

Dualization and crisis

David Rueda

The economic crises of the 20th Century (from the Great Depression to the recessions of the 1970s) were met with significant increases in compensation and protection for those most vulnerable to unemployment. Why has the Great Recession that started in 2007 promoted such muted response from the welfare states of industrialized democracies? In the following pages I argue that labor market dualization is a significant part of the answer. Dualization (an increasing separation between insiders and outsiders) has become an influential feature of most OECD economies since 1980. While a politically significant portion of insiders enjoys steadily high levels of employment protection, an increasingly numerous group of outsiders are unemployed or in precarious employment. Without the support of insiders, whose vulnerability to unemployment even during a crisis is low, governments have few incentives to promote generous social policy. I will show below that dualization has insulated insiders from unemployment during the crisis and has therefore mitigated the responsiveness of the welfare state to unemployment.

1. The increasing dualization of labor markets

There are several ways of thinking about dualization in industrialized democracies. They represent different emphases on factors like employment status, access to benefits and protection, political representation, citizenship, etc. For the purpose of this paper, I follow Rueda (2005, 2006 and 2007) in understanding the division between insiders and outsiders to be essentially related to the unemployment vulnerability of different actors in the labor market. I understand insiders to be workers with highly protected jobs and outsiders to be either unemployed or in jobs characterized by low levels of protection and employment rights, lower salaries, and precarious levels of benefits and social security regulations.¹

Recent work in comparative political economy has identified the increasing political and economic relevance of the distinction between insiders and outsiders.² The focus of the present paper is the connection between dualization and the provision of protection and insurance through the welfare state. The starting point of the analysis is that higher levels of insider protection are correlated with weaker demands for protection and therefore with less generous social policy. Of course, insiders always face *some* probability of losing their jobs (when the firms they work for become economically unviable, for example), but since insiders have fewer reason to believe that unemployment will affect them personally, I expect them to find parties that emphasize unemployment compensation less appealing. An increase in the resources dedicated to benefits for the unemployed represents a higher tax burden for insiders, or a diversion of resources that could be spent on public services that insiders benefit from.

¹ See Rueda (2007: chapter 2), for a more detailed explanation of the differences between insiders and outsiders.

² See, for example, Mares (2006), Martin and Thelen (2007), Rueda (2007), Iversen and Stephens (2008), Palier and Thelen (2010), and the contributions to Emmenegger *et al* (2011).

In spite of the abundance of work using insider-outsider differences as a meaningful concept, there is very little guidance in the literature about how to measure dualization. In this paper I propose that there are two main factors affecting dualization: the level of employment protection enjoyed by insiders and the existing segmentation of the labor market. These two variables emerge directly from the consideration of unemployment vulnerability as the most important distinction between insiders and outsiders. I propose that for insiders to feel less concerned about unemployment they must enjoy a high level of employment protection legislation and possess a buffer against economic downturns made up of unemployed and precariously employed outsiders.

The two dimensions of dualization emphasized above are captured in Figure 1. The figure summarizes the available data on insider employment protection legislation and labor market segmentation from 2000 up to the beginning of the crisis in 2007. Insider employment protection legislation is measured as an indicator summarizing the main aspects of dismissal protection for workers with regular contracts.³ The segmentation of the labor market is measured as unemployment, fixed-term employment and involuntary part-time employment as a percentage of the civilian labor force.⁴

[Figure 1]

Given the importance of secure employment to the definition of insiders, including the unemployed within the category of outsiders is not controversial. The classification of fixed-term and part-time employment is perhaps not as straightforward. There are two aspects to employed “outsiderness.” The first has to do with the precarious nature of employment. Fixed-term and part-time jobs are not simply insider contracts with added flexibility. They are in fact characterized by low wages, protection and rights (see, for example, OECD 1998). The second has to do with the involuntary nature of outsider employment. Most outsiders would like to have insider jobs. This is particularly the case when looking at fixed-term employment (many workers holding fixed-term contracts in the OECD do so involuntarily) but it is also the reason why I focus on involuntary part-timers.

Figure 1 provides the country averages for regular employment protection legislation and labor market segmentation from 2000 to 2007.⁵ The red lines dividing the figure into quadrants reflect the sample means for both measures. The picture for dualization that emerges from using these variables is an interesting one. The upper right quadrant represents the highest levels of dualization (where high regular employment protection legislation coincides with high segmentation of the labor market). Spain, Portugal, France, Greece, the Netherlands and Germany belong in this group. But, perhaps more surprisingly, so do Sweden and Finland. The upper left and lower right quadrants are mixed cases where there is high regular employment protection legislation but low segmentation of the labor market (or vice versa). Canada emerges as a country with higher than average labor market segmentation but lower than average regular employment protection legislation (Italy, Japan and Belgium seem very close to the means for both variables). Norway and Austria exhibit the opposite combination of segmentation and protection in both panels. The lower left quadrant, finally, contains the cases where dualization is lowest. The USA, the UK, Switzerland, Denmark, Australia, Ireland and New Zealand belong to this group.

³ See Venn (2009).

⁴ Because of missing data, labor market dualization is measured only as unemployment and involuntary part-time employment in Australia and New Zealand and only as unemployment in the USA.

⁵ Data availability varies in the countries in this sample.

2. Dualization and the present crisis: Unemployment

It is an uncontested fact that the present economic crisis has had and will have dramatic effects on unemployment in most OECD countries. All countries present in Figure 1 except Germany and Austria experienced an increase in unemployment from 2007 to 2010. Most importantly, average change (measured as percentage change from the previous year starting in 2008) was positive in all cases except Germany. The average yearly increases in unemployment experienced during the crisis ranged from the low (in Australia, Austria, Belgium, Finland, France, and Luxembourg) to the moderate (in Canada, Italy, Japan, the Netherlands, Norway, Portugal, the UK and Sweden) to the spectacular (Denmark, Greece, Ireland, New Zealand, Spain, and the US experienced the largest increases).

These aggregate unemployment numbers are meaningful, but a strong implication of the argument in the previous section is that levels of existing dualization should insulate insiders (relatively) from the worst effect of the crisis. The employment impact of the Great Recession has varied across different types of workers. While gender has not been a good predictor of the likelihood of losing one's job (perhaps because of the concentration of male workers in construction), it is clear that unemployment has concentrated on outsiders (i.e., immigrants, the young, unskilled and precariously employed).⁶ The data are perhaps most telling when looking at the young.

Insider-outsider differences cannot be reduced to a distinction between the young and middle aged, but data on the age incidence of unemployment during the crisis are more readily available than other possible measures of outsidership (like immigration or precarious employment).⁷ There are good theoretical reasons, moreover, to consider young workers to be most affected by outsidership. They have entered a labor market with a significant level of segmentation between those in protected employment and those in flexible employment, they are most affected by a vicious circle of precarious employment and unemployment, they are less likely to be represented by unions, etc.⁸

We can therefore capture the lower vulnerability of insiders to unemployment by measuring the incidence of unemployment on outsiders as the difference between the unemployment rate of young people (15-24 years) and that of "prime working life" people (25-64 years). While it is true that, after 2007, the unemployment rate for young people in the OECD was generally higher than for "prime age" workers, these differences exhibited a high degree of national variation. The lowest outsider unemployment incidence occurred in Australia, Austria, Canada, Denmark, Germany, Japan, the Netherlands, Norway, Switzerland and the USA. Belgium, Finland, France, Greece, Italy, Spain and Sweden had the highest levels of outsider unemployment incidence.⁹ There was also a remarkable amount of change over time. In three countries, the average yearly changes in outsider unemployment incidence experienced during the crisis were negative (in Germany, Luxembourg and Switzerland). But the countries where the employment situation for outsiders got comparatively better were a minority. All other countries experience average yearly increases in outsider

⁶ See OECD (2010).

⁷ But it is clear that in countries like Spain and Italy, the unemployment consequences of the Great Recession have been concentrated on those with temporary employment. In Spain 85% of job losses affected people with temporary employment (OECD 2010: 54).

⁸ See Rueda (2007) for a more detailed analysis of these issues.

⁹ Well-known examples of dualization like Spain exhibit particularly dramatic youth unemployment rates (42% in 2010). But even in the case of Sweden, where "last-in first-out" rules are followed for layoffs, the youth unemployment rates are significantly high (25% in 2010).

unemployment incidence. These ranged from the moderate ones in Austria, France, Japan, the Netherlands and Norway to the very high in Denmark, Ireland, New Zealand and Spain.

Most important to this paper's argument, however, is the relationship between the levels of dualization in Figure 1 and the outsider unemployment incidence levels described above. If this paper's hypothesis about the effect of dualization is correct, we should observe a correlation between these two variables. In the previous section, we looked at two dimensions of dualization: insider employment protection and labor market segmentation. To simplify the analysis and reduce the number of reported figures, I will summarize these two dimensions into an aggregate index of dualization.¹⁰ We do this simply by standardizing the two dimensions (so they are in comparable metrics) and adding them up. The goal is to analyse the influence of dualization in 2007 on the incidence of unemployment during the crisis.

[Figure 2]

Figure 2 contains two variables: the dualization index in 2007 (measured as the addition of employment protection and unemployment plus precarious employment) and outsider unemployment incidence from 2007 to 2010 (measured as the yearly averages for the difference between youth and prime working life unemployment).¹¹ The figure makes clear the relationship between the two variables. Countries with high levels of employment protection and labor market segmentation in 2007 (like Spain, Portugal, France or Sweden) also exhibit the highest differences between youth unemployment and prime working life unemployment from 2007 to 2010 (more than a 15% difference in some of these countries). Countries with low levels of employment protection and labor market segmentation in 2007 (like the US, the UK, New Zealand, Australia, Denmark and Switzerland) have the lowest differences between youth unemployment and prime working life unemployment (between 5% and 8%). The exceptions are Germany and the Netherlands (with high dualization but low outsider unemployment incidence) and Italy and Greece (with exactly the opposite combination).

3. Dualization and the present crisis: The welfare state

The previous sections have presented a picture of the existing cross-national variation in dualization and have argued that this variation is correlated to the incidence of unemployment during the crisis. This paper's main argument further proposes that dualization not only makes insiders less likely to experience unemployment but also less likely to demand protection and insurance against it. Because of the political importance of insiders, the compensating role of social policy is therefore expected to be more limited in cases where dualization is more significant.

I will measure social policy as full unemployment benefits as a percentage of GDP.¹² These transfers include government spending on insurance (the benefits payable to full-time workers in unemployment insurance schemes) and on assistance (the benefits provided to full-time workers

¹⁰ The results in the graphs are confirmed in analyses using only one component of the index (insider employment protection or labor market segmentation, measured as unemployment or as unemployment plus precarious employment). Results available from the author.

¹¹ The source for the employment protection data is Venn (2009). Data for unemployment, involuntary part-time employment, temporary employment, youth unemployment, and "prime working life" unemployment are from OECD Labor Market Statistics.

¹² Source: OECD Labor Market Statistics.

either failing to satisfy the criteria for unemployment insurance schemes or who have reached the limit of insurance benefits).

Levels of social policy exhibit a high level of cross-national and temporal variation in OECD countries during the crisis. There are countries that have dedicated few resources to unemployment benefits (like Australia, Greece, Luxembourg, New Zealand, Norway, Sweden and the UK) and there are those that have spent much more (like Belgium, France, Germany, Ireland, the Netherlands and Spain). While some of these countries have high levels of unemployment, others do not. In this respect, the most interesting variable is change in the resources dedicated to unemployment benefit, measured as average percentage change from the previous year. Regarding this measure, unemployment benefits have increased most in the USA, Ireland, Spain, Norway, New Zealand, and Greece (a combination of countries with high and low spending numbers). They have increased the least in Belgium, France, the Netherlands, Sweden and Germany (where they have in fact decreased).

The effectiveness of social policy responsiveness to unemployment is defined in a very simple way in the analysis that follows. I simply divide yearly average changes in social policy by yearly average changes in harmonized unemployment. An effective welfare state at protecting, insuring and compensating individuals is therefore interpreted as one that responds to increasing unemployment with increasing resources dedicated to social policy. A 1% increase in unemployment from the previous year matched by a 1% increase in benefit spending would give us a social responsiveness equal to 1 (whatever the existing levels of social policy generosity). A score above 1 can be considered a high level of responsiveness and a score below 1 gives us an increase in benefits that is not matching the increase in unemployment.¹³

To test this paper's main hypothesis it is essential to assess the relationship between dualization and responsiveness of benefits to changes in unemployment. In the analysis below I again use the index of dualization which aggregates two standardized dimensions (regular employment protection and labor market segmentation in 2007).¹⁴

[Figure 3]

Figure 3 reflects the relationship between dualization and social policy responsiveness. The results in the figure support for this paper's argument. The figure suggests that there is a negative relationship between dualization and social policy responsiveness: high levels of the dualization index are associated with low social policy responsiveness to unemployment.¹⁵

¹³ I could use a measure of social policy generosity instead of social policy responsiveness in the analysis. Generosity (often measured as spending as % of GDP over unemployment as % of labor force), however, does not address the responsiveness of social policy to the unemployment crisis. Using my measure, if benefits are very generous in a particular country, generosity does not need to change for responsiveness to be high. In other words, the automatic stabilizer that is a generous unemployment benefit level does not need to increase to do its job in responding to crisis. By focusing on generosity, a stable high level of generosity would give the impression of no response to the crisis (which I would argue is wrong), while using my responsiveness measure we would see high responsiveness (as resources are automatically increased to match increasing unemployment).

¹⁴ As before, the results in the graphs are confirmed in analyses using only one component of the index. Results available from the author.

¹⁵ Austria is an outlier and is not included in Figure 3. In Austria, a relatively minor increase in the yearly average of harmonized employment (1.23%) was met with a very high increase in the yearly average of unemployment benefits (8.05%) according to the OECD data. This gives Austria an unusually high social policy

I mentioned above that a score above 1 in the level of social policy responsiveness represents a percentage yearly increase in benefits that surpass the percentage yearly increase in unemployment. A score below 1 represents increases in benefits that do not match increases in unemployment. The figure makes clear that values below 1 are more common when dualization is high (in the Netherlands, Spain, Sweden and Germany). Values above 1 are more common when dualization is low (in the USA, the UK, New Zealand, Australia and Ireland).

Let me emphasize that even minor deviations from 1 in social policy responsiveness have powerful substantive effects. Spain's social policy responsiveness score, for example, is 0.87. This means that the 35.85% average yearly increase in unemployment experienced from 2008 to 2010 was matched only by 31.11% increase in the resources dedicated to unemployment benefits. For a country experiencing dramatic levels of unemployment, this is a significant failure to react to increasing demand for unemployment protection.

4. Conclusion

In this paper I have argued that dualization matters to the politics of crisis. Insiders enjoy high levels of employment protection that minimize their vulnerability to unemployment. Because they are an important electoral constituency, their preferences are taken into consideration by governments of all partisan origins. Welfare state policy is inevitably connected to the protection of people from unemployment. As such, an effective welfare state is the main defense between the dramatic unemployment increases characterizing an economic crisis and poverty. Without the support of insiders, however, governments have fewer incentives to promote generous social policy. Dualization has proven to be remarkably stable in some OECD countries (those characterized by significant levels of unemployment and precarious employment) and a number of developing countries (those characterized by large informal sectors). But, as outsiders in Europe become more politically active (see, for example, the *indignados* movement in Spain), the question of whether the combination of high dualization and economic crisis is in fact politically sustainable is a significant challenge and an important topic for future research.

responsiveness score (higher than any other country by a significant factor). While this outlier would visually dominate the figure, however, its influence over the slope reflecting the relationship between dualization and policy responsiveness would be minimal (results available from the author).

References

- Emmenegger, Patrick, Silja Häusermann, Bruno Palier, and Martin Seeleib-Kaiser (eds). 2012. *The Age of Dualization*. Oxford: Oxford University Press.
- Iversen, Torben, and John Stephens. 2008. "Partisan Politics, the Welfare State and Three Worlds of Human Capital Formation." *Comparative Political Studies* 41:600–37.
- Mares, Isabela. 2006. *Taxation, Wage Bargaining, and Unemployment*. New York: Cambridge University Press.
- Martin, Cathie Jo, and Kathleen Thelen. 2007. "The State and Coordinated Capitalism." *World Politics* 60:1–36.
- OECD. 2010. *From Crisis to Recovery*. Paris: OECD.
- OECD. 1998. *Employment Outlook*. Paris: OECD.
- Palier, Bruno, and Kathleen Thelen. 2010. "Institutionalizing Dualism." *Politics & Society*, 38:119–48.
- Rueda, David. 2007. *Social Democracy Inside Out*. Oxford: Oxford University Press.
- Rueda, David. 2006. "Social Democracy and Active Labour Market Policies: Insiders, Outsiders, and the Politics of Employment Promotion." *British Journal of Political Science*, 36: 385-406.
- Rueda, David. 2005. "Insider-Outsider Politics in Industrialized Democracies: The Challenge to Social Democratic Parties." *American Political Science Review*, 99: 61-74.
- Venn, Danielle (2009). "Legislation, Collective Bargaining and Enforcement: Updaging the Oecd Employment Protection Indicators," *OECD Social Employment and Migration Working Paper* 89.

Figure 1
Regular Employment Protection and Labor Market Segmentation 2000-2007

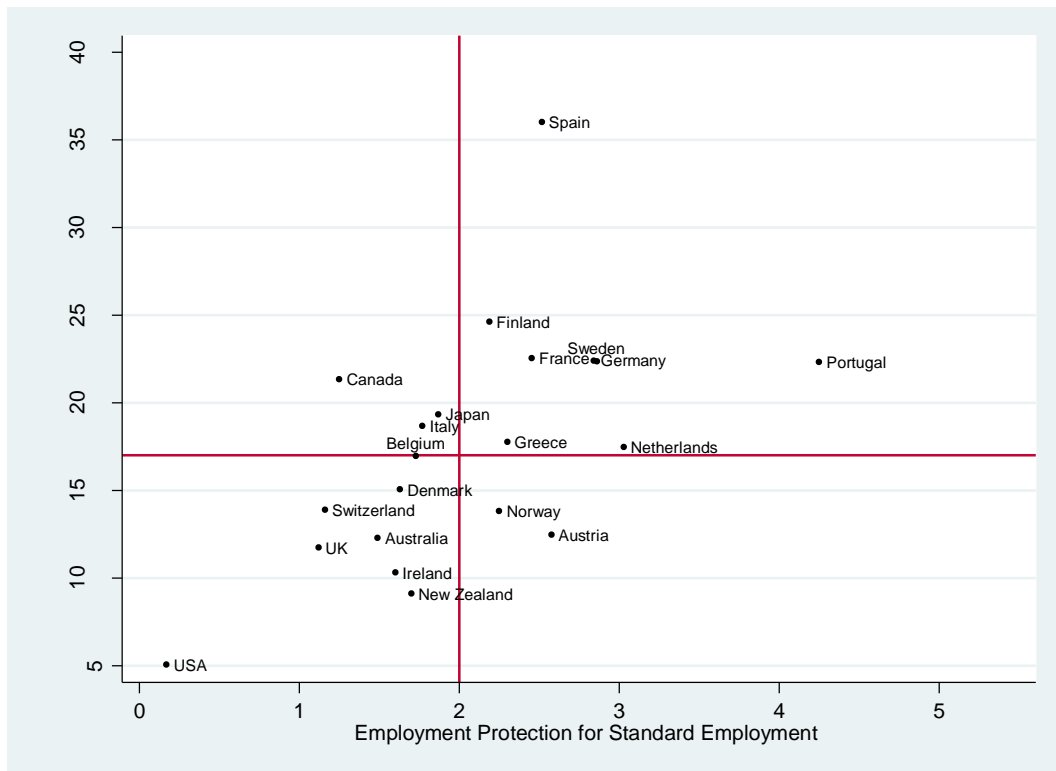


Figure 2
Dualization and Outsider Unemployment Incidence 2007-2010

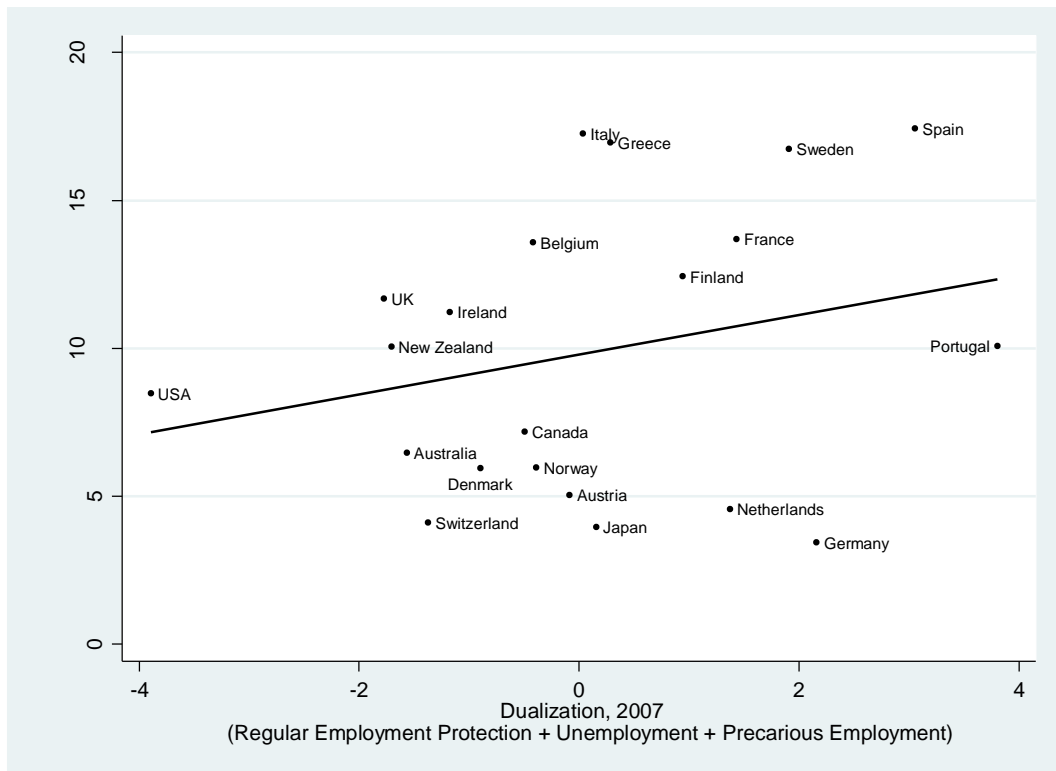


Figure 3
Dualization and Welfare State Responsiveness 2007-2010

