(4) Dynamic
Election	0.0371**	0.0389*	0.0433**	0.0441*
	[2.59]	[1.68]	[2.34]	[1.90]
Federal Election	0.3247***	0.1198*	0.2099***	0.1960***
	[4.49]	[1.96]	[4.02]	[2.99]
Left	0.0239	0.0409	0.0248	0.0209
	[0.60]	[1.08]	[0.58]	[0.54]
Δ ln Unemployment rate (t-1)			0.6570**	0.7026***
			[3.10]	[2.78]
Δ ln GDP per capita (real)			-0.091	0.0144
			[0.26]	[0.01]
Δ ln Share of Students who are taught English			-0.092	-0.1065
			[0.67]	[0.79]
Lagged Dependent Variable		0.1103		0.1619**
		[1.54]		[2.12]
Fixed State Effects	Yes	Yes	Yes	Yes
Fixed Year Effects	Yes	Yes	Yes	Yes
Observations	190	180	180	180
Number of N	10	10	10	10
R-Squared (overall)	0.72		0.72	

Notes: Absolute value of t statistics in brackets; * significant at 10%; ** significant at 5%; *** significant at 1%

Table 5. Regression Results. Dependent Variable: Growth rate of the number of individuals enrolled in job-creation schemes (per 1000 inhabitants). Heteroskedastic and autocorrelation consistent (HAC) Newey-West type standard errors and dynamic bias corrected estimator. Coalition type dummies and Labor minister dummy included.

	(1) FGLS	(2) Dynamic	(3) FGLS	(4) Dynamic
Election	0.0346*	0.0387*	0.0423*	0.0434*
	[2.17]	[1.67]	[2.15]	[1.86]
SPD/FDP	0.0421	0.0385	0.0348	0.0293
	[0.92]	[0.71]	[1.11]	[0.53]
SPD/GR	0.0308	0.0288	0.0256	0.0233
	[0.73]	[0.76]	[0.65]	[0.62]
CDU/SPD	0.0947***	0.0798	0.0568	0.045
	[3.41]	[1.16]	[1.42]	[0.64]
CDU/FDP	0.0103	-0.009	0.007	0.0068
	[0.26]	[0.20]	[0.19]	[0.15]
CDU	-0.0541	-0.0831	-0.0717	-0.0656
	[0.77]	[1.45]	[0.94]	[1.13]
Δ ln Unemployment rate (t-1)			0.5697**	0.6131**
			[2.26]	[2.20]
Δ ln GDP per capita (real)			0.0448	0.0989
			[0.11]	[0.08]
Δ ln Share of Students who are taught English			-0.0853	-0.0972
			[0.58]	[0.69]
Lagged Dependent Variable		0.0736		0.1299
		[0.95]		[1.60]
Fixed State Effects	Yes	Yes	Yes	Yes
Fixed Year Effects	Yes	Yes	Yes	Yes
Observations	190	180	180	180
Number of N	10	10	10	10
R-Squared (overall)	0.73		0.73	

Notes: Absolute value of t statistics in brackets; * significant at 10%; ** significant at 5%; *** significant at 1%