

The Age of Dualization

*The Changing Face
of Inequality in
Deindustrializing
Societies*

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VARIETIES OF DUALIZATION?

LABOR MARKET SEGMENTATION AND INSIDER-OUTSIDER DIVIDES ACROSS REGIMES

SILJA HÄUSERMANN AND HANNA SCHWANDER

INTRODUCTION

Over the past decades, labor markets in the Western democracies have changed profoundly. Across all countries, we observe a trend toward a segmentation of the workforce: ever fewer people's work biographies correspond to the industrial blueprint of protected, stable, full-time, and fully insured insider employment, while a growing proportion of the population are outsiders, whose employment status and employment biographies deviate from the insider model. For the outsiders, this deviation may potentially result in specific disadvantages, such as poor job prospects, poverty, welfare losses, and a lack of social and political integration. As we argue and demonstrate in this chapter, the extent to which segmentation results in actual insider-outsider divides depends on the institutional context, that is, it varies across countries and across welfare regimes. Hence, while labor market segmentation is a fairly universal trend, the appearance of actual insider-outsider divides is not: it is contingent on policies.

We argue that it is crucial to study not only the segmentation of labor markets in insiders and outsiders, but also its translation in economic, social, and political outcomes for two reasons. First, it emphasizes the importance of *policies*. Welfare state research has shown that social Policies do not always benefit the poorest, and that they may have stratifying, rather than redistributive, effects (Esping-Andersen 1990; Bradley et al. 2003). With regard to the insider-outsider divide, this insight is crucial: welfare states may compensate for labor market segmentation, but—conversely—they may also perpetuate labor market

inequalities or even reinforce occupational divides. While recent studies indeed show that welfare states become increasingly dualized, that is, they apply different policies to insiders and outsiders (e.g., Häusermann 2010; Palier 2010; Seeleib-Kaiser et al., chapter 7 of this volume; Palier and Thelen, chapter 9 of this volume; and Clegg, chapter 11 of this volume), we analyze the effect of these policies in a cross-national and cross-regime perspective.

Second, it is crucial to look at outcomes in order to assess the *political relevance* of insider-outsider divides. If unemployment or atypical employment is not linked to concrete disadvantage in terms of labor market power, welfare rights, or political integration, the insider-outsider divide may well remain a purely sociological distinction without further political relevance. If, however, labor market segmentation correlates with job market closure, poverty, and poor welfare coverage, the insider-outsider divide might become the socio-structural basis of political mobilization. The chances of this divide being politicized depend, of course, on the presence of a political actor drawing on this potential, but the empirical analysis of actual economic, social, and political divides across regimes is a pre-condition for understanding the politics of dualization.

In this chapter, we proceed in three steps. In a first step, we develop our theoretical argument on the link between institutions, welfare regimes, and insider-outsider divides. In a second step, we identify insiders and outsiders empirically on the basis of their relative risk of being unemployed or atypically employed. In a third step, we compare earnings power, job prospects, social rights, and political integration of insiders and outsiders across countries and regimes.

POST-INDUSTRIALISM, LABOR MARKET SEGMENTATION, AND INSIDER-OUTSIDER DIVIDES

Over the past 30 years, the industrial economies of the developed world have transitioned to the era of post-industrialism, with ever growing shares of the workforce being employed in the third sector. Much of the literature characterizes the industrial era of Western societies as “the golden age,” since it was characterized by relatively stable families and stable labor markets (Esping-Andersen 1999b). And even though the rhetoric of the golden age may paint a somewhat too rosy picture of the distribution of economic and social opportunities in Western societies, it is certainly true that the exceptional economic growth during the three postwar decades allowed for full male employment, the development of the Western welfare states, and a relatively high degree of status homogenization.

Three structural developments have, however, profoundly altered this “industrial equilibrium”: the tertiarization of the employment structure, the

educational revolution, and the feminization of the workforce (Oesch 2006). The rise of the service sector is a major trend in all OECD countries. While Continental Europe remained predominantly industrial until the 1990s, service sector employment was already more important than the industrial sector in the United Kingdom and Sweden in the 1970s. After 2000, service sector employment outdid industrial employment throughout the OECD by a factor of 2 to 3 (Oesch 2006: 31). Jobs in the service sector tend to differ from industrial employment because they are either very low-skilled or highly skilled, and because service sector employment has a lower potential for productivity gains (Iversen and Wren 1998; Kroos and Gottschall, chapter 5 of this volume). The educational revolution—as the second structural change of the post-industrial era—denotes the massive expansion of tertiary education throughout the OECD countries, leading to a broader and more heterogeneous middle class. Finally, the increasing feminization of the workforce is both a consequence of and a driver for the educational revolution and tertiarization. The massive entry of women into paid labor is also related to the increasing instability of traditional family structures (Esping-Andersen 1999).

This shift toward post-industrial employment has led to labor markets that are increasingly segmented, which means that they are increasingly divided in standard jobs on the one hand, and non-standard jobs on the other hand. Unemployment and formerly “atypical” employment relations have become more and more widespread. Unemployment increased in all OECD countries throughout the 1980s and 1990 and has remained on a higher level than in the late 1970s since. Especially in Continental Europe, unemployment rates have remained high, around 10 percent in some countries, such as France and Belgium. Atypical employment denotes all employment-relations that deviate from the Standard Employment Relation (i.e., full-time, stable, fully insured employment). Part-time and temporary employment contracts are among the most prominent types of atypical employment (see Eichhorst and Marx, chapter 4 of this volume). According to Standing (1993: 433), the number of workers on temporary contracts across the entire European Union (EU), for instance, has been growing by 15–20 percent annually since the 1980s, which is about ten times the overall rate of employment growth (see also Esping-Andersen 1999 and OECD 2006). Similarly, part-time employment counted for close to 80 percent of the net job creation in the EU since the mid-1990s (Plougmann 2003). Atypical employment is also clearly gendered in many countries (Esping-Andersen 1999b). For women in Continental Europe, atypical employment is generally the norm rather than the exception. Similarly, atypical employment has become more and more widespread among labor market entrants in a range of Continental and Southern European countries (e.g., Chauvel 2009).

Hence, the segmentation of labor markets in “inside labor,” that is, people in standard employment, and “outside labor,” that is, people in atypical and

precarious employment, is a structural trend that affects all advanced post-industrial economies. To what extent, however, can we expect these structural changes to result in actual social divides, that is, in specific disadvantages of outsiders in terms of outcomes? Indeed, if most people repeatedly move back and forth between standard and non-standard employment or between unemployment and employment, new employment patterns must not result in actual new divides. However, research shows that social mobility has *not* increased in post-industrial societies (Erikson and Goldthorpe 1993; Breen 2004) and that unemployment and atypical employment risks are concentrated in clearly identifiable social groups (Häusermann and Schwander 2009a). Therefore, the segmentation of labor markets may indeed result in structural disadvantages with regard to economic, social and political outcomes. This is what we explore in this chapter.

To analyze outcomes, we distinguish between three types of insider-outsider divides. *Labor market divides* refer to structural disadvantages of outsiders in terms of earnings possibilities and access to training. We will speak of *social protection divides* if outsiders are structurally disadvantaged with regard to welfare coverage and benefits. And we identify *political integration divides* if labor market outsiders are politically underrepresented and alienated from democratic decision making. None of these three divides are *necessary* consequences of labor market segmentation, since countries can counterbalance the increasing segmentation of labor markets.

In this chapter, we analyze empirically to what extent the translation of segmentation into outcomes varies across welfare regimes. As recent research has shown that welfare regimes increasingly become hybrids and more heterogeneous (e.g., Palier 2010), one might ask whether it still makes sense to focus on between-regime differences. We do so in this chapter, because regimes reflect long-standing institutions, policies, and underlying ideological foundations that shape political outcomes in the long run (Esping-Andersen 1990, 1999). In addition, given the increasing within-regime heterogeneity of welfare states, any observed between-regime differences reflect a “hard test” of the impact of regimes. Nevertheless, we also show cross-country variation, thereby preparing the ground for further contributions in this book (e.g., see chapter 4 by Eichhorst and Marx, chapter 7 by Seeleib-Kaiser et al., chapter 8 by Obinger et al., and chapter 9 by Palier and Thelen), which will explore within-regime differences in detail.

How do we expect regimes to differ in the extent to which they translate labor market segmentation into economic, social, and political outcomes? The Liberal countries generally have flexible and Liberal labor markets and relatively high levels of income inequality. Their welfare states are means-tested and focused on poverty prevention (Esping-Andersen 1990). Hence, while we expect marked labor market divides, we also expect the welfare state to have

a compensating effect on these inequalities. Further, as political participation depends *inter alia* on individual resources like time, money, and civic skills (Brady et al. 1995), a compensating welfare state may help in preventing strong political divides. Nordic welfare states are quite the opposite: they have generally low levels of income inequality despite strongly gendered labor markets, as well as encompassing trade unions and an egalitarian, universalistic profile of welfare state policies (Esping-Andersen 1990, 1999). We thus expect weak insider-outsider divides on all three dimensions, since the institutions of the Nordic countries countervail segmentation. Finally, we expect pronounced divides in Continental and Southern European welfare regimes for two reasons. The first reason is that Continental labor market and social policy institutions were strongly marked by industrial trade unions, which tend to represent inside labor (Palier and Thelen 2010). The second reason relates to the social insurance welfare states typical of Continental Europe (Esping-Andersen 1990). Social insurance implies that welfare benefits are proportional to contributions. Therefore, unemployment and non-standard work tend to lead to incomplete and insufficient social rights (Esping-Andersen 1999b: 83). In that sense, Continental and Southern European welfare states reproduce market inequalities (Bradley et al. 2003). Consequently, we expect to observe comparatively strong insider-outsider divides in these regimes.

WHO ARE THE OUTSIDERS? IDENTIFYING INSIDERS AND OUTSIDERS ACROSS REGIMES

In order to analyze the consequences of labor market segmentation, we first need to define labor market insiders and outsiders. In line with our previous work (Häusermann and Schwander 2009a, 2009b; Häusermann and Walter 2010), we consider labor market outsiders those individuals who incur a particularly high risk of being in atypical employment or unemployment. People differ in their risk profile, that is, in the likelihood that they will be affected by unemployment or atypical employment. We share this idea of atypical employment and unemployment as determinants of outsidership with the main contributions to this literature in political science (e.g., Rueda 2005, 2007; Emmenegger 2009). The question is, of course, how we can *measure* this risk. Most of the literature simply takes the current labor market status of an individual as the basis for measurement. This means that the existing literature (e.g., Lindbeck and Snower 2001; Saint-Paul 2002; Rueda 2005; Emmenegger 2009) uses a snapshot categorization of outsiders at a particular point in time. This measure implies various misclassification risks (see Häusermann and Schwander 2009a and Emmenegger 2009 for a discussion). Hence, in this chapter, we deviate from this measure by defining outsiders as belonging

to occupational groups, which are “typically” affected by atypical work and unemployment. This implies that people are categorized based on the characteristics of their reference group. This approach relies on the idea that people form identities and preferences *not* on the basis of a momentary labor market status, but with regard to their occupational reference group, and this is what we need to capture if we want to talk about the social and political relevance of insider-outsider divides.²

How then can we measure the *risk* of unemployment or atypical employment? The probability of experiencing these forms of outsidership obviously depends on their rate of occurrence within the relevant occupational category. Post-industrial societies are still structured in different, relatively stable occupational groups, which share similar employment and risk profiles. Classes are occupational groups characterized by a particular situation in the labor market, which shapes their resources and preferences. Class schemes are based on occupational profiles (Erikson and Goldthorpe 1993; Oesch 2006) because people in similar professions tend to have similar employment biographies. Class is therefore a meaningful starting point for the identification of group-specific risks of unemployment and atypical employment. We rely on the class schema by Oesch (2006), which is explicitly developed to reflect post-industrial societies, since it takes into account a heterogeneous middle class and it distinguishes between different types of low-skilled employees who can no longer be reasonably subsumed under a single category of workers (Oesch 2006). Individuals are categorized on the basis of their current or last occupation (by means of ISCO88 codes). Kitschelt and Rehm (2005) have regrouped Oesch’s schema into five classes: Capital accumulators are high-skilled managers and self-employed. Sociocultural professionals are high-skilled professionals in interpersonal professions, most of them in the public and private service sector. Lower-skilled workers are differentiated in three groups: blue-collar workers are unskilled and skilled workers mostly in the industry. Low service functionaries are unskilled and skilled employees in interpersonal services, and mixed service functionaries denote a residual class of routine and skilled workers in jobs with mostly organizational work logic. Table 2.1 represents the location of these five classes in the class schema that is both vertically structured by skill levels, and horizontally by work logic.³

These five classes are a good starting point for the assessment of group-specific rates of unemployment and atypical employment. Capital accumulators are consistently the most privileged members of the workforce. For the other four classes, however, we need to go more into detail. In addition to class, employment trajectories are strongly structured by gender and age.⁴ Post-industrial labor markets are strongly gendered (Esping-Andersen 1999: 308; Emmenegger 2010). They also—at least in some regimes (Esping-Andersen 1999)—tend to hold different occupational prospects for young and older workers.⁵ Consequently, we further distinguish the socio-structural classes according to gender and age. We distinguish between two age groups, below

Table 2.1: The post-industrial class schema

Independent work logic	Technical work logic	Organizational work logic	Interpersonal work logic	
Large employers, liberal professionals, and petty bourgeoisie with employees (e.g., <i>entrepreneurs, lawyers</i>)	Technical experts (e.g., <i>executive engineers</i>)	Higher-grade and associate managers (e.g., <i>financial and managing executives</i>)	Socio-cultural (semi)-professionals (e.g., <i>teachers, health professionals</i>)	Professional/managerial
Capital accumulators CA	Capital accumulators CA	Capital accumulators CA	Sociocultural professionals SCP	Associate professional/managerial
	Technicians (e.g., <i>engineers</i>)			
	Mixed service functionaries MSF			
Petty bourgeoisie without employees (e.g., <i>small shopkeepers</i>)	Skilled crafts and routine operatives (e.g., <i>machine operators, laborers in construction</i>)	Skilled and routine office workers (e.g., <i>office clerks</i>)	Skilled and unskilled service (e.g., <i>salespersons, waiters</i>)	Generally/vocationally skilled and unskilled
Mixed service functionaries MSF	Blue-collar workers BC	Mixed service functionaries MSF	Low service functionaries LSF	

Note: Based on Oesch (2006) and Kitschelt and Rehm (2005). For the classification of occupations (ISCO-2d codes), see Häusermann (2010).

and above the age of 40. The combination of 4 classes, 2 sexes, and 2 age groups leaves us with 16 occupational groups. For each of them, we have computed the group-specific rate of unemployment and the rate of atypical employment (including part-time employment—both voluntary and involuntary⁶—as well as temporary or fixed-term employment, depending on the data availability in the respective survey), compared it to the average in the country’s workforce, and tested whether the difference is significant. Occupational groups that have a significantly higher rate of either unemployment or atypical employment (i.e., significant at a 0.01 percent level of error) are defined as outsider-groups. Consequently, all individuals in these groups are then treated as outsiders.

In order to make our measurement robust, we have computed these mean-comparisons throughout the range of those six surveys that are most widely used in this research area (ISSP Role of Government III and IV [1996, 2006], ISSP Work Orientations III 2005, European Social Survey 2002 and 2008, Eurobarometer 44.3 1996) as well as three household panel datasets (for the UK, Switzerland, and Sweden, 2007). Only those occupational groups that were significantly more strongly affected by unemployment or atypical employment in

a *majority* of the surveys were eventually defined as outsider-groups. The temporal and geographical variation of these surveys increases robustness. Some groups (e.g., elderly female blue-collar workers) are very small, which obviously influences significance tests. However, since we define outsiders on the basis of significantly higher probabilities of unemployment and atypical employment, our operationalization produces conservative results for these small groups. Table 2.2 shows the resulting classification.

Comparing the distribution of insiders and outsiders across welfare regimes, we note two main points. First, women and young labor market participants are over-represented among outsiders in all regimes, which fits well with what we know from previous analyses (Esping-Andersen 1999a, 1999b; Emmenegger 2010; Kroos and Gottschall, chapter 5 of this volume). Second, however, the composition of insiders and outsiders also differs across regimes: in the Nordic and Continental countries, gender is the most important criterion, while in the Southern European regime, outsidership concerns mostly young labor market participants, and in the Liberal countries, outsiders are predominantly found among the low-skilled.

In the subsequent section of this chapter, we will analyze empirically to what extent insiders and outsiders—as identified in Table 2.2—differ in terms of their incomes, job prospects, social rights, and political integration. While doing so, we systematically conduct a series of robustness-tests: first, we recalculated the results including only part-timers who work less than 30 hours per week. Second, we controlled for the effect of retirement by re-running the analyses without pensioners; and finally, we controlled for household composition. Indeed, one might argue that many female outsiders may be married to male insiders, which is why insider-outsider gaps in income, welfare entitlements, or labor market chances may not reflect economic precariousness directly, and married outsiders might even partly adopt the preferences of the male breadwinner.⁷ On the other hand, defining insiders and outsiders at the household level only entails a risk of masking inequalities and neglecting the implications of family instability. Also, we follow Iversen and Rosenbluth (2006) in arguing that divorce rates approaching 50 percent in most OECD countries create strong incentives to evaluate one's life chances as individuals. Therefore, we perform our main analyses at the individual level. However, we re-test all results with a focus on households. When doing so, we define as outsiders only those individuals living in single households or in "pure" outsider households (i.e., where both spouses are outsiders). Where detailed information on the spouse's occupation is lacking (mostly with regard to income data), we check for household effects by defining outsider-households on the basis of the occupational profile of the head of the household. None of these robustness tests alters our results markedly. Where we do find important differences, we discuss them in more details in the respective section.

Table 2.2: Insiders and outsiders in the four welfare regimes

	Liberal regimes	Nordic regimes	Continental regimes	Southern regimes
Outsiders	Young female LSF	Young female LSF	Young female LSF	Young female LSF
Insiders	Young male LSF	Young male LSF	Young male LSF	Young male LSF
	Older female LSF	Older female LSF	Older female LSF	Older female LSF
	Older male LSF	Older male LSF	Older male LSF	Older male LSF
	Young female SCP	Young female SCP	Young female SCP	Young female SCP
	Young male SCP	Young male SCP	Young male SCP	Young male SCP
	Older female SCP	Older female SCP	Older female SCP	Older female SCP
	Older male SCP	Older male SCP	Older male SCP	Older male SCP
	Young female BC	Young female BC	Young female BC	Young female BC
	Young male BC	Young male BC	Young male BC	Young male BC
	Older female BC	Older female BC	Older female BC	Older female BC
	Older male BC	Older male BC	Older male BC	Older male BC
	Young female MSF	Young female MSF	Young female MSF	Young female MSF
	Young male MSF	Young male MSF	Young male MSF	Young male MSF
	Older female MSF	Older female MSF	Older female MSF	Older female MSF
	Older male MSF	Older male MSF	Older male MSF	Older male MSF
	CA	CA	CA	CA
% outsiders	52.7%	40.2%	43.0%	40.1%
% female outsiders	69.7%	96.2%	100%	77.2%
% young outsiders	31.0%	21.8%	33.8%	59.7%
% low-skilled outsiders	65.7%	47.5%	46.6%	45.0%
% immigrant outsiders (1st and 2nd gen.)	14.0%	9.7%	18.4%	11.2%
N	7334	4491	5319	3522

Notes: Highlighted groups are significantly more strongly affected by unemployment and/or atypical employment than not highlighted groups; based on the following data sources: ISSP Role of Government III and IV, ISSP Work orientations III, European social survey 2002 and 2008, Eurobarometer 44.3 as well as three household panel datasets (for the UK, Switzerland and Sweden); descriptive statistics from ISSP RoG IV 2006 (for reasons of data availability, the numbers regarding immigrants stem from the ESS round 4 2008 survey).

EMPIRICAL ANALYSIS: FROM SEGMENTATION TO DIVIDES

In the following sections, we analyze the distribution of earnings power, job perspectives and social rights between insiders and outsiders as well as their respective political integration.

Labor Market Divides Between Insiders and Outsiders

Labor market divides, that is, the distribution of economic advantages and disadvantages between insiders and outsiders, has two sides: income and job prospects. If outsiders receive a similar income to insiders, and if they have the same access to training and professional development as do insiders, then labor market segmentation must not necessarily become an actual social divide. In other words, atypical jobs *can* be “good jobs.” However, there is a considerable chance that in regimes that are characterized by generally high levels of inequality (the Liberal regimes) and selective insider corporatism (the Continental regimes), segmentation leads to specific inequalities between insiders and outsiders. We examine this question by looking at gross income gaps on the one hand, and by investigating access to training on the other hand.

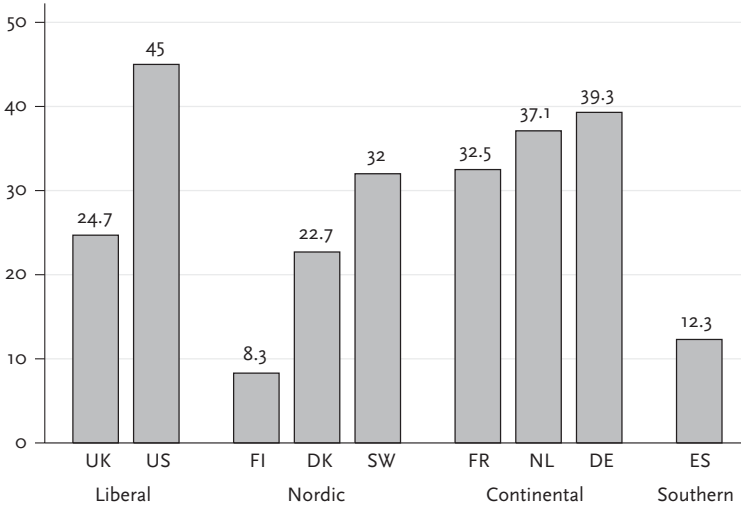
Figure 2.1 shows the results in terms of gross income inequalities. For the countries available in the Luxemburg Income Study Dataset, we computed the average gross income of insiders and outsiders.⁸ Thereby, we want to capture the earnings power of insiders and outsiders *before* taxes and transfers. We rely on the most recent comparative data available, which is from 2000. Figure 2.1 shows how much less outsiders earn in comparison with insiders. The higher the number, the bigger the gap between insiders and outsiders.

Income differentials are on average highest in Liberal and Continental countries, where outsiders earn gross salaries that lie between 25 and 45 percent below those of insiders. The result is particularly consistent across the three Continental countries in our sample—France, the Netherlands, and Germany—where the market income of outsiders is on average more than a third below that of insiders. In the Nordic countries, in contrast, income differentials are somewhat lower—even though they approach Continental levels in Sweden. Finally, the low gross income gap between insiders and outsiders in Spain may come as a surprise at first glance. Rather than indicating “good incomes” for outsiders, however, the result merely evidences relatively poor incomes for insiders, too. This results in a rather narrow gap between insiders and outsiders.⁹

Income is just one side of labor market divides. Access to vocational training is an equally important indicator of labor market (dis)advantage. Indeed, if outsiders have opportunities similar to those of insiders to improve their job situation, income differentials may be transitory only. The results, however, just add evidence to the pattern detected in figure 2.1. Figure 2.2 shows the percentage of respondents who say that they had some form of job training over the last 12 months.

Figure 2.1: Gross income gap (before taxes and transfers)

Average gross income difference between insiders and outsiders in %

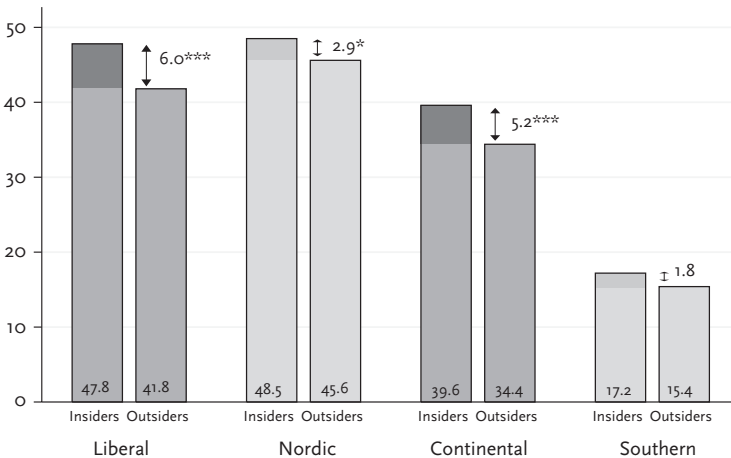


Note: Reading example: in the UK, outsiders have an average market income that is 24.7% lower than the average market income of insiders

Source: Luxemburg Income Study Data, own calculations. Data refers to 2000 with the exceptions of the Netherlands and the UK, where data refer to 1999.

Figure 2.2: Gap in access to vocational training for insiders and outsiders

Share of respondents who had job training over the last 12 months



Significant gap between insiders and outsiders at the 0.01 level

Not sig. gap between insiders and outsiders at the 0.01 level

Note: Liberal N=6616 (AUS, UK, US, IRE, NZ, CA); Nordic N=4539 (NO, SW, DK, FI); Continental N=3319 (GER, F, SWI); Southern N=2433 (SP, PO)

Source: ISSP Work orientations III 2005 (see appendix for question wording).

In all countries, outsiders fare worse on this indicator than insiders. In the Liberal and Continental countries, this difference is significant at the 0.01 level. Another striking result is the poor level of training for all respondents in the Southern regimes (Spain and Portugal). As with gross income differentials, Southern European labor markets seem to be relatively precarious for both insiders and outsiders.¹⁰

Welfare State Divides Between Insiders and Outsiders

A second dimension of inequalities between insiders and outsiders refers to social rights. This is a genuinely political source of inequality because it depends on policies rather than markets. If the welfare state compensates for labor market disadvantages, for instance, poor job conditions must not necessarily translate into welfare losses.

Our main analysis in this section relies on the effect of taxes and transfers on income differentials between insiders and outsiders. Table 2.3 shows gross incomes (before taxes and transfers) and net incomes (after taxes and transfers) for insiders and outsiders, again relying on the most recent available LIS data from 2000. It also shows the gross and net income ratios: the net outsider income in the UK, for example, is 84.6 percent of the net insiders income. The higher the ratio, the more equal insider and outsider incomes. A welfare state that compensates labor market divides between insiders and outsiders should raise this ratio, thereby attenuating societal divides. The effect of taxes and transfers in the highlighted row in table 2.3 corresponds to the *reduction in the insider-outsider divide due to taxes and transfers* in percentage points. In the United Kingdom, for example, the income gap between insiders and outsiders narrows by 9.3 percentage points after taxes and transfers.

Figures 2.3 and 2.4 present the results graphically. Figure 2.3 displays income gaps before and after taxes and transfers, indicating how much lower outsider incomes are in comparison to insider incomes. In the Liberal countries, income gaps start from a relatively high level, but they become considerably lowered by taxes and transfers in the United Kingdom, while they remain virtually unchanged in the United States. The three Nordic countries start at rather heterogeneous levels of before taxes and transfer-income gaps, but the welfare state makes this gap much more similar across countries, raising inequality in Finland, while reducing it in Denmark and Sweden. In the Continental regimes, income gaps between insiders and outsiders are comparatively high both before *and* after taxes and transfers in all three countries. Even after taxes and transfers, outsider incomes remain more than 30 percent below insider incomes. The striking finding here, however, is that the welfare state actually *reinforces* the insider-outsider divide in France and Germany (while slightly reducing it in the Netherlands). Finally, the Spanish welfare state massively increases inequality between insider and outsider incomes through taxes and transfers.

Table 2.3: Effect of taxes and transfers on income ratios between insiders and outsiders

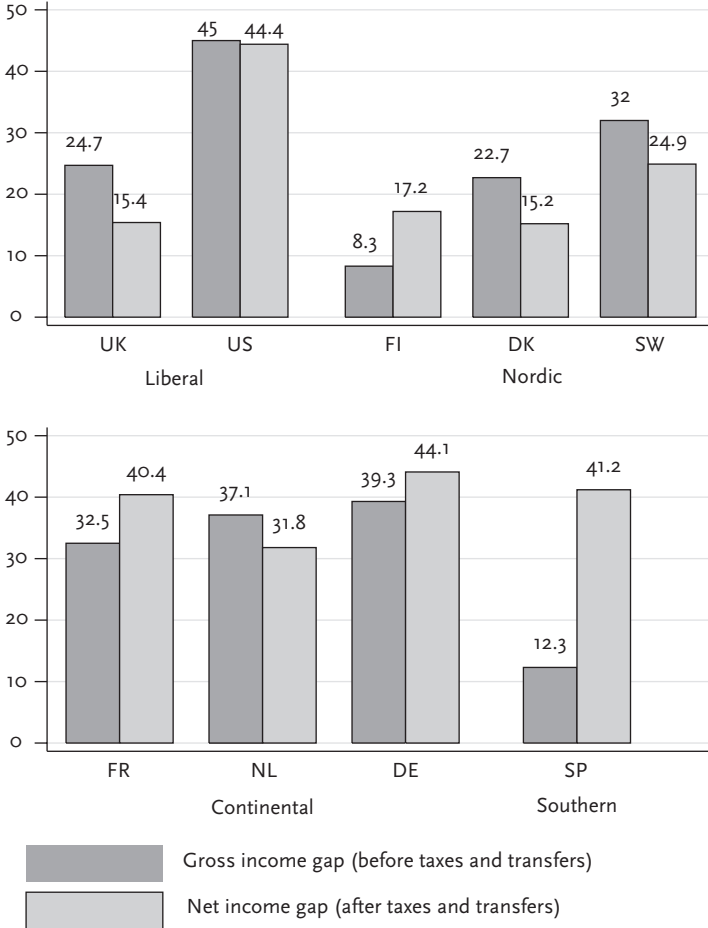
	UK	US	DK	FI	SW	FR	DE	NL	ES
Gross income insider	17,179	41,875	131,200	97,022	118,074	69,880	50,014	52,995	1,738,164
Gross income outsider	12,931	23,354	101,378	88,990	80,242	47,143	30,346	33,329	1,523,881
Ratio gross income	75.3	55.8	77.3	91.7	68.0	67.5	60.7	62.9	87.7
Net income insider	16,039	35,334	110,613	99,906	108,293	113,742	59,731	39,670	2,684,702
Net income outsider	13,563	19,660	93,779	82,760	81,377	67,786	33,418	27,074	1,577,510
Ratio net income	84.6	55.6	84.8	82.8	75.1	59.6	55.9	68.2	58.8
Effect of T&T (gross-net)	-9.3	0.1	-7.5	8.9	-7.2	7.9	4.7	-5.4	28.9

Note: Incomes are in units of national currency, data refer to 2000 with the exception of the Netherlands and Britain where data refer to 1999.

Data source: Luxembourg Income Study, 2000; own calculations.

Figure 2.3: Income gaps between insiders and outsiders before and after taxes and transfers

Average income difference between insiders and outsiders before and after taxes and transfers

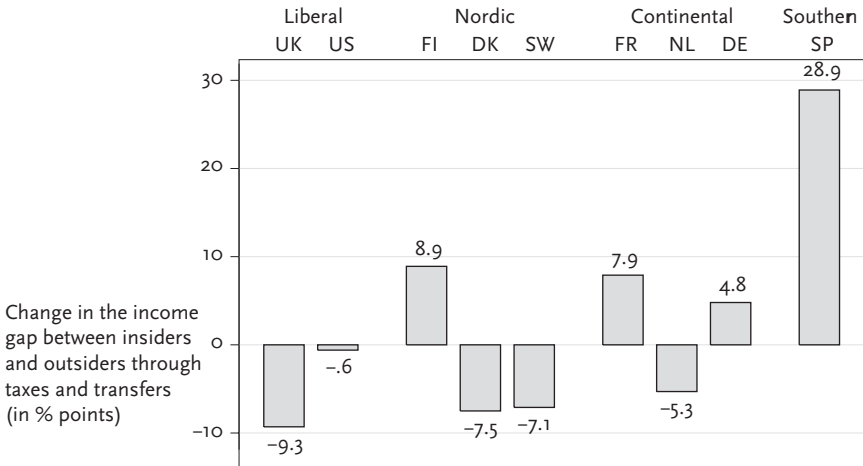


Reading example: in the UK, before taxes and transfers, outsiders have an average gross income that is 24.7% lower than the average gross income of insiders; after taxes and transfers, outsiders have an average net income that is 15.4% lower than the average net income of insiders.

Source: Luxemburg Income Study Data, 2000, own calculations.

To emphasize the differential distributive effects of social and tax policy, we display the effect of welfare states again in figure 2.4. In the Liberal and Nordic countries (except for Finland, which has strong gross income equality from the outset), the welfare state *reduces* the insider-outsider income divide.¹¹ In some countries of the Continental and Southern European regimes, in contrast—and this is the striking result of this analysis—the

Figure 2.4: The effect of welfare states (taxes and transfers) on income differences between insiders and outsiders



Reading example: in the UK, taxes and transfers reduce the income gap between insiders and outsiders by 9.3 percentage points, while taxes and transfers increase the income gap by 7.9 percentage points in France.

Source: Luxemburg Income Study Data, 2000, own calculations.

welfare state tends to *reinforce* inequalities between insiders and outsiders. The exception of the Netherlands seems plausible with regard to the literature (see, e.g., Hemerijck et al. 2000 on the increasing outsider-reorientation of the Dutch welfare state), and it points to an interesting variance within Continental Europe.

We again performed robustness tests for these results by defining outsiders and insiders at the household, rather than the individual level.¹² The effect of the welfare state remains largely the same: in Spain, Germany, and to a smaller extent also in Finland, the welfare state increases inequalities also at the household level. The Liberal welfare states, as well as the Swedish, Danish, and Dutch welfare states, reduce inequalities at both levels. We also control for the effect of old age pensions. When we exclude old age pensions from the income data, the effect of the welfare states indeed changes in Finland, Germany, and Spain. The Finnish welfare state now reduces inequality, while the German and Spanish welfare states are neutral. This shows that it is mainly the pension systems that are responsible for the dualizing effect of taxes and transfers. People who worked in outsider-jobs during their active life are considerably worse off than people who worked in insider occupations.

The fact that Continental and Southern European welfare regimes do not compensate insider-outsider divides comes, of course, not as an utter surprise. Christian Democratic welfare regimes are based on the insurance principle, which distributes benefits proportional to contributions (Esping-Andersen

1990). Social insurance—especially in the field of pensions—is thus an inadequate instrument to cover outsiders because outsiders have incomplete contribution records. Consequently, outsiders oftentimes have to rely on the general minimum security (or on derived benefits if they are—and stay—married). If this minimum is very low as compared to the average insurance benefits, the welfare state indeed reinforces insider-outsider divides. We explore this institutional effect of dualization further by comparing the pension replacement rates of a worker earning the average income over his entire (full) employment biography and the replacement rate of a worker earning a low income, that is, half of the average income, expressed as percentage of average earnings. The higher this difference between the replacement rates, the more dualized is the pension system of a particular country.

Table 2.4 clearly shows that institutional dualization through the pension regime is and will remain strongest in Continental Europe and lowest in the Liberal countries. Differences exceed the overall mean in the Finland, Norway, and Sweden, as well as in all Northern and Southern Continental countries, except France.¹³ Despite its social insurance logic, the French pension system does not lead to a strong divide between average and low-income earners, because of a comparatively high minimum pension. This finding adds evidence to the hypothesis that the regressive effect of Continental welfare regimes is a result of social insurance policies. The French case shows, however, that high social minima may be a way to counter-balance the inequality effect of social insurance systems (on this, see chapter 4 by Eichhorst and Marx, as well as chapter 9 by Palier and Thelen, in this volume).

Political Integration Divides Between Insiders and Outsiders

A third dimension of insider-outsider divides in terms of outcomes refers to political integration, that is, democratic representation. We start with an analysis of trade union membership.

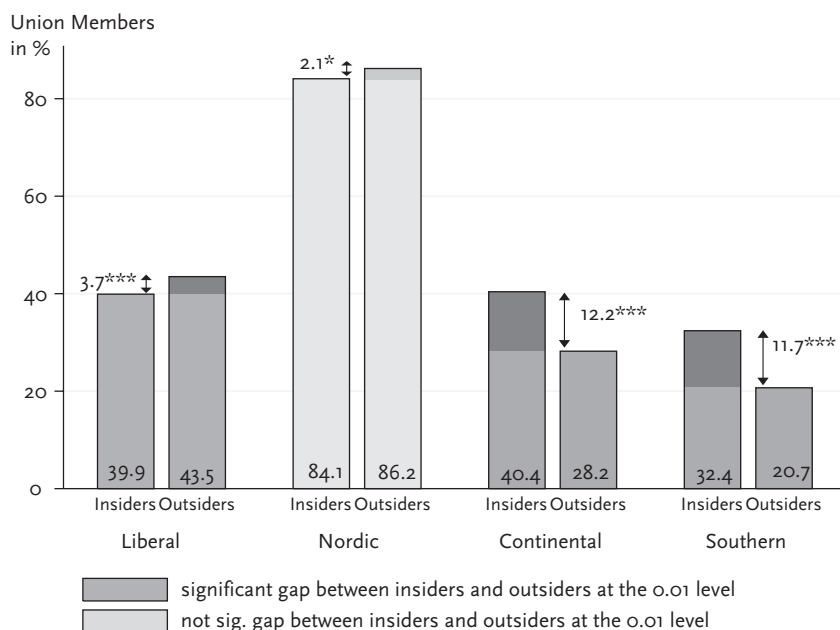
In some initial conceptualizations of the insider-outsider divide, weak trade union organization was almost a part of the definition of outsiders (Lindbeck and Snower 2001). Here, however, we want to see whether and to what extent outsiders are actually underrepresented. Figure 2.5 demonstrates that there is no direct link between labor market segmentation and trade union representation. In Liberal countries—where the insider-outsider divide is most clearly skill related (see table 2.2)—outsiders are even significantly more likely to be union members. In the Nordic states, there is no significant difference between insider and outsider representation, since trade union density is nearly universal. Again, the Continental and Southern European regimes provide a different picture: here, outsiders are clearly, strongly, and significantly less represented in organized labor. The labor market segmentation thus translates into clear differences in terms of power resources.¹⁴

Table 2.4: Projected gross replacement rates as proportion of average earnings, difference between average and low-income earners

Liberal regimes	Ave-rage earner	Low-income earner	Diff. in % points	Nordic regimes	Ave-rage earner	Low-income earner	Diff. in % points	Continen-tal regimes	Ave-rage earner	Low-income earner	Diff. in % points
Australia	43.1	35.4	7.7	Denmark	75.8	59.8	16	Austria	80.1	40	40.1
Canada	43.9	37.7	6.2	Finland	63.4	35.6	27.8	Belgium	57.1	28.6	28.5
Ireland	32.5	32.5	0	Norway	59.3	33.2	26.1	France	51.2	31.9	19.3
UK	30.8	21.7	9.1	Sweden	78.9	41.5	37.4	Germany	56	20	36
USA	41.2	27.6	13.6					Netherlands	81.9	40.3	41.6
New Zealand	39.7	39.7	0					Switzerland	58.4	31.2	27.2
								Italy	67.9	34	33.9
								Spain	81.2	40.6	40.6
Mean			6.10				26.83				32.12
Standard dev.			5.33				8.77				8.61

Note: Numbers reflect *projected* gross replacement rates as proportion of average earnings. The projection includes the full effects of all reforms adopted until 2007. Highlighted are differences over 22.8 percentage points (the overall mean across all countries). It is assumed that average-earning workers in Germany and Belgium contribute fully to the voluntary second pillar pension schemes, while low-income earners do not. If we exclude voluntary second pillar pensions, the differences for these countries are lowered to 11.8 % points (Belgium) and 19.9 % points (Germany).

Source: OECD (2007).

Figure 2.5: Gap in union membership of insiders and outsiders

Note: Liberal N=7134 (AUS, UK, US, IRE, NZ, CA); Nordic N=4438 (NO, SW, DK, FI); Continental N=4430 (GER, NL, F, SWI); Southern N=3486 (SP, PO).

Source: ISSP Role of Government IV 2006 (see appendix for question wording).

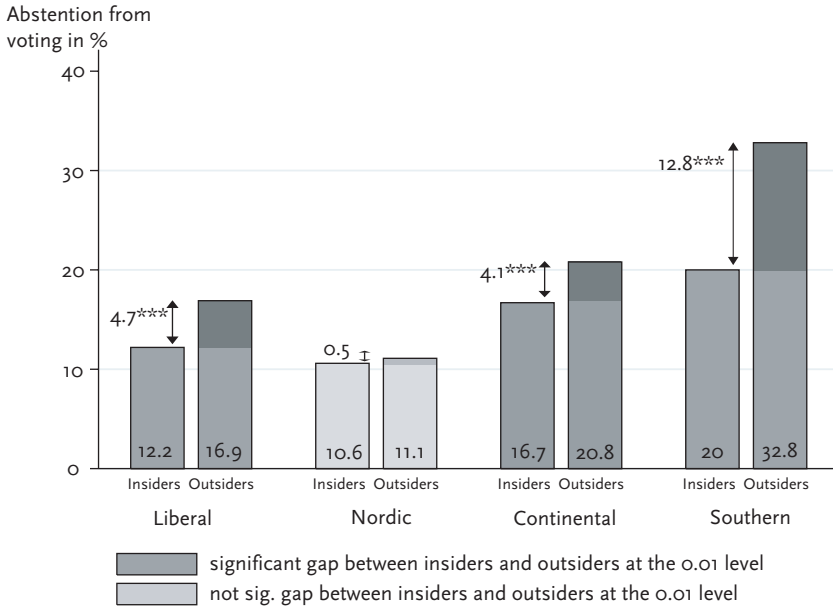
Finally, we look at abstention from elections as an indicator of political alienation. Figure 2.6 shows that abstention is indeed stronger among outsiders in all regimes but the Nordic one.

Abstention is generally low in the Nordic countries for both insiders and outsiders. Participation is unequal, however, in Liberal, Continental, and Southern regimes. The difference is about 5 percentage points in Liberal and Continental countries, but it is nearly 13 percentage points in Southern Europe.¹⁵ The gap in political participation raises doubts on whether politics in these countries will steer policies toward narrowing the existing labor market or social protection divides.

CONCLUSION

In this chapter, we analyzed the extent to which the segmentation of the post-industrial labor markets in insiders and outsiders translates into actual economic, social, and political divides. While the trend toward a structural segmentation of employment relationships into inside and outside labor is almost universal across the advanced post-industrial economies, its distributive implications

Figure 2.6: Gap in voting abstention between insiders and outsiders



Note: Liberal N=6225 (AUS, UK, US, IRE, NZ, CA); Nordic N=4361 (NO, SW, DK, FI); Continental N=5035 (GER, NL, F, SWI); Southern N=3198 (SP, PO).

Source: ISSP Role of Government IV 2006 (see appendix for question wording).

are neither universal nor obvious. Segmentation must not necessarily lead to inequality and social divides. If atypical work is well paid and fully integrated into the welfare state, segmentation may have only limited social and political implications. Whether segmentation leads to inequality is therefore an empirical question, the answer to which depends on the existing policies and the reforms that different countries have adopted. Empirically, we found both considerable differences between regimes, as well as within them. In the following, we summarize the main findings.

For the countries belonging to the Liberal regime type, we showed that outsidership is more clearly biased toward the low-skilled. This results generally in strong gross income gaps and poorer access to training for outsiders. Public transfers in the Liberal welfare state either reduce these labor market inequalities (in the UK) or are neutral in their effect (in the U.S.),¹⁶ reflecting different political choices (see, e.g., Seeleib-Kaiser et al., chapter 7 of this volume). In the political realm, outsiders abstain from voting more often than insiders, but at the same time, they are more likely to be organized in trade unions.

The picture looks very different in the Nordic countries, where labor market segmentation is less widespread and more strongly biased toward women. Even though we also observe a considerable gross income gap

between insiders and outsiders in countries such as Denmark and Sweden, the gaps in access to training and promotion prospects are far narrower than in the other regimes, which means that atypical employment is less strongly penalized in the labor market. In addition, the Nordic welfare state tends to counterbalance gross income inequalities by means of taxes and transfers (except for Finland). The net income gap between insiders and outsiders in the Nordic regime is around 15–25 percent, against 30–40 percent in Continental and Southern European countries. The redistributive effect of taxes and transfers in the Nordic countries seems to be the result of a more universal and egalitarian design of welfare policies, as well as of the strong political integration of outsiders: indeed, there is no significant difference between insiders and outsiders both with regard to union membership and with regard to participation in elections.

The reverse is true for the Continental European countries. Here, we observe a highly gendered labor market segmentation (see also chapter 5 by Kroos and Gottschall in this volume) that translates directly into insider-outsider divides in the distribution of economic, social, and political opportunities and resources: gross income gaps reach 30–40 percent, and outsiders have far lower chances of access to training. What is even more striking, however, is that the Continental welfare regimes—notably through pensions—in France and Germany seem to *reinforce* labor market inequalities by means of taxes and transfers: net income gaps lie between 5 and 8 percentage points *above* gross income gaps. This means that the welfare state “actively” contributes to social protection inequalities (see also Palier and Thelen, chapter 9 of this volume). The Dutch welfare state may be singled out as an exception: here, welfare reforms aimed at integrating outsiders have been adopted (Hemerijck 2003), and taxes and transfers indeed reduce labor market inequalities. Intra-regime variation is generally large in the Continental regimes. It seems that governments in these countries are choosing different “routes” in dealing with labor market transformation. Several chapters in this book (e.g., chapter 7 by Seeleib-Kaiser et al., chapter 8 by Obinger et al., chapter 9 by Palier and Thelen, and chapter 10 by Clegg) shed light on precisely these different political choices in a dynamic perspective.

Finally, Southern European countries provide a somewhat more complex picture. Labor markets are less dualized than in Continental Europe, both with regard to gross income gaps and training prospects. However, the lower levels of inequality simply reflect the poor job conditions *even* for insiders. The welfare state, however, considerably worsens the situation for outsiders, because it strongly widens the net income gap. After taxes and transfers, we observe a strong social protection divide. The insiders-bias in the institutional policy design fits with the poor political integration of outsiders, who are less organized and abstain from elections much more frequently.

APPENDIX

Variables	Operationalization
Insiders/outsideers	Outsiders are all individuals who belong to occupational groups (defined by class, gender, and age) that are significantly more strongly affected by unemployment or atypical employment.
Gross income of insiders and outsiders	Luxembourg Income Study, 2000 PGWAGE: gross income and salaries
Net income insiders and outsiders	Luxembourg Income Study, 2000 Net income = PGWAGE + PSELF + PCHBEN + PSTSICK + PFAMLV + PPENSTL + PUNEMPTL - PYTAX—PMEEC
Training over the last 12 months	ISSP Work Orientations III 2005; Dummy variable measuring whether the respondent had any training to improve job skills (“Over the past 12 months, have you had any training to improve your job skills, either at the workplace or somewhere else?”); V48 and V76
Union membership	ISSP RoGIV 2006; Dummy variable measuring current or past trade union membership; UNION 1,2=1; UNION 3=0;
Abstention	ISSP RoGIV 2006; Dummy variable measuring whether the respondent abstained from the last national elections; VOTE_LE 2=1; VOTE_LE 1=0;

NOTES

1. In the early literature in labor market economics, the term “segmentation” denoted structural disadvantage for outsiders as compared to insiders (Berger and Piore 1980). In this chapter, we use the term “segmentation” in a more neutral way, i.e., as merely a trend toward more unstable and atypical work relations.
2. See Häusermann and Schwander (2009, 2009b) for a detailed discussion of different measures of outsidersness and the comparison of their empirical leverage in explaining individual social policy preferences.
3. We do not differentiate between employment sectors, because it is not the sector that matters but the daily work experience. Oesch cites the example of a cleaning lady in a large industrial company who—despite being employed by a manufacturing firm—is clearly a member of the routine service class (Oesch 2006: 69).
4. Skill levels are already integrated in the class schema.
5. As Emmenegger and Careja (chapter 6 of this volume) and table 2.1 in this chapter show, the migration background is also an important determinant of outsidersness. Immigrants incur a high risk of being labor market outsiders. However, we do not include immigration background

in the operationalization of outsidership because most surveys contain very low numbers of immigrants.

6. The question of whether or not to include voluntary part-time work in the category of atypical work is answered differently by different authors. Rueda (2005) includes involuntary part-time work only, while Emmenegger (2009) uses all part-time work. We decide deliberately not to distinguish between the two categories because we investigate to what extent disadvantage is correlated with atypical work, irrespective of the motivations of atypical work. In addition, part-time work is particularly widespread among women in Continental Europe, for cultural and institutional reasons, which makes the distinction between voluntary and involuntary somewhat meaningless.
7. Emmenegger (2010) has analyzed household effects on individual preferences for job security. He finds that living in a couple household does indeed increase outsider preferences for job security as compared to outsiders living alone. However, married outsiders do not simply adhere to their main earners' insider preferences, since the latter remain significantly more favorable to job security than the former. These results provide evidence that defining insiders at the individual level does make sense.
8. We did not pool the individual countries in regimes here, because of the small number of countries for which data is available. For example, no data was available for Portugal or Italy.
9. Defining insiders and outsiders at the household level somewhat increases gross income gaps in some countries—Great Britain, Finland, Sweden, the Netherlands, and Spain—because of narrower definition of outsiders (only households with an outsider as the household head).
10. Robustness tests for the effect of retirement and different part-time definitions on job training do not change the results. When we look at the household level (pure insider- and mixed households vs. pure outsider households), differences increase considerably in the Nordic and Continental countries (from 2.9 to 6.7 percentage points in the Nordic countries, resp. from 5.2 to 10.6 percentage points in the Continental countries), while they remain more or less unchanged in the liberal and Southern regimes. This implies that outsiders who are married to insiders tend to have “better” jobs than outsiders who are single or married to outsiders. This may be due to the high share of middle-class women working part-time in relatively good jobs (they are outsiders only at the individual, but not at the household level), and the higher share of low-skilled workers in the more narrow outsider category. Furthermore, low-skilled workers are more often in unemployment, which reduces the possibility for job training.
11. Figures 2.3 and 2.4 do not—and cannot—take into account the effects of private social benefits, which may be important especially in liberal regimes (see Seeleib-Kaiser et al., chapter 7 of this volume).
12. Robustness tests were not possible for France because of a lack of the gross income data at the household level.

13. The low values for Switzerland and Denmark might be partly misleading, because they are based only on the universal first pillar public pension.
14. Robustness tests for household level, pensioners, and work-hours do not change the results. The only notable change is a lower insider-outsider gap in unionization in Continental Europe when controlling for households. This implies that outsiders married to insiders are particularly weakly organized.
15. Robustness tests (household level, pensioners, and work-hours) yield consistent results. When we focus on households only (pure insider- and mixed households vs. pure outsider households), the gaps become slightly larger in all regimes, which means that single outsiders or outsiders living in pure outsider households are particularly likely to abstain.
16. Private insurances, which are a typical characteristic of the liberal regime, are, however, likely to reinforce insider-outsider divides.

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<p>AQ1: Please note the year discrepancy in the reference International Social Survey Programme, Role of Government III (2002): 1996 in the text.</p>
