

«Insider-Outsider Divides in Advanced Democracies: Labour market policies, new inequalities and attitudes»

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Abstract

Labour market policies not only protect workers from market fluctuations but can induce new inequalities since they protect some social groups more strongly than others. The chapter demonstrates how labour market policies *induce new inequalities such as the divide between labour market insiders and outsiders*. The chapter critically discusses the two dominant understandings of insiders and outsiders within the literature, demonstrates how different labour market policies increase insider-outsider divides and presents evidence on the insider-outsider preference divides regarding these policies and the socio-structural composition of the outsider groups. With an eye on both general structural trends and variation between the dominant political economy regimes within the club of rich democracies, the chapter thus not only introduces scholars of labour market policies to the concept of insiders and outsiders but also provides evidence that public policies act as stratifying institutions and highlights the implications for political debates on labour market policies.

Keywords: insider-outsider divides, labour market policies, inequality, political economy regimes, labour market policy preferences, labour market risks

1. Introduction

Just when labour markets in rich democracies finally seem to have recovered from the havoc the Great Recession wreaked, labour market prospects went downhill again. When the global health crisis unfolded in March 2020, global supply chains collapsed and the individual national protective measures in the form of lockdowns and social distancing requirements put economic activities globally on hold. The impact on jobs has been 10 times bigger than that of the global financial crisis (OECD, 2020b). The result is a staggering number of 14 million more inactive people in 2021 than in 2019 in rich democracies (OECD, 2021). The International Labour Organization (ILO) estimates that the reduction of global working hours in the second quarter of 2020 is equivalent to the loss of 400 million full-time jobs relative to

the last pre-crisis quarter (ILO, 2020). And this is despite unprecedented levels of public assistance that in particular rich democracies provided for their economies through job retention schemes and additional income support schemes, which have saved up to 21 million jobs (OECD, 2021).

We know that the COVID-19 pandemic has deepened already existing social and economic divides, between those with high and low skills, between generations, between those with good jobs and those with precarious jobs or no jobs at all. For instance, working hours and income were dropping particularly strongly for young and lower skilled workers and those working in part-time, temporary and self-employment who make up 40-50% of the workforce in hard-hit sectors (OECD, 2020b). Unemployed people also tend to remain out of employment for longer periods than before the pandemic (ILO, 2021; OECD, 2021). This pattern of unequal exposure to labour market risks is a familiar pattern to those studying labour market dynamics. The transition to a knowledge-intense, service-oriented economy, the related bifurcation of skill profiles and the feminization of the workforce changed employment patterns making the industrial blueprint of stable, full time and fully insured employment, often for the same company, the employment reality of ever fewer people. As a result of these structural changes and of deliberate policy choices to selectively deregulate and flexibilize labour markets (Emmenegger et al., 2012; Eichhorst and Marx, 2012; Regini, 2000), post-industrial labour markets in Europe grew increasingly dualized, dividing the labour force in labour market insiders with good, stable and full insured jobs and labour market outsiders with atypical jobs¹, outside the realm of or with limited social protection.

One of the reasons for this divide is that labour market policies to protect workers from market fluctuations affect different segments of the working population unequally thus exacerbating labour market inequalities. This chapter discusses systematically how labour market policies, defined as “regulative policies that influence the interaction between labour supply and demand [...]” (ILO, 2021) *enhance labour market inequalities such as the divide between labour market insiders and labour market outsiders*. With an eye on both general structural trends and variation between the dominant political economy models within the club of rich democracies, the chapter thus not only introduces scholars of labour market

¹ Atypical (also called irregular or non-standard) employment denotes all forms of employment that deviate from the standard employment relation of dependent full-time and permanent employment, such as fix term work, part-time employment but also ‘false’ self-employment.

policies to the concept of insiders and outsiders but also provides evidence for Esping-Andersen's proposition that public policies act as stratifying institutions (Esping-Andersen, 1990). The divide between labour market insiders and labour market outsiders is a striking example of how labour market policies induce new forms of inequality.

The chapter is structured as following. I first introduce the argument that more flexible, instable labour markets lead a stronger dualization of today's labour force. The next section critically discusses the concept of insider-outsiders with a focus on the two conceptualizations the literature has developed. The section also demonstrates how different labour market policies play unequally to the interest of insiders and outsiders respectively. Section 4 examines the translation of these labour market divides on the macro-level into individual-level preferences divides. The section also presents the socio-economic characteristics of insiders and outsiders in the four political economy models in Western Europe answering the question who the outsiders are. The final section concludes.

2. Structural and policy changes driving the development of insider-outsider divides

No doubt, post-industrial labour markets differ substantially from the labour markets in the "trente glorieuse" of the post-war period offering stable full-time employment to the largest part of the male population. After the oil shock in the early 1970s, unemployment re-appeared on labour market statistics making the fight against unemployment one of the most pressing economic and political issue since. Figure 1 shows the cyclical nature of unemployment including a long period of declining unemployment in the mid 1990s until the Great Recession in 2008. Peaking in 2012, unemployment in rich democracies receded again until the Covid-19 crisis in early 2020. In contrast to previous crises, women's employment is at greater risk than men's in the Covid crisis, particularly owing to the impact of the downturn on the service sector and the stronger care burdening by closed schools, child care institutions and distanced relatives.² As a second worrisome trend in post-industrial labour markets, unemployment was no longer mainly frictional but became long-term for some, mainly low-skilled workers. While long-term unemployment moves in parallel to unemployment in general, it remains particularly high in the countries affected by the

² At the same time, women account for a large proportion of workers in front-line occupations, especially in the health and social care sectors increasing their risk for mental health issues

sovereign debt crisis in the aftermath of the Great Recession with long-term unemployment rates above 10% of the labour force in Greece and Spain (Düll et al., 2016). With a 60 percent increase long-term unemployment also increased significantly during the Covid pandemic (OECD, 2021).³

Post-industrial employment has also become more atypical. Figure 1 shows the rise of atypical employment, exemplified by part-time employment and temporary employment as the two most important forms of atypical employment. In the European Union (EU 27), part-time employment encompasses a significant share of the labour force (15.1 percentage points). Similarly, the share of employees with non-permanent contracts has risen in most rich democracies representing 13.1 percentage of total employment in the EU 27, albeit with substantial cross-national variation (OECD, 2020b).

Figure 1: Share of atypical employment (part-time and temporary employment) and unemployment (long-term unemployment and unemployment) in EU 15, 1980-2018

The reasons for the growth of atypical employment are to be found both in structural changes and in concrete policy reforms to foster employment growth (see the chapter on dualization in this volume). The twin processes of de-industrialization and an increasing service- and knowledge-oriented economy play leading roles. Across the universe of rich democracies, the industrial sector, once the economic backbone of these societies, have shrunk both in terms of share of employment and national economic output. The literature attributes that shift to a number of structural factors, such as the growing affluence in rich democracies coupled with an increasing demand for services rather than produced goods (D'Agostino et al., 2006) or the educational revolution (Oesch, 2006). Most important for the topic of this chapter, these service jobs are characterized by a greater heterogeneity of work conditions than jobs in the industrial sector. At the same time, tertiarization increases risk of long-term unemployment among specialized older workers, who have a more difficult time finding work with comparable wages in the service sector (OECD, 2018). When the educational attainment of younger cohorts increased, firms adapted their production strategies to the abundant supply of highly skilled professionals and semi-professionals and

³ While long-term unemployment usually refers to unemployment spells that take longer than 12 months, the OECD refer here to unemployment lasting longer than 6 months.

offered jobs in the expanding sectors of health, education and social services but also in business and financial services (Wren et al., 2013; Ansell and Gingrich, 2018). Many of these new jobs were taken by women, a trend that has accelerated since the 1990s despite some cross-national variation in the precise timing of women's entry in the labour market in great (Esping-Andersen, 2009; Estévez-Abe, 2006). The feminization of the workforce not only contributed substantially to the upgrading of the employment structure (Oesch, 2015) but also propelled the service sector expansion. Women's labour market integration also intensified demand for services, both as an income and a substitution effect of the choice between home and paid work. Most importantly for us, however, female employment is typically atypical employment (Esping-Andersen, 1999b), in particular in Continental and Southern Europe (Schwander, 2019; Kroos and Gottschall, 2012). Since women tend to bear the brunt of unpaid care work atypical employment, in particular part-time employment, offers then a possibility to combine paid and care work.⁴

In addition to these structural trends, shorter business cycles in a globalized world increase employer demands for a more flexible and cheaper labour force leading to the facilitated use of temporary employment prior to the 2000s or exemptions of part-time work from social contributions (Eichhorst and Marx, 2012). Policy reforms aimed at liberalizing labour markets have, however, tended towards doing so 'selectively' 'at the margins' — thus facilitating the emergence of atypical employment while leaving the privileges of core insiders untouched (Toharia and Malo, 2000; Regini, 2000).

Consequently, labour market risks are not distributed equally across the working population but affect specific social groups systematically more strongly than others in accordance of their economic political and social resources (Emmenegger et al., 2012). But how strongly are labour markets dualized? Within the club of rich democracies, scholars largely agree that dualization is most pronounced in Continental and — most of all — Southern Europe. The high non-wage labour costs induced by their social insurance-based welfare state increased pressure to create cheaper jobs outside the realm of social protection as these labour costs

⁴ While part of the flexibilization of employment forms is welcomed by workers, such periods of unemployment and forms of involuntary atypical employment arguably have clear negative implications for individuals in terms of wages, working conditions, access to vocational training and social rights (Eichhorst and Marx, 2012; Häusermann and Schwander, 2012; OECD, 2014) but also with regard to the risk of being trapped in unstable and precarious employment and even poverty (Oesch, 2006; Tomlinson and Walker, 2012).

effectively act as reservation wages (Scharpf, 1997). The milder form of dualization in Continental Europe is largely the outcome of cross-class alliances between unions, employers and the state to save the industrial core production in the recessions in the 1980s and 1990s (Palier and Thelen, 2010). Trade unions — as representatives of insider labour — thus traded employment security in favour of economic productivity, allowing for the emergence of a secondary labour market that consisted mainly of cheap and atypical employment (Palier and Thelen, 2010; Rueda, 2007).⁵ In Southern Europe, labour market dualization is the result of the political appeasement of strong and radical unions with higher wages and strong employment protection for their members (Rueda et al., 2015; Manow et al., 2018).

3. Critical discussion insider-outsider concept

To get at the divide between insiders and outsiders, the literature has developed two different conceptualizations of insiders and outsiders, related to a different understanding of the drivers of insider-outsider differences but also on account of different research foci (for extensive discussions of this question see Rovny and Rovny, 2017; Schwander and Häusermann, 2013; Schwander, 2018; Marx and Picot, 2019). The following section discusses the two conceptualizations and their theoretical underpinning in turn.

Based on the economic insider-outsider theory by Lindbeck and Snower (1988); Saint-Paul (2002), the *labour market status* approach sees the dividing line within the working population based on their employment contract. Labour market insiders hold permanent and full-time contracts while outsiders are those being “unemployed or hold[ing] jobs characterized by low salaries and low levels of protection, employment rights, benefits, and social security privileges” (Rueda, 2005: p. 62). As such, insiders enjoy higher bargaining power vis-à-vis employers while outsiders act as employment buffers. This dichotomous conceptualization is most often used in macro-level oriented work on policy-making and regulation (Busemeyer and Kemmerling, 2020) as policies tend to sharply distinguish between citizens qualifying for entitlement and those not.

⁵ Recent work has increasingly come to challenge this view of trade unions as mere representatives of insider workers, see Benassi and Vlandas (2016); Durazzi et al. (2018); Durazzi (2017); Rathgeb (2018); Thelen (2014).

Yet, the contractual status has been on the idea that labour market risks vary between but are homogeneous within occupational groups (but see Pahontu (2021) for a critical discussion). Specifically, the approach considers individuals as outsiders depending on their belonging to an occupational reference criticized for overstating differences between insiders and outsiders. For one, the boundaries between insiders and outsiders are often blurrier than the literature originally assumed. As a result, insiders often feel like outsiders because eventually even holders of stable contracts might experience job loss and fear status decline in the case of employment loss (Busemeyer and Kemmerling, 2020; Schwander and Manow, 2018). The dichotomous distinction also disregards differences within both groups, for instance regarding mobility prospects or gender, age and skills (Emmenegger, 2009; see also Häusermann et al., 2013). Importantly, the status approach is argued to be too volatile to affect political preferences and shape political behaviour by those interested in the politics of insider-outsider divides (Schwander and Häusermann, 2013; Emmenegger et al., 2015).

As a response, a more individual-level oriented literature interested in the politics of insider-outsider divides developed more fine-grained conceptualizations of insiders and outsiders, based on the prospective labour market risk *exposure of individuals* (Rehm, 2009; Schwander and Häusermann, 2013). These measures are based on groups with an over-proportional risk of vulnerable employment or unemployment. These occupational reference groups should be reasonably homogeneous in the labour market conditions their members are exposed to. At the same time, the reference groups should be defined by salient social characteristics, for individuals to be reasonably expected to compare themselves to this group and formulate grievances based upon the collective disadvantage (Schwander and Häusermann, 2013).

An important advantage of the risk-based measurements is their ability to account for the considerable heterogeneity within the outsider group, both with regard to the risks they are exposed to with as well as the extent to which these risks affect them (Schwander, 2019). Importantly, the approach allows to identify different *degrees of 'outsiderness'*, differentiating between degrees of risk exposure. This is important, because not all outsiders are equally 'out', just as not all insiders are equally strongly 'in'. Indeed, recent work on support for right-wing populist parties has found that insiders in fear of status decline are most likely to be appealed by right-wing populist parties' evocation of a 'nostalgic past'

(Häusermann, 2019; Kurer, 2020; Schwander and Manow, 2018; Manow and Schwander, 2022).

Insider-outsider divides on labour market protection

This section discusses the stratifying effect of labour market policies on insider-outsider divides: employment protection, passive and active labour market policies as the three paradigmatic examples of labour market policies and job retention schemes (JRS) as a policy that gained a lot of traction in the last two decades. Consequently, I will use the contractual conceptualization to discuss the effect of labour market policies on inequalities.

Differentiating insiders and outsiders based on their contractual status, it seems obvious that *employment protection legislation* (EPL) protects insiders much more strongly than outsiders, given that atypical employment forms were introduced with the very idea of allowing employers in otherwise rigid labour markets more internal and external flexibility in hiring and firing. Yet, the protective effect of employment regulation extends to some outsiders too. Part-time employed are often covered by employment protection to a similar extent than fully employment insiders, granting employers internal but not external flexibility. Outsiders on a temporary contract, by contrast, and unemployed do not benefit from employment protection regulation. Quite in contrast, these regulations hinder the (re-) entry in the primary labour market and act as an institutional barrier between insiders and outsiders (Emmenegger, 2009). Actually, the literature often uses the level of statutory employment legislation as a measurement of the extent of dualization (Vlandas, 2013; Rueda, 2012; Eichhorst and Marx, 2012).

Active labour market policies (ALMP), by contrast, should help individuals without work to find sustainable jobs, by promoting directly or indirectly the creation of jobs, improving qualifications and productivity of individuals and facilitating links between the unemployed and employers. As such, they are the clearest examples of labour market policies targeted at labour market outsiders. Insiders, by contrast, do not benefit from ALMP, in particular in countries where high employment protection is shielding them effectively from the risk of unemployment, but have to finance active labour market policies (Rueda, 2006). Yet, while outsiders clearly are the target group of active labour market policies, some ALMP play more clearly to their interest than others depending on the relative importance of demanding or

enabling policies focusing on training and skill formation (Bonoli, 2013). While the punitive, “work first” approach is historically associated with the Anglo-Saxon countries and the enabling one with Scandinavia, claiming unemployment benefits is now conditional upon a “demonstrated willingness to work” and co-operation with the local public employment service in almost all rich democracies (Clasen and Clegg, 2012; Lodemel and Moreira, 2014), a trend that clearly discriminates outsiders.

The case is less clear-cut when it comes to passive labour market policies (PLMP) such as unemployment compensation schemes. Depending on how strongly one conceptualizes insiders to be shielded from unemployment only outsiders benefit from generous unemployment compensation (see Rueda, 2006). In reality, even insiders are not entirely shielded from the risk of job loss and hence might benefit from such policies as well. The strong insider protests in Germany against the dismantling of unemployment compensation in the mid 2000 are a case in point (Schwander and Manow, 2017). The Hartz reforms are telling for another reason: they point to relevance of *coverage* as a second dimension in the institutional configuration of unemployment compensation schemes. By tightening the distinction between social contribution financed, earning-related unemployment benefits for which mainly insiders qualify and tax financed, means-tested social assistance benefits for outsiders, countries draw a sharper line between insiders and outsiders (Palier and Thelen, 2010).

Lastly, job retention schemes are a clear example of insider policies as their goal is to protect existing jobs in a temporary dip of labour demand. JRS were employed in large scales in the first year of the Great Recession and, to an even larger extent, during the Covid pandemic. One distinguishes two major schemes: Short-hour work schemes subsidize directly hours not-worked and have been the traditional instrument to foster job retention during economic downturns such as the early phases of the Great Recession. The second form of JRS, a temporary wage subsidy, mainly subsidizes hours worked but can also be used to complement earnings of workers on reduced hours. Both types of schemes have in common that their access is limited to insiders, that is workers whose qualification record qualifies them for unemployment benefits or workers with a permanent contract. These requirements are consistent with the logic of JRS to save jobs with firm-specific knowledge

and jobs that are expected to last in the absence of the temporary shock (OECD, 2021). As such, they tend to benefit insiders with permanent contract more than outsiders on temporary contracts (see also Hijzen and Venn, 2011). This applies less to those schemes that were newly set up during the pandemic. Almost all countries now cover workers on temporary contracts and a number of countries even cover certain categories of self-employed, typically without minimum contribution requirements (OECD, 2021). Nevertheless, formal eligibility does not equate access and so reduced demand for labour resulted for most temporary workers in job destruction (OECD, 2021: 106).⁶ Hence, considering the unequal access to JRS and the higher replacement rates in JRS than in unemployment compensation systems (OECD, 2021), JRS might exacerbate inequalities on the labour market.

These arguments clearly make the case that labour market policies can not only reduce inequalities but might also exacerbate inequalities by providing protection to some social groups but excluding others. The subsequent question is whether this unequal treatment by labour market policies translate into divergent attitudes which is a necessary step for such divides to become politicized. This is the subject of the next section. As argued above the risk-based measurement is more suited to study the politics of insiders-outsider divides. Individuals form their preferences and political attitudes on the basis of stable and long-term experiences such as their general exposure to labour market risks rather than the potentially changing labour market status.

Insider-outsiders' divergent preferences for labour market policies

From a rational choice perspective, the discussion on the divergent effects of labour market policies on insiders and outsiders leads one to expect *that labour market outsiders support active and passive labour market policies more strongly than insiders while insiders should be more supportive of job retention programs than outsiders*. Formulating expectations regarding employment protection is more difficult: While insiders clearly enjoy more job security, it is difficult to argue whether insiders also *want* more employment than outsiders.

⁶ In addition, most newly implemented schemes can only be used for jobs whose working hours are put to zero. By restricting support only to jobs that are fully suspended, however, they exclude the possibility of sharing the costs of adjustment across the workforce through broad-based working time reductions OECD (2020a) again exacerbating labour market inequalities.

Quite in contrast, given that their situation is characterized by instability and insecurity, it is understandable that outsiders might value employment protection even more than insiders. Indeed, research on attitudes towards job security (Emmenegger, 2009) suggests precisely this. The political protests against the reduction of employment protection in Italy (2014) and France (2005) when young labour market outsiders fiercely demanded the keep employment protection legislation intact also points in that direction. Outsiders clearly did not consider EPL as an insider-protecting barrier but were hoping to benefit from stable and protected jobs themselves in the future. For this reason, I refrain from investigating preferences towards employment protection.

The main independent variable of this section is a risk-based measure of labour market vulnerability developed in earlier work which calculates an individual risk for vulnerable employment based on the incidence of atypical/unemployment in an individuals' occupational reference group (Schwander and Häusermann, 2013). These reference groups are based on the most important socio-structural determinants of unemployment and atypical employment: class, gender, and age, which are all strong predictors of labour market chances (Esping-Andersen, 1999a; Oesch, 2006; Ranci, 2010). Based on data from the EU-SILC, we then calculate group-specific rates of atypical employment and unemployment and use the standardized deviation of these group-specific rate from the national average as individual labor market risks. Please consult the appendix for a more extensive discussion of the index.

Before examining labour market policy preferences of insiders and outsiders, let me first illustrate the distribution of labour market risks. Figure 2 displays the share of individuals with an above average risk of labour market vulnerability based on the dichotomized labour market vulnerability indicator that codes outsiders as individuals with an over-proportional exposure to labour market risks, that is a labour market vulnerability > 0 . Apart from confirming the findings of labour market sociology that women, the young and low-skilled⁷ workers are particularly likely to be in a vulnerable position (Esping-Andersen, 1999a; Oesch, 2006; Ranci, 2010), Figure 2 also shows that a sizable portion of higher skilled⁸ individuals

⁷ Low skill levels being defined as having secondary education as the highest completed degree.

⁸ High skill levels being defined as having a tertiary degree as the highest completed degree.

find themselves in occupational groups vulnerable to labour market risks. This is related to the high risks for atypical employment of high-skilled women and young graduates whereas unemployment is of less concern for these groups (Schwander, 2019). Overall, 58 percent of the labour force is strongly exposed to labour market risks (not shown).

Figure 2: Variation in labour market exposure in Western European regions, 2017

Turning to cross-regime variation, we find that labour market vulnerability is particularly widespread in the liberal (United Kingdom and Ireland) and Mediterranean countries (Spain, Italy, Portugal), followed by the Conservative countries (France, the Netherlands, Austria, Belgium, Switzerland). In the Scandinavian social democratic countries (Denmark, Sweden, Norway, Iceland), labour market vulnerability affects not only a lower share of individuals it is also distributed more equally across the different social groups. We also find that the main drivers for a vulnerable labour market position on the individual level varies between political economy regimes. In the liberal regime, women and low-skilled individuals are particularly exposed to labour market vulnerability, whereas women are particularly likely to be among outsiders in the Conservative regime and young adults show the highest share of outsiders in the Mediterranean regime.

Let us now return to the question of individual-level preference divides between insiders and outsiders. As dependent variables, I measure preferences for PLMP with two questions from the 8th wave of the European Social Survey (ESS): A first question asks respondents whether they agree that it is the government's responsibility to provide for the unemployed. The second question measures preferences for conditional benefit receipt by asking whether an unemployed who turns down a job offer because of lower pay than the previous job should lose their unemployment benefit. Data on preferences for ALMP and public measures to maintain existing jobs (unfortunately, no question explicitly asks about job retention schemes during economic recessions) are from the International Social Security Programme (ISSP) Role of Government module V. Preferences for ALMP are measured with a question on respondents' opinion whether it is the government's responsibility to provide a job for everyone who wants one. While not focusing on training, the variable clearly focuses on employment rather than compensation of income loss capturing an important idea of ALMP. Attitudes towards governmental support of declining industries to protect jobs is my

indicator of support for job retention programs. This is not an ideal measurement as it does not refer to an exogenous and temporary shock in demand for labour. However, it refers to governmental intervention to protect existing jobs which is one of the defining features of JPS.⁹

As method of analysis, I use Ordinary Least Squares (OLS) and ordered logit regressions, as the number of countries in both datasets (13 in the ESS, 14 in the ISSP) is too small to properly run multilevel analyses (Stegmueller, 2013). Instead, I employ country-fixed effects to control for the nested data structure and country-clustered standard errors to correct for the within-country correlation of errors. All models control for age, gender, education, union membership, church attendance, if an individual lives in a couple household and public employment.

To reiterate, the expectations outlined above expect a positive effect of labour market vulnerability on PLMP and ALMP but a negative effect on making PLMP conditional on accepting a lower paid job and on governmental support for declining industries. The determinants of labour market policy preferences are displayed in Table 1.

	M1 <i>Gov: provide for unemployed</i>	M2 <i>Reduce benefits if job turned down</i>	M3 <i>Gov: provide job for everyone</i>	M4 <i>Gov: support declining industries</i>
Outsidersness	0.206*** (0.044)	-0.197** (0.079)	0.346*** (0.11)	0.194*** (0.06)
Education	-0.015 (0.022)	-0.067*** (0.026)	-0.324*** (0.04)	-0.337*** (0.05)
Female	-0.099 (0.099)	0.091 (0.109)	0.142** (0.06)	0.134** (0.06)
Age	0.006** (0.003)	-0.004 (0.003)	0.002 (0.00)	-0.010*** (0.00)
Public Employment	0.208*** (0.057)	0.020 (0.175)	0.122* (0.07)	0.090 (0.06)
Union membership	0.122* (0.063)	0.006 (0.134)	0.097 (0.06)	0.050 (0.06)
National citizen	-0.233 (0.162)	0.472*** (0.181)	-0.999*** (0.11)	-0.718*** (0.18)

⁹ All variables are recoded, so that higher values reflect higher preferences for the specific labour market policy.

Church attendance	-0.019 (0.019)	0.143*** (0.025)	-0.017 (0.03)	0.035** (0.02)
Country fixed effects	yes	yes	yes	yes
(Pseudo) R2	0.111	0.040	0.053	0.029
N	24824	6063	4973	4995
Log likelihood	-53210.5	-3629.7	-6162.1	-6797.6

Notes: Values in parentheses are standard errors; OLS regression for M1, ordered logistic regression for M2 to M4, regressions with clustered standard errors and country dummies; country dummies not shown due to space restrictions. *Significant at the 0.1 level, **significant at the 0.05 level, ***significant at the 0.01 level.

Data source: ESS 8 (2016) for M1 and M2, ISSP Work Orientations V (2016) for M3 and M4

Table 1: Determinants of labour market policies preferences

The estimates present clear evidence that labour market vulnerability is associated with stronger support for passive and active labour market policies (see Models 1 and 3) and a greater reservation against making unemployment benefits conditional (see Model 2). This is not only in line with the expectations but also with the literature that finds similar results regardless of the measurement approach (see for instance Schwander and Häusermann (2013) for risk-based findings, see Rueda (2005), Picot and Marx (2013) for findings based on the contractual approach). In contrast to the expectations, however, those in a vulnerable position are more likely to demand public support for declining industries. Considering that outsiders are more vulnerable to job loss this stands to reason from a rational choice perspective. The findings can also be read as hinting that the question about public support for declining industries might not tap attitudes towards job retention schemes specifically but rather relate to attitudes towards job protection in general which is less clearly insider or outsider biased.

In summary, the section suggests that labour market policies clearly have a stratifying effect on the labour force and that this divide is reflected in citizen's preferences towards labour market policies.

4. Conclusions

The chapter advances the argument that labour market policies not only protect individuals from the vagaries of markets but also induce new form of inequalities within the working population. I discuss this argument for the divide between labour market insiders and outsiders as one of the most striking examples of such divides. The chapter thus not only

introduces scholars of labour market policies to the concept of insiders and outsiders but also provides evidence for Esping-Andersen's (1990) proposition that public policies have a stratifying effect on their societies.

I first explain how structural changes and deliberate policy choices result in the growth of a segment of labour market outsiders that are employed in atypical employment or find themselves in structural unemployment. Standard employment with full access to social and legal protection is increasingly concentrated in specific insider groups. I also outline reasons why insider-outsider divides are strongest in Southern Europe followed by Continental Europe. I then critically discuss the concept of insiders and outsiders that comes in two variants: An approach based on the *current labour market status* of individuals and an approach focusing on individuals' exposure to *labour market risks*. While the contractual status is often (but not exclusively) employed in discussions about the implications of concrete policy reforms for inequality or unemployment, the risks literature's focus lies on studying the translation of structural labour market divides into political divides in terms of policy preferences and political behaviour. I evaluate how public policies might induce social inequality for four exemplarily labour market policies (employment protection legislation, active labour market policies, passive labour market policies and job retention schemes) based on individuals' current labour market status. Individuals are generally well aware of the stratifying effects of labour market divides as an analysis on their preferences towards these policies confirms. One of the central contributions of the risk-based literature is to demonstrate that more attention should be paid to differences in the distribution of *labour market risk* as a determinant of political dynamics rather than to income or education alone. Regardless of the precise measurement, the literature clearly shows that different parts of the working class have increasingly diverged in their economic situation and in their political demands. This makes it more difficult for political parties to mobilize "the working class" with a coherent redistributive program (Häusermann et al., 2019). Lastly, the chapter shows the socio-structural composition of outsiders in the four political economy regimes of Western Europe. I find that women are most likely to be in vulnerable employment in the Conservative regime and in the liberal regime where low-skill endowment also represents a strong risks factor. Labour market risks are also shaped by age, with young adults facing a considerable high risk in Southern Europe.

The socio-structural foundation of insider-outsider divides matters for the translation of the divides into politics. If labour market vulnerability is strongly gender-biased, the question arises how the household composition, that is female outsiders living with male insiders, might affect the politicization of insider-outsider divides. However, we have evidence that for the large majority of respondents, it is their individual labour market position that matters for preferences formation. Only in some Conservative countries such as Switzerland or Germany does a notable share of outsiders base their policy preferences on the household situation (Häusermann et al., 2016). Hence, household effects are unlikely to dampen the salience of insider-outsider divides, at least on the level of policy preferences. Low-skilled citizens, by contrast, tend to abstain from the political process in particular if the political system does not offer second left-wing party that explicitly mobilizes the lower-skilled voters (Anderson and Beramendi, 2012). Accordingly, it does not surprise that the gap of electoral participation is particularly high in the liberal regime (Häusermann and Schwander, 2012). Young adults are also known to shy away from participation in elections. In any case, parties face a dilemma between the interests of insiders and outsiders and most scholars agree that outsider never were of or have lost electoral relevance (Häusermann et al., 2019; Lindvall and Rueda, 2014; Iversen and Soskice, 2015; Rueda, 2005). Yet, a number of protest movements formed during the Great Recession that heavily mobilized young outsiders in the crises-ridden Southern European countries. It is here where we find the clearest translation of the insider-outsider conflict in politics: The social movements and related political parties such as the 5StS in Italy or Podemos in Spain transformed the political space in a conflict over economic austerity and political renewal (Hutter et al., 2018).

We are just coming out of one of the greatest health crises in modern history. Covid 19 has not only taken a high toll in human lives and questioned of much of what we have taken for granted in terms of civic freedom, but turned upside down rich democracies' labour markets. And although different sectors were affected than during the Great Recession, the pandemic has again increased existing inequalities in the labour market, aggravating divides between labour market insiders and labour market outsiders. But the pandemic also demonstrates that states can adapt existing policies to go beyond the protection of labour market insiders such as new job retention schemes and a prolonged duration of unemployment benefits. Future research will tell whether these measures help to close the

gap between insiders and outsiders in terms of job security and labour market chances or are only a flash in the pan.

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Appendix

A) The labour market vulnerability index

The index measures the risk for each individual of being unemployed or/and in atypical employment on the basis of the frequency of unemployment and atypical employment within their occupational group, as an individual's risk depends on the incidence of atypical employment and unemployment in that person's occupational group. As in all risk-based measures (Rehm, 2011; Rehm, 2009; Kurer, 2020), it is crucial to choose theoretically relevant reference groups. Reference groups should not only be reasonably homogeneous in labour market conditions but also be defined by salient social characteristics, because we would like to choose groups in a way that the individuals can be expected to compare themselves to this group and derive information about their own risk from the occurrence of a grievance in this very reference group. Consequently, the occupational reference groups are constructed on the basis of the most important socio-structural determinants of unemployment and atypical employment which we consider to be class, gender, and age.

The measurement of class is based on the class schema by Oesch (2006) in the collapsed 5-class version of Kitschelt and Rehm (2006).¹⁰ Disaggregating these five classes further according to gender and age (above/below the age of 40) results in 20 occupational groups as the basis of the measurement. We compute the rates of unemployment, involuntary part-time, or temporary employment for each occupational group and the average workforce in every country with data from the Survey of Living Standards and Income (2017). The average rate of the workforce is then subtracted from the group-specific rates in each country, in order to obtain the group-specific deviations in unemployment, involuntary part-time, and temporary employment. The average of these three standardized deviations results in a continuous measure of labour market vulnerability, which is specific to an occupational group in a country. I then attribute the value to each respondent in the two datasets that allows to examine preferences for labour market policies.

¹⁰ The class scheme contains of five occupational classes: (i) high-skilled managers, self-employed, and technical experts (which they call capital accumulators); (ii) high-skilled professionals in the public and private service sector (sociocultural professionals); (iii) unskilled and skilled workers mostly in industry (blue-collar workers); (iv) unskilled and skilled employees in interpersonal services (low service functionaries); and (v) routine and skilled clerks (mixed service functionaries). Using the version with 5 instead of 8 or 16 classes allows to implement the labor market measurement in almost any mass level survey.