

Social Democracy and Active Labour-Market Policies: Insiders, Outsiders and the Politics of Employment Promotion

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Active labour-market policy is an important tool for governments interested in the promotion of employment. This article explores a topic in the comparative political economy literature in need of more attention: the politics behind the promotion of active labour policies. It is argued here that social democratic governments are often not interested in employment promotion measures; labour is divided into those with secure employment (insiders) and those without (outsiders); it is contended that social democratic governments have strong incentives to pursue labour-market policies that benefit insiders but not outsiders. There are factors, however, that either exacerbate or limit the effects of insider–outsider differences on social democracy. These claims are tested in three ways. First, the interplay of government partisanship and employment protection is explored in the British case. Secondly, the individual preferences assumed in the model are tested with Eurobarometer data. And thirdly, the effects of social democracy on active labour-market policy are analysed using data from sixteen industrialized democracies.

As Moene and Wallerstein, among others, have argued, the golden age of social democracy in Western Europe ended in the mid-1970s ‘with the first serious slump of the postwar period’.¹ Up to that point, the social democratic strategy of reducing the inequality and insecurity of the most vulnerable sectors of the labour market, while more generally promoting growth and employment, had been very successful. With the first oil shock, however, there is a progressive decline in the political prominence of social democracy.²

The increasing internationalization of capital is often identified as the main limitation facing social democratic governments since the early 1970s. Highly mobile capital, it is argued, constrains the ability of social democratic governments to promote policies that are significantly different from those implemented by conservative ones. In an open economy, however, some options are still available to social democratic governments. Active labour-market policy (ALMP) belongs within the group of supply-side policies that can be used by partisan governments to promote employment, growth and equality in an

* Merton College, Oxford. Earlier versions of this article were presented at the Annual Meeting of the American Political Science Association, 2002, the Annual Meeting of the Midwest Political Science Association, 2003, and at workshops in Cornell University and SUNY-Binghamton. The author thanks Christopher Anderson, David Ellison, Peter Hall, William Heller, Desmond King, Anirudh Krishna, Peter Lange, John McCormick, Michael McDonald, Walter Mebane, Jonas Pontusson, Herman Schwartz, Yulia Tverdova, Michael Wallerstein, Christopher Way, Mark Wickham-Jones and Heidi Young, as well as three anonymous reviewers and Albert Weale for their comments and suggestions. For their financial support of this project, he thanks the Social Science Research Council, the Fondazione Luigi Einaudi, Cornell University and SUNY-Binghamton.

¹ Karl Ove Moene and Michael Wallerstein, ‘Social Democratic Labor Market Institutions’, in Herbert Kitschelt, Peter Lange, Gary Marks and John Stephens, eds, *Continuity and Change in Contemporary Capitalism* (New York: Cambridge University Press, 1999), pp. 231–60, at p. 231.

² See Jonas Pontusson, ‘Explaining the Decline of European Social Democracy’, *World Politics*, 47 (1995), 495–533; Herbert Kitschelt, *The Transformation of European Social Democracy* (New York: Cambridge University Press, 1994); and Frances Fox Piven, ‘The Decline of Labor Parties’, in Frances Fox Piven, ed., *Labor Parties in Postindustrial Societies* (New York: Oxford University Press, 1992), pp. 1–19.

environment characterized by increasing levels of internationalization.³ Yet we know comparatively little about the politics of ALMPs.⁴

The analysis in this article focuses on the party strategy changes that result from new voter demands and political-economic conditions. It attempts to put together two important but often unrelated literatures: one focusing on comparative political economy and the other on political behaviour and parties. In much of the comparative politics literature, social democratic governments are assumed to defend the interests of labour and conservative ones to defend the interests of those which some authors have defined as the 'upscale groups'.⁵ I argue that identifying social democratic governments with employment promotion policies is not always appropriate. This identification is based on the assumption that labour is disproportionately affected by unemployment and, for reasons that will become clear in the following pages, when analysing economic policy in the post-1973 period, this assumption is inaccurate. This article's main points are that labour is divided into those with secure employment (insiders) and those without (outsiders) and that the electoral goals of social democratic parties are sometimes best served by pursuing labour-market policies that benefit insiders while ignoring the interests of outsiders.

Although clearly limited in scope, the evidence that I present challenges an influential interpretation of the political economy of advanced democracies. The following pages contradict some of the conclusions of the traditional partisanship arguments that maintain that social democratic governments will at all times promote the interests of labour – including outsiders.⁶ More specifically, my results question the relationship between social democracy and policies directed to increase the skills of outsiders found by Boix and Swank and Martin.⁷

INSIDER–OUTSIDER POLITICS OF EMPLOYMENT PROMOTION

The main approach to the relationship between political parties and economic outcomes maintains that social democratic governments will promote the interests of labour while conservative ones will satisfy the demands of upscale groups.⁸ Labour is assumed to be disproportionately affected by unemployment and social democratic governments are

³ See Geoffrey Garrett and Peter Lange, 'Political Responses to Interdependence', *International Organization*, 45 (1991), 539–64; and Carles Boix, *Political Parties, Growth and Equality* (New York: Cambridge University Press, 1998).

⁴ Unlike the abundant literature on demand management or the welfare state, the politics that determine ALMPs have not received enough attention. Notable exceptions are David Rueda, 'Insider–Outsider Politics in Industrialized Democracies', *American Political Science Review*, 99 (2005), 61–74; Cathie Jo Martin and Duane Swank, 'Does the Organization of Capital Matter?' *American Political Science Review*, 98 (2004), 593–611; Duane Swank and Cathie Jo Martin, 'Employers and the Welfare State', *Comparative Political Studies*, 34 (2000), 889–923; Boix, *Political Parties, Growth and Equality*; Garrett and Lange, 'Political Responses to Interdependence'; Thomas Janoski, 'Direct State Intervention in the Labor Market', in Thomas Janoski and Alexander Hicks, eds, *The Comparative Political Economy of the Welfare State* (New York: Cambridge University Press 1994), pp. 54–92; and Thomas Janoski, *The Political Economy of Unemployment* (Berkeley: University of California, 1990).

⁵ See, for example, William Keech, *Economic Politics* (New York: Cambridge University Press, 1995), p. 70.

⁶ See, for example, Douglas Hibbs, 'Political Parties and Macroeconomic Theory', *American Political Science Review*, 71 (1977), 1467–87; James Alt, 'Political Parties, World Demand, and Unemployment', *American Political Science Review*, 79 (1985), 1016–40; and Garrett and Lange, 'Political Responses to Interdependence'.

⁷ Boix, *Political Parties, Growth and Equality*; and Swank and Martin, 'Employers and the Welfare State'.

⁸ Hibbs, 'Political Parties and Macroeconomic Theory'; and Alt, 'Political Parties, World Demand, and Unemployment' are the most cited examples.

expected to organize political platforms (and design policies) that attract labour's support by reducing unemployment. The model proposed in this article agrees with the traditional partisanship authors in considering parties to have distinct interests as well as economic goals fundamentally related to those of their core constituencies. My insider–outsider analysis departs from their framework in its consideration of the likely coalitions that both parties are interested in attracting.⁹

Like other authors interested in exploring the effects of partisan government, the model presented in this article implies that party behaviour is influenced by both vote-seeking and policy-seeking motivations. These two goals are, in fact, often complementary.¹⁰ I also understand political parties to have ideological and historical commitments in addition to electoral objectives.¹¹ But historical, ideological and organizational commitments are not enough. Elections need to be won and they inevitably revolve around issues that give political meaning to partisan attachments and social divisions.¹²

My analysis is based on two propositions: that labour is divided into insiders and outsiders, and that the interests of insiders and outsiders can be fundamentally different.¹³ Insiders are defined as those workers with highly protected jobs. Outsiders, by contrast, are either unemployed or hold jobs characterized by low levels of protection and employment rights, lower salaries and precarious levels of benefits and social security regulations.

While dividing labour into insiders and outsiders has some precedents in both the economics and political science literature,¹⁴ trying to integrate this division into a coherent conception of partisanship and exploring its possible effects on active labour-market policy represents a new endeavour. Other factors have received a remarkable amount of attention in the explanations of the political and economic changes experienced in the industrialized democracies since the 1970s (lower economic growth, demographic or production changes, the emergence of post-Fordism, increasing internationalization or competition from industrializing countries are but a few). My contribution to the comparative political economy literature is to emphasize the significance of insider–outsider politics as a determinant of social democratic policy.

⁹ For an extension of this argument to other policies, see Rueda, 'Insider–Outsider Politics in Industrialized Democracies'.

¹⁰ See, for example, Gregory Luebbert, *Comparative Democracy* (New York: Columbia University Press, 1986); and Kaare Strøm, 'A Behavioral Theory of Competitive Political Parties', *American Journal of Political Science*, 34 (1990), 565–98.

¹¹ See G. Bingham Powell, *Contemporary Democracies* (Cambridge: Harvard University Press, 1982).

¹² Russell Dalton, *Citizen Politics* (New York: Chatham House Publishers, 2002), p. 195.

¹³ There are two analytical frameworks that inspire the model that I propose. There is first the work on dual labour markets by authors like Peter Doeringer and Michael Piore, *Internal Labor Markets and Manpower Analysis* (Lexington, Mass.: Heath, 1971), and Suzanne Berger and Michael Piore, *Dualism and Discontinuity in Industrial Societies* (New York: Cambridge University Press, 1980). Then there is an economic insider–outsider approach that emphasizes the differences between the employed and the unemployed (see, for example, Olivier Blanchard and Lawrence Summers, 'Hysteresis and the European Unemployment Problem', in S. Fisher, ed., *NBER Macroeconomic Annual* (Cambridge, Mass.: MIT Press, 1986), pp. 15–78; Assar Lindbeck and Dennis Snower, *The Insider–Outsider Theory of Employment and Unemployment* (Cambridge, Mass.: MIT Press, 1988); and Gilles Saint-Paul, 'Exploring the Political Economy of Labour Market Institutions', *Economic Policy*, 23 (1996), 264–315.

¹⁴ For a brief reference to insider–outsider differences regarding social democracy, see Desmond King and Mark Wickham-Jones, 'Social Democracy and Rational Choice Marxism', in Terrell Carver and Paul Thomas, eds, *Rational Choice Marxism* (University Park: Penn State University Press, 1995), pp. 200–30.

In this article's stylized framework, political parties are considered to have a core constituency whose support is needed to win elections. I contend that social democratic parties have strong incentives to consider insiders their core constituency. As mentioned above, there are historical and ideological reasons for this, but there is also the important fact that the other group within labour, outsiders, tends to be less politically active and electorally relevant (as well as less economically independent) than insiders. When faced with the choice between insiders and outsiders, social democratic governments will side with their core constituency.

Active labour-market policies present a dilemma to social democratic parties. Since they are designed to promote employment, ALMPs unambiguously benefit outsiders. Insider interests, however, may be harmed by the policies' effect on taxes and labour-market competition.¹⁵ The immediate effect of an increase in the level of ALMPs, after all, is a higher tax burden for insiders. In the long run, insider taxes may decrease if ALMPs are successful at bringing new workers into employment, but, at least in the short run, insiders bear the brunt of the policies' costs. Additionally, if successful, ALMPs may promote the entry into employment of individuals who can underbid insiders' wage demands. From an insider perspective, dedicating public resources to ALMPs may in fact result in low-wage competition. Because of insider opposition, the implication of this article's model is that social democratic government will not be associated with higher levels of ALMP.

Dividing labour into insiders and outsiders also has implications for the strategies that conservative governments are likely to follow. Like many other authors, I consider conservative parties to depend on a core constituency that consists of upscale groups (which generally include employers, the upper-middle class and the business and financial community). Higher levels of ALMP represent higher taxes and a more intrusive role for government in the economy. Because of these two factors, upscale groups (and therefore conservative governments) are not interested in the promotion of ALMPs. Paradoxically, then, the disaggregation of labour into insiders and outsiders implies the absence of any partisan differences when looking at ALMPs.¹⁶

FACTORS MITIGATING THE EFFECTS OF INSIDER–OUTSIDER DIFFERENCES

In the presence of insider–outsider conflict, social democratic governments will promote insider policies regardless of the consequences for outsiders. There are, however, some factors that can make the interests of insiders more similar to those of outsiders. I will focus on two factors that increase the insiders' vulnerability to unemployment and align their interests with those of outsiders: a decrease in the level of employment protection and an increase in the instability of the unemployment rate.

Employment protection legislation affects 'the rules governing unfair dismissal, lay-offs for economic reasons, severance payments, minimum notice periods, administrative authorization for dismissals and prior discussion with labour representatives'.¹⁷ It is clear

¹⁵ The following observations about the effects of ALMPs follow Gilles Saint-Paul, 'A Framework for Analysing the Political Support for Active Labor Market Policy', *Journal of Public Economics*, 67 (1998), 151–65; and Lars Calmfors, 'Active Labour Market Policy and Unemployment: A Framework for the Analysis of Crucial Design Features' (Paris: OECD Working Papers, 1994).

¹⁶ Distinguishing between insiders and outsiders is only necessary when these two groups have opposing preferences. In some policy areas, this will not be the case. See Rueda, 'Insider–Outsider Politics in Industrialized Democracies', p. 2.

¹⁷ Calmfors, 'Active Labour Market Policy and Unemployment', p. 69.

that decreasing levels of employment protection directly increase the vulnerability of insiders to unemployment. If firing insiders becomes easier, the interests of insiders and those of outsiders will become more similar. The benefits of policies directed to promote employment become more attractive to insiders as they themselves become more likely to need them. Two hypotheses straightforwardly emerge from this: the insider–outsider model implies that decreasing levels of employment protection should be associated with increasing levels of ALMP; it also implies that the interaction between decreasing levels of employment protection and stronger social democratic governments should be associated with increasing levels of ALMP. Both hypotheses relate to the fact that insiders are becoming more vulnerable to unemployment. The first reflects an increase in the demand for employment promoting policies regardless of government partisanship and the second the increase in insider pressure towards social democrats.

The nature of unemployment also can affect the vulnerability of insiders. I hypothesize that an insider who enjoys high employment protection will not be concerned about the level of unemployment if it is stable. This means that if unemployment is persistently high, insiders will not feel vulnerable and will be unlikely to push for higher ALMPs. Sudden increases in unemployment, however, promote uncertainty even for those enjoying high employment protection. The effects of this initial instability are difficult to predict in terms of who will lose jobs or what companies will be affected. In these circumstances, insider concerns about employment promoting policies will become more significant. As unemployment becomes unstable, social democratic governments increase employment promotion policies to satisfy insiders. There are three implications: the model predicts no association between levels of unemployment and levels of ALMP; but predicts an association between unemployment growth and ALMP levels; and also between ALMP levels and the interaction of unemployment growth with social democratic government.

Table 1 summarizes the theoretical claims outlined in the previous sections. The main hypothesis is that cabinet partisanship is an insignificant determinant of ALMP levels. When we introduce other factors into our analysis, however, the effects of government partisanship are transformed. Increasing levels of employment protection insulate insiders from the threat of unemployment and therefore are associated with decreasing levels of ALMPs. The interaction of high levels of employment protection and conservative government is also expected to be associated with lower levels of ALMPs. The insignificance of unemployment levels reflects the fact that stable unemployment is not a concern to insiders. Unemployment growth, however, increases insider vulnerability and therefore is associated with increasing levels of ALMPs. The interaction of unemployment

TABLE 1 *Summary of Hypotheses: Effects of Explanatory Variables on ALMPs*

Variable	Expected association
Cabinet Partisanship	0
Employment Protection	–
Conservative Government × Employment Protection	–
Unemployment Level	0
Unemployment Growth	+
Social Democracy × Unemployment Growth	+

growth and social democratic government is also expected to be associated with higher levels of ALMPs.

There is an additional factor that may moderate (or exacerbate) the influence of insider–outsider differences on partisan strategies. It is the relationship between unions and social democratic parties. Like social democratic parties, unions face a choice when confronted with insider–outsider differences. However, unions, even more dramatically than social democratic parties, have strong incentives to defend the interests of insiders. There are two reasons for this. First, unions do not have an electoral need to attract the support of upscale voters (as social democratic parties often do). Secondly, since insiders tend to be both more unionized and a more influential constituency than outsiders, unions have strong incentives to side with insiders.¹⁸

Because of their capacity to influence political parties, unions are a relevant factor in a government's policy decisions. Social democratic governments are more likely to produce pro-insider policies when they are subjected to greater amounts of pro-insider pressure from unions. More specifically, where unionized insiders have a direct track into the social democratic party there should be less support for active labour-market policies. This relationship could be included in Table 1 by specifying that the existence of institutional links between the union and the party would promote lower levels of ALMPs (a more open and non-institutional relationship would not). Unfortunately, there are no cross-nationally comparable measures of this relationship that would make a systematic analysis possible. Since such a measure cannot be included in the individual or macro analyses I present in the following pages, I do not include the institutional link between unions and social democratic parties in Table 1. But I do pay attention to this relationship when analysing the British case (where this institutional link is present).

EMPLOYMENT PROTECTION AND EMPLOYMENT PROMOTION IN BRITAIN

An overview of the British case illustrates in a more intuitive fashion many of the points made above. Beyond the role of labour and social democracy, there are numerous historical reasons why ALMPs have not received great emphasis in Britain.¹⁹ Insider–outsider differences are only a contributing factor to the traditional weakness of British ALMPs, but one that needs to be emphasized. Since the early 1970s, Britain has experienced remarkable changes in terms of the employment protection levels enjoyed by insiders. In this respect, it is an ideal example of how employment protection affects insider demands for employment promotion as well as a social democratic government's likelihood of satisfying these demands.

By the end of the 1960s, insiders in Britain were protected by a dismissal cost system that compared favourably with those in most other European countries. Redundancy payments had existed in Britain since 1965 when the Redundancy Payments Act was passed during Harold Wilson's Labour government. At this time, the average payment

¹⁸ It is generally recognized that the unemployed and precariously employed are generally neither unionized nor electorally organized (see, for example, Gøsta Esping-Andersen, 'Politics Without Class: Postindustrial Cleavages in Europe and America', in Kitschelt *et al.*, eds, *Continuity and Change in Contemporary Capitalism*, pp. 293–316).

¹⁹ See Desmond King, *Actively Seeking Work?* (Chicago: The University of Chicago Press, 1995); Desmond King, 'Employers, Training Policy, and the Tenacity of Voluntarism in Britain', *Twentieth Century British History*, 8 (1997), 383–411; and Desmond King and Mark Wickham-Jones, 'Training Without the State?' *Policy and Politics*, 26 (1998), 439–55.

amounted to about twelve weeks' pay, although in real terms it was perhaps as much as fifteen or sixteen weeks' pay because redundancy payments were not taxed.²⁰ Insiders were also looked after by influential unions that interacted with employers in a relatively unrestricted industrial relations context. Few limitations existed either on unions to strike or on employers to use lock-outs.²¹

In 1971, the Conservative government tried to implement legislation that would transform collective bargaining, industrial disputes and union behaviour following the American model.²² The effects of the 1971 Industrial Relations Act, however, were intensely and effectively resisted by unions.²³ When Labour returned to power in 1974, they produced policies that would reverse the 1971 Act. In fact, the Trade Union and Labour Relations Act of 1974 and the Employment Act of 1975 not only reversed the Industrial Relations Act but also strengthened unfair dismissal provisions. The relationship between unions and the Labour party was an important reason for these policies. Unions have traditionally been strongly connected to the Labour party. There are historical reasons for this close relationship. While in many European countries social democratic parties helped to create unions, in Britain it was the unions that contributed to the creation of the Labour party. Until recently, this connection was translated into a significant amount of union participation in the policy-making process when Labour was in power. Through the use of 'block voting', unions controlled 80 per cent of the votes in Labour party congresses until 1993.

Both in terms of dismissal costs and of union protection, the situation for insiders was to worsen drastically after 1979. Margaret Thatcher won the 1979 elections with a strongly anti-union message. The Conservative party election manifesto declared that 'by heaping privilege without responsibility on the trade unions, Labour have given a minority of extremists the power to abuse individual liberties and to thwart Britain's chances of success'.²⁴ The Employment Act of 1980 represented the first step in the attack on unions and insiders by the Thatcher government. Fulfilling Thatcher's election promises, the Act contained measures to restrict the closed shop, limit picketing and reduce dismissal costs. The reduction of employment protection was particularly important. As Edwards *et al.* have argued, the Thatcher government 'viewed employment protection provisions not as essential minimum standards but as "burdens on business" (particularly in respect of small employers) which acted as a deterrent to the employment of more people'.²⁵ The 1980 Employment Act reduced dismissal costs in three ways: it decreased the rights of employees who had been unfairly dismissed, removed the burden of proof from employers, and reduced maternity rights regarding reinstatement.

²⁰ Derek Bosworth and Robert Wilson, 'The Labour Market', in Peter Maunder, ed., *The British Economy in the 1970s* (London: Heinemann Educational Books: 1980), pp. 86–115, at pp. 97–8. The number of people entitled to redundancy, however, was small. Workers younger than 18 years of age and those who had been in the job for less than two years were automatically excluded.

²¹ Jelle Visser and Joris Van Ruysseveldt, 'From Pluralism to ... Where? Industrial Relations in Great Britain', in Joris Van Ruysseveldt and Jelle Visser, eds, *Industrial Relations in Europe* (Thousand Oaks, Calif.: Sage, 1996), pp. 42–81.

²² Brian Weekes, John Lloyd, Linda Dickens and Michael Mellish, *Industrial Relations and the Limits of Law* (Oxford: Blackwell, 1975).

²³ Eric Smith, 'Collective Bargaining', in Maunder, ed., *The British Economy in the 1970s*, pp. 116–40.

²⁴ Conservative Party, *Conservative Manifesto* (London: Conservative Party, 1979).

²⁵ Paul Edwards *et al.*, 'Great Britain: Still Muddling Through', in Anthony Ferner and Richard Hyman, eds, *Industrial Relations in the New Europe* (Cambridge, Mass.: Blackwell, 1992), pp. 1–68, at p. 13.

The 1980 Act was soon followed by the 1982 Employment Act, which moved further in the anti-union direction. This act restricted the definition of lawful union action and further limited the closed shop. The second and third electoral victories of Mrs Thatcher in 1983 and 1987 did not represent any change in labour-market strategies. The power of unions and insiders continued to be attacked through the 1984 Trade Union Act (the government made it more difficult for unions to act) and the 1988 Employment Act (post-entry closed shop was made illegal and unions' rights to discipline members for crossing a picket line during a lawful strike were abolished). After a fourth electoral victory, the Thatcher government used the 1989 Employment Act to reduce the administrative costs of dismissals by making it unnecessary for employers to provide a reason for dismissals unless the employee had been continuously employed for two years (it had been six months before).

The arrival of John Major at No. 10 Downing Street in 1990 did not modify the labour market policy orientation of the Tory government. The 1990 Employment Act effectively abolished the pre-entry closed shop and made it legal to dismiss workers who had participated in any unlawful industrial action. In 1993, Major implemented the Trade Union Reform and Employment Rights Act. This Act made it legal for employers to offer employees financial enticements not to join a union and stipulated that employers were to get seven days warning in case of industrial action.²⁶

Throughout this period, the general approach towards active labour-market policy by both parties can be described as consisting of programmes that 'emphasize the punitive experience of receiving public assistance while simultaneously failing to equip participants for effective labor-market entry.'²⁷ In fact, it is not difficult to see why ALMPs received little attention. Employers did not want them, unions had incentives not to pay too much attention to them, and Conservative and Labour governments had no reason to favour them. The employer side of this story is clearly explained by King who argues that '(a)side from rhetorical flourishes about the value of training, in reality employers preferred firm-specific to general training, and willingly accepted a high proportion of semi- or unskilled workers (since these necessarily received lower wages than skilled workers).'²⁸ Unions, by contrast, did call for improvements in ALMPs. But, as King points out, although they were increasingly excluded from training programmes, unions were trapped in the workplace-based system.²⁹ Historically, they had advanced the interests of already skilled workers and had not developed a strong commitment to a coherent system of active measures. Because of their connection to unions, Labour governments had few political incentives to address ALMPs. In the 1970s, Conservative and Labour governments facilitated some tripartism but did not fundamentally modify an unsuccessful system. For the Thatcher government, the development of effective training and public employment services was not a high priority. The Conservative emphasis on low government spending and the reduction of the role of the state (as well as the decrease of union power and the hegemony of the financial sector) was not compatible with a high ALMP orientation. As argued by Crouch, Conservative governments since 1979 preferred, and indeed generated, 'a flexible,

²⁶ Major also implemented some measures that (although they did not fundamentally modify previous policies) slowed down the pace of anti-insider and anti-union measures.

²⁷ King, *Actively Seeking Work?* pp. xii–xiii. King uses this description for both Britain and the United States.

²⁸ King, 'Employers, Training Policy, and the Tenacity of Voluntarism in Britain', pp. 404–5.

²⁹ Desmond King, 'Employers, Training Policy, and the Tenacity of Voluntarism in Britain'.

casualized labour force able to turn its hand to a rapidly changing variety of relatively low skilled tasks.³⁰

The amount of resources dedicated to employment promotion did increase during the Thatcher governments. A number of analysts have argued, however, that these government programmes provided cheap labour without providing real training.³¹ It is true that in the early 1980s, the Conservative government increased the budget dedicated to training and extended the number of active policy choices included. This was particularly the case when Lord Young was the chairman of the Manpower Services Commission and a number of new training programmes were introduced. New anti-unemployment initiatives like the New Job Training Scheme or the Youth Training Scheme were established and the budget for job formation policies increased from £1.1 billion in 1978–79 to £3.4 billion in 1987–88.³² But this was to a great extent the consequence of the spectacular increase in unemployment experienced during this time. The old training problems remained. In 1989, a government study reported that training was directed to short-term necessities and that most workers had not experienced any vocational training.³³

The decline of employment protection in Britain coincided with the emergence of New Labour and a distancing between the party and the unions. At the 1993 Labour Party Congress, union block voting was reduced to 70 per cent (33 per cent for leadership decisions) and a prior ballot of union members was instated.³⁴ Then in 1995, the union share in conference votes was further reduced to 50 per cent. The decrease in union block voting has been accompanied by a decrease in the Labour party's economic dependence on unions. In recent years the union share of party financing has decreased from the 90 per cent averaged until the early 1980s to around 50 per cent. It is clear that the emergence of New Labour required a separation from the unions. The modernization of the party envisioned by Blair was based on a closer relationship with business and a more arms-length one with unions.³⁵ In fact, a strong association with the unions came to be perceived as an electoral handicap and a cause for the lack of support in previous elections.³⁶

With Blair, a substantial change in employment promotion strategies has taken place.³⁷ It could be argued that the re-orientation of Labour's training policies started earlier. Already in the mid-1980s, after the early defeats to Thatcher, there had been plans for a

³⁰ Colin Crouch, 'Organized Interests as Resources or as Constraint', in Colin Crouch and Franz Traxler, eds, *Organized Industrial Relations in Europe* (Brookfield, Vt.: Avebury Ashgate, 1995), pp. 287–308, at p. 304.

³¹ See King, 'Employers, Training Policy, and the Tenacity of Voluntarism in Britain'; Patrick Ainley and Mark Corney, *Training for the Future: The Rise and Fall of the Manpower Services Commission* (London: Cassell, 1990); and Dan Finn, *Training without Jobs* (Alton, Hants.: Macmillan Education, 1987).

³² Boix, *Political Parties, Growth and Equality*, p. 177. It did then go down to £3.2 billion in 1989–90.

³³ King, 'Employers, Training Policy, and the Tenacity of Voluntarism in Britain', p. 396.

³⁴ Previously union leaders could vote in place of their members (without needing to engage in a prior vote and being able to unify whatever diversity existed among the members). See Steven Fielding, *Labour: Decline and Renewal* (Manchester: Baseline, 1995).

³⁵ Robert Taylor, 'Employment Relations Policy', in Anthony Seldon, ed., *The Blair Effect* (London: Little, Brown, 2001), 245–70.

³⁶ Anthony King, 'Tony Blair's First Term', in Anthony King, ed., *Britain at the Polls, 2001* (New York: Chatham House, 2002), pp. 1–44.

³⁷ Some authors would not agree that New Labour is more concerned about employment promotion than previous conservative governments. For more critical analyses, see Richard Heffernan, *New Labour and Thatcherism* (New York: Palgrave, 2000); and Colin Crouch, 'The Parabola of Working-Class Politics', in Andrew Gamble and Tony Wright, eds, *The New Social Democracy* (Malden, Mass.: Blackwell Publishers, 1999), pp. 69–83.

national training organization funded by a levy on all but the smallest firms. The Labour party took vocational training and ‘upskilling’ seriously at that time.³⁸ In the 1990s, however, the party retreated somewhat and looked more towards policies promoting generic skills. The plans for a training levy were scrapped in 1996 in preparation for the 1997 elections.

The new attitude towards employment promotion was highlighted in the 1997 manifesto as one of the points in the ‘Contract with the People’. It stated the Labour party’s intention to get 250,000 young unemployed people into work.³⁹ Labour’s approach to ALMPs was encapsulated in the Welfare to Work programme (popularly known as the New Deal). In 1997, Blair established a windfall tax on profits of privatized utilities. It was estimated to provide £4.8 billion over two years for the New Deal.⁴⁰ The New Deal initiative was aimed at young people, single parents, sick and disabled people and the long-term unemployed. It included job subsidies for employers (£60 a week for participants in training programmes), the establishment of ‘taster’ employment (short placement spells), and the provision of counselling and advice.⁴¹ There was a commitment from New Labour to guarantee work for all 18–24 year olds unemployed for six months or more. After being unemployed for six months, young people are required to enter a ‘Gateway’ period. During the Gateway period, intense job assistance is provided. If a job is not obtained, four New Deal options are open: training, subsidized work in the private sector, voluntary sector work, or work with the new Environmental Taskforce. The Department for Education and Employment provided £58 million to start Employment Zones to attack long-term unemployment, committed to a £150 million investment on individual learning accounts and an initial £15 million to start a University for Industry.⁴²

The Labour government has also developed a number of additional policies that complement the New Deal. Blair has emphasized ‘Lifelong Learning’ (a process characterized by training and ‘upskilling’ throughout the professional careers of workers) as the goal for employment policy. In agreement with new priorities emerging at the European Union level, the focus of labour market policy becomes the employability of workers. The new initiatives addressing these objectives include the ‘University for Industry’ (a national programme to provide advice and training to workers at any stage in their professional careers), ‘Investors in People’ and plans for skills development under Objective 4 of the European Structural Funds.⁴³ It is also important to mention that the Labour government has reformed the system of in-work benefits for families with children to reduce the disincentives to work, especially in low-pay activities. The most important of these ‘make work pay’ measures has been the Working Families Tax Credit. This

³⁸ For the connection between Labour’s employment strategies of the 1980s and those of the 1990s, see King and Wickham-Jones, ‘Training Without the State?’

³⁹ Labour Party, *New Labour Because Britain Deserves Better* (London: Labour Party, 1997).

⁴⁰ Tania Burchardt and John Mills, ‘Public Expenditure and the Public/Private Mix’, in Martin Powell, ed., *New Labour, New Welfare State?* (Bristol: The Policy Press, 1999), pp. 29–50, at p. 44.

⁴¹ Peter Cressey, ‘New Labour and Employment, Training and Employee Relations’, in Martin Powell, ed., *New Labour, New Welfare State?* (Bristol: The Policy Press, 1999), pp. 171–90, at p. 177.

⁴² David Coates, ‘New Labour’s Industrial and Employment Policy’, in David Coates and Peter Lawler, eds, *New Labour in Power* (Manchester: Manchester University Press, 2000), pp. 122–35, at p. 132. In spite of the significance of these numbers, it must be pointed out that New Labour’s training policies are fundamentally voluntaristic, with no return to a training levy or to any form of employer compulsion to train.

⁴³ Peter Cressey, ‘The New Labour Government and Employment, Training and Employee Relations’, paper presented at the conference on ‘New Labour in Europe: Promoting Success or Decline?’ Brussels, April 2002.

initiative is considerably more generous than the Family Credit programme preceding it and guarantees any family with a full-time worker £214 per week.⁴⁴

The British case demonstrates how higher levels of insider protection correlated with a general lack of interest on the part of the Labour party towards employment protection policies. The decrease in insider protection promoted by the Conservative governments of Thatcher and Major, however, facilitated the emergence of Blair's Third Way (defined as a Labour strategy with employment promotion as a pre-eminent goal). The British case also illustrates the effects of an institutional connection between unions and social democratic parties. Some authors have argued that, although contentious at times, the party–trade union link was a crucial factor in Labour's success in government and opposition before the 1980s.⁴⁵ It is, however, also the case that ALMPs were easier to ignore when the influence of unions over the Labour party was strong. As this institutional link grew weaker, the Labour party became more interested in outsiders. Just as it is difficult to imagine the Labour government's 'Social Contract' from 1974 to 1979 without the influence of unions, it is difficult to imagine New Labour without the weakening of union power within the party.

THE INDIVIDUAL ANALYSIS

The primary difficulty when trying to provide a test for the individual preferences implied by my model involves finding surveys that ask questions related to the definition of insiders, outsiders and upscale groups. The emphasis on a permanent job for the conception of 'insiderness' and the need to assess policy preferences limits the data I use to one survey. An analysis of Eurobarometer 44.3 (February–April 1996) allows me to develop insider–outsider codings and to assess preferences in a way that closely addresses my claims. I define the upscale group category as those who are self-employed and those who define themselves as managers.⁴⁶ Insiders are defined as those employed full-time with a permanent job or those with part-time or fixed-term jobs who do not want a full-time or permanent job. Outsiders are then defined as those who are unemployed, employed full-time in fixed-term and temporary jobs (unless they do not want a permanent job), and employed part-time (unless they do not want a full-time job).

The data used in the analysis has a multi-level structure (one level, the individual, is nested within the other, the country). Developing an analysis that ignores the multi-level nature of the data could create a number of statistical problems (clustering, non-constant variance, underestimation of standard errors, etc.). To test the claims summarized in Table 1, therefore, I run some logit random intercept multilevel maximum likelihood RIGLS (Restricted Iterative Generalized Least Squares) models.⁴⁷

The dependent variable is a measure of an individual's willingness to pay taxes to create new jobs. Respondents were asked whether they would tend to agree or disagree with the following statement: 'I would be ready to pay more tax if I were sure that it would be

⁴⁴ There is an additional subsidy to cover child-care expenses, and adjustments to the bottom end of the tax and National Insurance schedules. See Andrew Glyn and Stewart Wood, 'Economic Policy Under New Labor', *Political Quarterly*, 72 (2001), 50–66, p. 53.

⁴⁵ See Lewis Minkin, *The Contentious Alliance* (Edinburgh: Edinburgh University Press, 1991).

⁴⁶ A more detailed explanation of the responses used for the coding of insiders, outsiders and upscale groups is available from the author.

⁴⁷ I follow the recommendations for modelling multilevel data structures in Marco Steenbergen and Bradford Jones, 'Modeling Multilevel Data Structures', *American Journal of Political Science*, 46 (2002), 218–37. I use MLwiN to analyse the data.

devoted to creating new jobs.’ Responses that agreed were given a 1 and those that disagreed were given a 0.⁴⁸ There are then two groups of explanatory variables. First, there are the variables measuring insider–outsider–upscale status and an individual’s vulnerability to unemployment. Vulnerability is measured in two ways: at the individual level and at the macro-level. For individual vulnerability to unemployment, respondents were asked if the following statement was true: ‘My job is secure.’ Those answering ‘Not at all true’ were then given a 1, while other answers were given a 0.⁴⁹ For macro-level vulnerability, I use a nation’s employment protection level, standardized unemployment and change in standardized unemployment.⁵⁰ In the second group, there are some control variables measuring individual characteristics that are likely to affect the outcome but are not theoretically interesting. They are age, gender, income and education.

I present results for four models. The first two are the main effects and the interaction models. The other two are the parametric and non-parametric bootstrapping models. Bootstrapping is used to make accurate inferences based on simulated parameter estimates. This is particularly important in models with discrete responses that (as in this article) use quasi-likelihood estimation.⁵¹

The results of the four models in Table 2 show a remarkable amount of support for the insider–outsider framework. In all models, being an outsider is significantly associated with an increase in employment promotion preferences. The results also indicate (regardless of model) that being an insider or a member of the upscale groups is significantly associated with a decrease in employment promotion preferences. The theorized effects of unemployment vulnerability are confirmed by the results as well. In this case, however, two things must be pointed out. First, these effects are only discernible when the main effects and the interaction effects are disentangled. Secondly, increasing levels of macro-level employment protection seem to be associated with higher employment promotion preferences while increasing levels of macro-level change in unemployment are associated with lower employment promotion preferences. These two findings are puzzling, considering this article’s arguments, and in need of further research.

The coefficients reported in Table 2 are meaningful but a more intuitive explanation of the variables’ effects can be provided. Using the interaction model, we can calculate the probability that an individual with average values in all the independent variables agrees to pay taxes for employment promotion by setting all variables to 0 and calculating:

$$p = 1/(\exp(-X\beta)) = 1/(1 + \exp(0.204)) = 0.449.$$

An individual with average values in the independent variables, therefore has an estimated 44.9 per cent probability of agreeing to pay taxes for employment promotion.

⁴⁸ In the analysis that follows respondents who did not know about their employment status or policy preferences were not included in the analysis. Less than 5 per cent of the total responses were deleted. Given the restrictions in the availability of the data, this section’s analysis is restricted to ten countries: Austria, Belgium, Denmark, Finland, France, Britain, Germany, Italy, the Netherlands and Sweden.

⁴⁹ I also ran the models with an alternative definition (including in the 1 category not only those responding ‘Not at all true’ but also ‘A little true’). The results I report were not sensitive to this change.

⁵⁰ The macro-level employment protection variable measures the number of months of severance pay a worker gets upon termination without cause. For details about these macro-level variables, see the section below.

⁵¹ For more details, see Harvey Goldstein and Jon Rasbash, ‘Improved Approximation for Multilevel Models with Binary Responses’, *Journal of the Royal Statistical Society*, 139 (1996), 505–13.

TABLE 2 *The Effects of Unemployment Vulnerability and Insider, Outsider and Upscale Status on Individual Employment Promotion Preferences*

	Main effects model	Interaction model	Parametric bootstrapping	Non-parametric bootstrapping
Constant	-0.218 (0.474) <i>0.323</i>	-0.204 (0.473) <i>0.333</i>	-0.307 (0.483) <i>0.262</i>	0.117 (0.103) <i>0.128</i>
Outsider Status	0.163 (0.053) <i>0.001</i>	0.172 (0.054) <i>0.001</i>	0.167 (0.053) <i>0.001</i>	0.166 (0.051) <i>0.001</i>
Insider Status	-0.081 (0.056) <i>0.074</i>	-0.132 (0.081) <i>0.052</i>	-0.128 (0.080) <i>0.055</i>	-0.133 (0.085) <i>0.059</i>
Upscale Group Status	-0.307 (0.079) <i>< 0.001</i>	-0.287 (0.079) <i>< 0.001</i>	-0.289 (0.081) <i>< 0.001</i>	-0.290 (0.080) <i>< 0.001</i>
Individual Job Vulnerability	-0.088 (0.090) <i>0.164</i>	-0.263 (0.122) <i>0.016</i>	-0.253 (0.109) <i>0.010</i>	-0.253 (0.135) <i>0.031</i>
Insider Status × Individual Job Vulnerability	-	0.401 (0.182) <i>0.014</i>	0.356 (0.160) <i>0.013</i>	0.355 (0.192) <i>0.031</i>
Macro-Level Employment Protection	0.093 (0.063) <i>0.070</i>	0.089 (0.063) <i>0.079</i>	0.089 (0.061) <i>0.072</i>	0.086 (0.044) <i>0.025</i>
Insider Status × Macro-Level Employment Protection	-	0.021 (0.020) <i>0.147</i>	0.018 (0.026) <i>0.245</i>	0.018 (0.021) <i>0.196</i>
Standardized Unemployment Rate	-0.057 (0.053) <i>0.141</i>	-0.057 (0.053) <i>0.141</i>	-0.039 (0.050) <i>0.218</i>	-0.041 (0.041) <i>0.159</i>
Change in Standardized Unemployment Rate	-0.050 (0.025) <i>0.023</i>	-0.050 (0.025) <i>0.023</i>	-0.052 (0.025) <i>0.019</i>	-0.051 (0.018) <i>0.002</i>
Insider Status × Change in Standardized Unemployment Rate	-	0.001 (0.008) <i>0.450</i>	0.001 (0.014) <i>0.472</i>	0.001 (0.004) <i>0.401</i>
Age	0.034 (0.025) <i>0.087</i>	0.034 (0.025) <i>0.087</i>	0.033 (0.028) <i>0.119</i>	0.032 (0.026) <i>0.109</i>
Gender	-0.023 (0.039) <i>0.278</i>	-0.022 (0.039) <i>0.266</i>	-0.026 (0.049) <i>0.298</i>	-0.028 (0.043) <i>0.258</i>
Income	-0.066 (0.015) <i>< 0.001</i>	-0.069 (0.016) <i>< 0.001</i>	-0.071 (0.017) <i>< 0.001</i>	-0.072 (0.016) <i>< 0.001</i>
Education	0.170 (0.026) <i>< 0.001</i>	0.171 (0.026) <i>< 0.001</i>	0.171 (0.028) <i>< 0.001</i>	0.169 (0.025) <i>< 0.001</i>
N	11,474	11,474	11,474	11,474

Notes: All entries are from logit maximum likelihood (RIGLS) estimation. Numbers in bold are estimated coefficients; numbers in parentheses are standard errors; numbers in italics are *p*-values from *z*-tests. Bootstrap coefficients and standard errors are computed using resampling of the residuals with five sets of 500 replicates.

More pertinent to the topic of this article, however, is the difference in the probability of agreeing to pay taxes for employment promotion between outsiders, on the one hand, and either insiders or members of the upscale groups, on the other hand. Using similar calculations, we can conclude that the probability of agreeing to pay taxes for employment promotion goes up by 7.5 per cent if an individual is an outsider rather than an insider and by 11.2 per cent if an individual is an outsider rather than a member of the upscale group. To illustrate the effects of unemployment vulnerability, it is sufficient to point out that the probability of agreeing to pay taxes for employment promotion increases by 10 per cent if an insider feels insecure about his/her job.

THE EFFECTS OF GOVERNMENT PARTISANSHIP ON POLICY

Very little needs to be said at this point about the theorized influence of the explanatory variables of interest. The previous pages should have made clear the reasons why I expect partisanship not to be a significant factor determining ALMPs unless its influence is interacted with other factors (namely employment protection and unemployment growth). However, I will explain in more detail the particular measures used in the quantitative analysis below.⁵²

Active Labour-Market Policies: The OECD data used in this article's statistical analysis encompasses the following five areas: (1) public employment services and administration, (2) labour market training, (3) youth measures, (4) subsidized employment, and (5) measures for the disabled. As shown in Figure 1, the data exhibit both variation among the countries in the sample as well as considerable change over time.

Cabinet Partisanship: The government partisanship measure used in my analysis attempts to capture the ideological position of governments in relation to a left–right continuum. I use partisan cabinet composition as measured by Tom Cusack.⁵³ Higher figures signify more conservative government. Cusack's variable measures the ideological position of governments in relation to the partisan composition of cabinets. This means that parties other than the social democratic and conservative ones influence the weighted partisanship measure according to their portfolio shares. Although for convenience I refer to social democratic and conservative parties in the results, it would be more accurate to refer to the partisan options as Left and Right.

Employment Protection: I use a variable measuring the number of months of severance pay a blue-collar worker with ten years of service receives upon termination without cause.

Unemployment Rate and Unemployment Growth: The measure used is the standardized unemployment rate for all countries but Austria, Denmark and Switzerland. For these three countries, I use regular unemployment rates.

⁵² For details on any of the explanatory variables, see the Appendix.

⁵³ I also use an alternative definition of cabinet partisanship that relies on manifesto data (rather than expert opinions) for a government's measure in the left–right continuum. This analysis confirms the findings reported below (the results are available from the author).

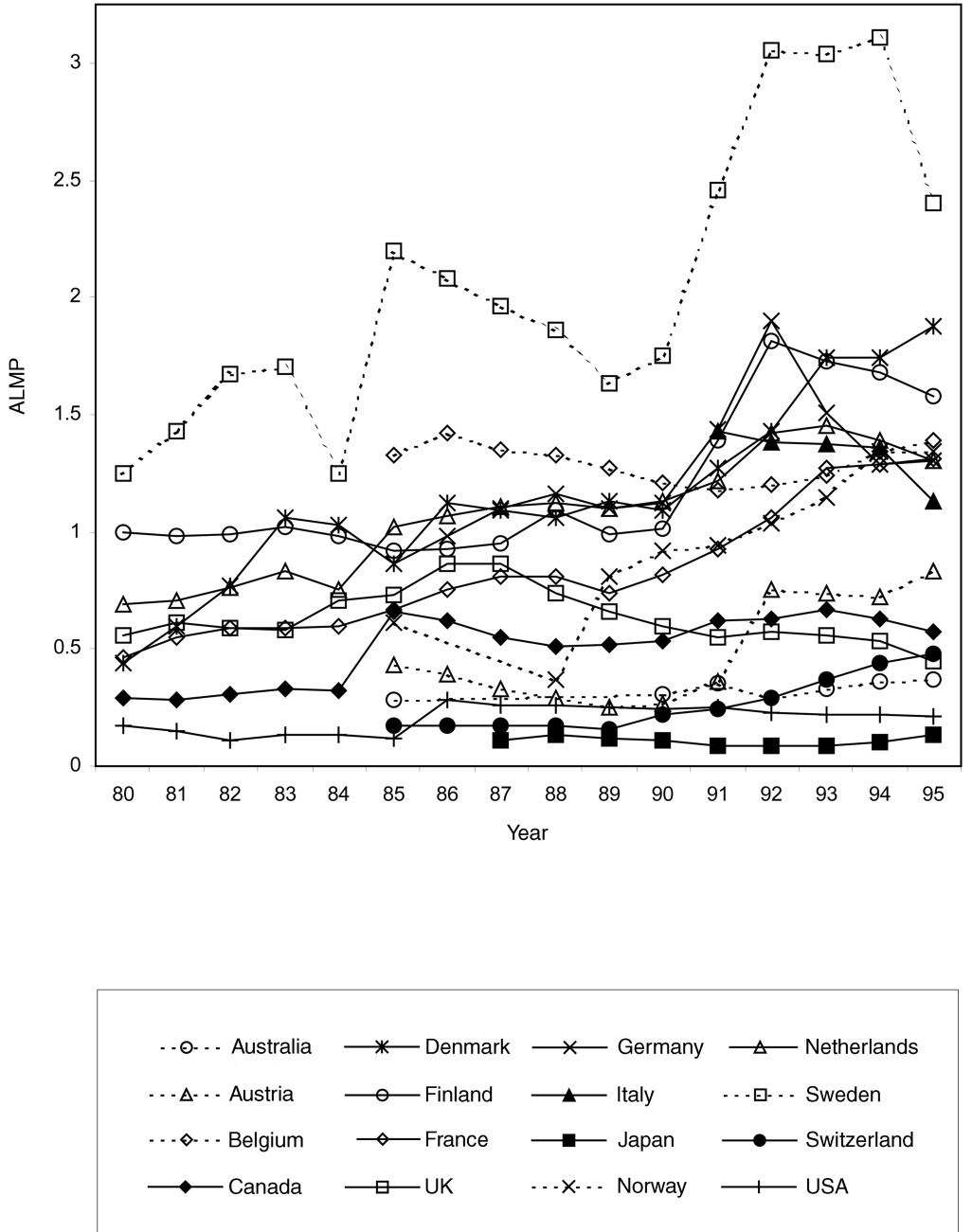


Fig. 1. ALMP spending as percentage of gross domestic product in OECD countries

Other Independent Variables

There is a group of variables with no direct implications to my insider–outsider model that must nevertheless be included in the analysis. In some cases opposing claims about their influence over policy have been provided in the literature and in all cases there are strong theoretical or empirical reasons to believe that they affect the outcomes I am interested in analysing. A description of these variables is available in the Appendix.⁵⁴

Methodology

I use annual data from sixteen countries from 1980 to 1995 and present ordinary least squares (OLS) results.⁵⁵ The pooled data significantly increase the number of observations and therefore allow me to test more complex causal models. I include period dummies in the regressions to deal with period-specific effects.⁵⁶ These variables are introduced in the analysis simply to control for those influences that are period specific and that could affect the accurate estimation of the variables of interest (the argument, for example, that in more recent years ALMPs have become more popular in all countries). I also include a lag of the dependent variable among the regressors. Since the chosen dependent variables exhibit noticeable time stability, the introduction of a lagged dependent variable provides a better dynamic model in which the influence of the previous year's values is explicitly assessed.

Beck and Katz have proposed a method that produces consistent standard error estimates in the presence of panel heteroscedastic errors.⁵⁷ Since their recommendations have been widely followed in the recent comparative political economy literature, I estimate panel-corrected standard errors.

Results

The following pages contain the results of the regressions. In all cases I present the estimates of the constant and the lagged dependent variable first, immediately followed by the main variables of interest: government partisanship and the interactions. Then I produce the estimates for the rest of the explanatory variables.

Table 3 provides the main estimates for the determinants of active labour-market policy levels. The most important point to make is that, as hypothesized, cabinet partisanship is not at all significant as an influence on the levels of ALMPs. The table clearly shows that whether a government is social democratic or conservative makes no difference to the levels of ALMPs promoted. These results contradict the conventional wisdom and much of the existing literature, regarding the influence of partisanship on ALMPs.⁵⁸ The results, however, are vulnerable to the criticism that they do not show a significant government

⁵⁴ For more details about the relationship between these variables and labour-market policy, see Rueda, 'Insider–Outsider Politics in Industrialized Democracies'.

⁵⁵ The countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States.

⁵⁶ The periods are: 1980–84, 1985–89, and 1991–95. The excluded reference year is 1990.

⁵⁷ See Nathaniel Beck and Jonathan Katz, 'Nuisance vs. Substance', *Political Analysis*, 6 (1996), 1–36; and Nathaniel Beck and Jonathan Katz, 'What to Do (and Not to Do) with Time-Series Cross-Section Data', *American Political Science Review*, 89 (1995), 634–47.

⁵⁸ See, for example, Swank and Martin, 'Employers and the Welfare State'; Boix, *Political Parties, Growth and Equality*; Janoski, 'Direct State Intervention in the Labor Market'; and Janoski, *The Political Economy of Unemployment*.

TABLE 3 *The Determinants of Active Labour-Market Policies, 1980–95*

	Main Results
Constant	0.037 (0.119) <i>0.378</i>
Lagged Dependent Variable	0.921 (0.048) <i>< 0.001</i>
<i>Cabinet Partisanship</i>	0.015 (0.024) <i>0.268</i>
Union Density	0.001 (0.001) <i>0.044</i>
Bargaining Centralization	0.132 (0.131) <i>0.157</i>
International Openness	0.001 (0.001) <i>0.083</i>
Financial Openness	– 0.005 (0.008) <i>0.262</i>
Lag of Government Debt	– 0.099 (0.046) <i>0.016</i>
Lag of Standardized Unemployment Rate	0.002 (0.005) <i>0.375</i>
GDP Growth	– 0.019 (0.006) <i>0.001</i>
<i>N</i>	171
<i>R</i> ²	0.93

Notes: All entries are least squares dummy variable estimates. Numbers in bold are estimated coefficients; numbers in parentheses are their panel-corrected standard errors; numbers in italics are *p*-values from one-sided *t*-tests. Period dummy estimates are not reported (available upon request).

partisanship effect simply because they do not capture social democratic influences only discernible after some time. To address this issue, I run the regressions in Table 3 substituting yearly cabinet partisanship for a two-year, five-year and a ten-year average. The main results hold and government partisanship was found to be an insignificant determinant of ALMPs no matter the lag.

Table 4 shows the results of the employment protection analysis. The first column contains the results of a regression including employment protection as an explanatory

TABLE 4 *The Effects of Employment Protection*

	Employment protection regression	Interaction regression
Constant	0.038 (0.121) <i>0.375</i>	0.023 (0.121) <i>0.425</i>
Lagged Dependent Variable	0.916 (0.050) <i>< 0.001</i>	0.916 (0.050) <i>< 0.001</i>
<i>Cabinet Partisanship</i>	0.007 (0.027) <i>0.394</i>	0.010 (0.026) <i>0.356</i>
<i>Employment Protection</i>	– 0.012 (0.007) <i>0.048</i>	–
<i>Cabinet Partisanship</i> × <i>Employment Protection</i>	–	– 0.004 (0.002) <i>0.042</i>
Union Density	0.001 (0.001) <i>0.058</i>	0.001 (0.001) <i>0.050</i>
Bargaining Centralization	0.143 (0.143) <i>0.159</i>	0.129 (0.145) <i>0.187</i>
International Openness	0.0003 (0.001) <i>0.262</i>	0.0004 (0.001) <i>0.224</i>
Financial Openness	– 0.002 (0.008) <i>0.425</i>	– 0.001 (0.008) <i>0.448</i>
Lag of Government Debt	– 0.070 (0.049) <i>0.079</i>	– 0.074 (0.047) <i>0.059</i>
Lag of Standardized Unemployment Rate	0.003 (0.005) <i>0.302</i>	0.003 (0.005) <i>0.309</i>
GDP Growth	– 0.023 (0.006) <i>< 0.001</i>	– 0.023 (0.006) <i>< 0.001</i>
<i>N</i>	158	158
<i>R</i> ²	0.93	0.93

Notes: All entries are least squares dummy variable estimates. Numbers in bold are estimated coefficients; numbers in parentheses are their panel-corrected standard errors; numbers in italics are *p*-values from one-sided *t*-tests. Because of missing data, Canada is not included in these regressions. Period dummies estimates are not reported (available upon request).

TABLE 5 *The Effects of Unemployment Instability*

	Main results	Unemployment growth regression
Constant	0.037 (0.119) <i>0.378</i>	- 0.024 (0.127) <i>0.425</i>
Lagged Dependent Variable	0.921 (0.048) <i>< 0.001</i>	0.937 (0.043) <i>< 0.001</i>
<i>Cabinet Partisanship (Reversed)</i>	0.015 (0.024) <i>0.268</i>	0.021 (0.025) <i>0.193</i>
<i>Lag of Standardized Unemployment Rate</i>	0.002 (0.005) <i>0.375</i>	-
<i>Unemployment Growth</i>	-	0.006 (0.004) <i>0.065</i>
<i>Cabinet Partisanship (Reversed) × Unemployment Growth</i>	-	0.002 (0.001) <i>0.072</i>
Union Density	0.001 (0.001) <i>0.044</i>	0.001 (0.001) <i>0.045</i>
Bargaining Centralization	0.132 (0.131) <i>0.157</i>	0.100 (0.125) <i>0.212</i>
International Openness	0.001 (0.001) <i>0.083</i>	0.001 (0.001) <i>0.099</i>
Financial Openness	- 0.005 (0.008) <i>0.262</i>	- 0.003 (0.008) <i>0.360</i>
Lag of Government Debt	- 0.099 (0.046) <i>0.016</i>	- 0.096 (0.047) <i>0.022</i>
GDP Growth	- 0.019 (0.006) <i>0.001</i>	- 0.013 (0.006) <i>0.020</i>
<i>N</i>	171	171
<i>R</i> ²	0.93	0.94

Notes: All entries are least squares dummy variable estimates. Numbers in bold are estimated coefficients; numbers in parentheses are their panel-corrected standard errors; numbers in italics are *p*-values from one-sided *t*-tests. Period dummy estimates are not reported (available upon request).

variable and the second those of a regression with the interaction term (employment protection multiplied by cabinet partisanship). Looking back to the hypotheses in Table 1, a negative association between employment protection and ALMPs was expected. The results in the first column confirm this claim. As implied by this article's analysis, a decrease in the employment protection of insiders will be reflected in an increase in ALMP levels. I hypothesized that an increase in the vulnerability of insiders to unemployment would be associated with higher pressure on governments to promote employment policies. Table 4 seems to suggest that this is indeed the case.

Table 1 also suggested that the interaction between employment protection and conservative government would be negative. The high correlation between employment protection and the interaction term, however, make it difficult to estimate explicitly direct and interaction effects. In a regression with both variables, the standard errors increase greatly and the variables become highly insignificant. The results in the second column of Table 4 show that when employment protection is omitted the interaction term is significant. In a regression with all interaction terms (results available from the author), the coefficients suggest that as employment protection decreases and social democratic governments become stronger (this is reflected in lower scores of the cabinet partisanship variables), ALMP levels rise.

Table 5 presents the results of the unemployment growth regression. The first column once again presents the main results and the second column introduces unemployment growth and the interaction between unemployment growth and cabinet partisanship as explanatory variables. The unemployment level variable has been brought forward so that the test of the claims explained in previous sections can be made more directly and it has been eliminated from the second regression because it is highly correlated with unemployment growth.

Three claims were made in Table 1: that the unemployment level would not affect ALMPs; that unemployment growth would be positively associated with ALMPs; and that the interaction between unemployment growth and social democratic government would be positively associated with ALMPs. The three hypotheses are confirmed by the data analysis in Table 5. The first column shows that unemployment levels (measured here as the level of the previous year to prevent endogeneity) are not significant as a determinant of ALMPs. The second column shows that unemployment growth and its interaction with social democracy are significant. To capture the effects of social democracy more clearly, the cabinet partisanship variable was reversed (so that higher values mean more leftist governments). Using data from this regression, the interaction effects can be calculated. When there is a social democratic government in power (the reversed government partisanship variable equals 2), the unemployment growth variable is positive (the coefficient is 0.003) and statistically significant. It is in fact the case that a rise in the vulnerability of insiders makes social democratic governments more likely to promote ALMPs.

CONCLUSION

The insider–outsider partisanship model receives a remarkable amount of support from the case study and my analyses of survey and aggregate data. The decrease in employment protection promoted by the Thatcher and Major governments represents an ideal test of the interaction between insider vulnerability and social democratic strategy. Insiders in Britain experienced a steady decrease in the levels of employment protection throughout

the years of conservative rule. As the insider–outsider model predicted, the increase in the vulnerability of insiders to unemployment facilitated the adoption of employment promotion as one of the main goals of Blair’s Labour party. In some ways, therefore, an insider–outsider approach helps explain the emergence of the ‘Third Way’ as a response to the new challenges to social democracy. The analysis of individual preferences and of macro policies provided further evidence supporting this article’s model.

At this point it is pertinent to ask whether the exploration of other case studies would come to a different conclusion. A clear candidate is Sweden, since it is the country where the focus on ALMPs has been the greatest. The Swedish emphasis on active policy measures is obvious even from a cursory look at Figure 1. Historically, ALMPs were developed in Sweden as part of a general Keynesian approach to the economy. In the late 1940s and early 1950s, ALMPs in Sweden were seen as an essential part of a Keynesian policy package designed to promote low inflation, full employment and wage compression. Although originally ALMPs had been mostly targeted at increasing labour mobility, starting in the 1960s they became more generally focused on combating unemployment in recessions.⁵⁹

Given the emphasis that ALMPs receive, it is not surprising that Sweden has become the model for those advocating a more active role of governments in labour markets.⁶⁰ It is unclear, however, whether even the Swedish case would represent a challenge to the overall thrust of this article’s argument. There are two main reasons for this. The first is that, as hypothesized above, the promotion of ALMPs in Sweden is not straightforwardly related to the effects of social democracy. After all, the highest levels of ALMPs can be observed in the early 1990s, when Sweden’s government was at its most conservative since the Second World War. The second is one related to the main analysis of this article. In so far as there is a coincidence of social democratic government and high levels of ALMPs in Sweden for most of the period in this article’s quantitative analysis, the inclusion of this case promotes the rejection of my hypotheses. The fact that the results presented above confirm the hypotheses (even though Sweden is included in the sample) makes this article’s conclusions all the more robust.

The previous pages have made clear that insider–outsider politics have become an important part of a full explanation of the role of social democracy since the 1970s. It is fairly unambiguous that recent social democratic governments have had a tendency to fail in the promotion of some of the policies that could have been expected from them. The strategies prevalent in the golden age of social democracy have been abandoned and the provision of equality and security to the most vulnerable sectors of the labour market does not seem to be a goal comparable to economic growth and, perhaps, the control of inflation. The evidence provided above makes it difficult to assume that even if the ultimate interests of social democratic governments have not changed in the past three decades, the costs considered acceptable have remained the same. This article suggests that in the presence of insider–outsider conflicts, there exists a strong temptation for social democratic governments to promote less than egalitarian policies. Although more research is needed to confirm these results, my analysis emphasizes some of the overwhelming difficulties

⁵⁹ See Assar Lindbeck, *Swedish Economic Policy* (London: Macmillan, 1975); and Lars Calmfors and Anders Forslund, ‘Wage Formation in Sweden’, in Lars Calmfors, ed., *Wage Formation and Macroeconomic Policy in the Nordic Countries* (New York: Oxford University Press, 1990), pp. 63–130.

⁶⁰ See, for example, Richard Layard, Stephen Nickell and Richard Jackman, *Unemployment: Macroeconomic Performance and the Labour Market* (New York: Oxford University Press, 1991), p. 473.

facing social democratic policy makers. The acknowledgment of these difficulties may be the first step in finding truly social democratic solutions.

APPENDIX: DATA DETAILS

Active Labour-Market Policy: ALMP spending as percentage of GDP. *Source:* OECD Social Expenditures Database 1980–97, except Switzerland, OECD, *Employment Outlook*, several issues.

Cabinet Partisanship: Cabinet composition as measured by Thomas Cusack. Higher figures signify more conservative government. Cusack groups parties into five families, multiplies each family's share of cabinet portfolios by its weight, and sums the products. For further details, see Thomas Cusack, 'Partisan Politics and Public Finance', *Public Choice*, 91 (1997), 375–95.

Employment Protection: Data are the correction of Lazear's figures by Addison, Grosso and Teixeira, updated for the 1992–95 period using OECD, *Employment Outlook* (Paris: OECD, 1999). For details, see Edward Lazear, 'Job Security Provisions and Employment', *Quarterly Journal of Economics*, 105 (1990), 699–726; and John Addison and Jean-Luc Grosso, 'Job Security Provisions and Employment', *Industrial Relations*, 35 (1996), 585–603.

Unemployment: Standardized unemployment rate for all countries but Austria, Denmark and Switzerland. For these three countries, I use regular unemployment rates. Unemployment growth is measured as percentage rates. *Sources:* OECD, *Historical Statistics, 1960–1995* and OECD, *Historical Statistics, 1960–1997*.

Wage Bargaining Centralization: Index created by Torben Iversen. Higher figures signify more centralization. Observations are classified according to the relative weight of three levels of bargaining (local, industry and national), and then multiplied by a measure of the concentration of union membership at each level. For a complete specification, see Torben Iversen, *Contested Economic Institutions* (New York: Cambridge University Press, 1999). To capture the inertia associated with institutional change, I use a moving average of the yearly values (present and previous four years). Values for the last two years in the time series were extrapolated.

Union Density: The measure represents employed union members as a percentage of employed labour force ('net density') for all countries but Canada. The Canadian figures including unemployed and retired people who retain their membership in the numerator and the unemployed in the denominator ('gross density'). *Source:* Bernhard Ebbinghaus and Jelle Visser, *Trade Unions in Western Europe since 1945* (London: Macmillan, 2000).

International and Financial Openness: International openness is measured as imports plus exports as percentage of GDP. *Source:* OECD electronic database and OECD, *Historical Statistics 1960–1995*. Financial openness is measured as the sum of the index for restrictions on payments and receipts of goods and invisibles, the index for restrictions on payments and receipts of capital, and the index for legal international agreements that constrain a nation's ability to restrict exchange and capital flows. Values for 1994 and 1995 were extrapolated. *Source:* Klaus Armingeon, Michelle Beyeler and Sarah Menegale, *Comparative Political Data Set 1960–1998* (Institute of Political Science, University of Berne, 2000).

Government Debt: Government debt is measured as the level of consolidated central government debt as a percentage of GDP. Given the possibility of endogeneity (higher levels of policy causing higher debt), I use a one-year lag. *Source:* Robert Franzese, 'The Political Economy of Public Debt' (paper presented at Northwestern University, 1998).

GDP growth: GDP growth is measured as year-to-year percentage changes. *Source:* OECD electronic database and OECD, *Historical Statistics 1960–1997*.